

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

PENSION CONTRIBUTIONS

The Budget includes a one-time \$6 billion supplemental payment to California Public Employees' Retirement System (CalPERS) in 2017-18, on top of the actuarially determined annual contribution. The additional payment will mitigate the impact of increasing pension contributions due to the state's large unfunded liabilities and the CalPERS Board's action to lower its assumed investment rate of return from 7.5 percent to 7 percent.

This supplemental payment will reduce the unfunded liability, and help lower and stabilize the state's annual contributions for the next two decades. Contribution rates, as a percent of payroll, will be about 2.1 percentage points lower, on average, than the currently scheduled rates. For example, peak rates would drop from 38.4 percent to 35.7 percent for State Miscellaneous (non-safety) workers, and peak rates would drop from 69 percent to 63.9 percent for California Highway Patrol officers.

The additional \$6 billion pension payment will be funded through a loan from the Surplus Money Investment Fund. Although the loan will incur interest costs (approximately \$1 billion over the life of the loan), actuarial calculations indicate that the additional pension payment will yield net savings of \$11 billion over the next 20 years.

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As the loan will repay state pension plans' unfunded liabilities in excess of the base amounts scheduled, repayment of the loan is eligible for debt payments under Proposition 2. As such, repayment of the loan will be made under Proposition 2 for the General Fund's share and other funds will repay the remainder of the loan.

In addition to the supplemental payment, the Budget includes \$5.2 billion (\$2.7 billion General Fund) for the state's annual pension contribution to CalPERS. The Budget also includes \$660.8 million General Fund for California State University retirement costs.

Finally, the Budget includes \$2.8 billion General Fund for state contributions to the California State Teachers' Retirement System (CalSTRS). This amount reflects the CalSTRS Board's action to adopt new mortality assumption rates, implement a discount rate reduction, and exercise its authority to increase state contributions by 0.5 percent of teacher payroll. This action is consistent with the funding strategy signed into law in 2014 and positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in about 30 years.

Figure SWE-01 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.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.2 billion (\$623.1 million General Fund) for employee compensation and retiree health care prefunding for active employees. These costs reflect increases in salaries, increased enrollment in health and dental plans, revised pay increases for Judges, and updated costs related to the salary survey estimate for the California Highway Patrol.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board administers and enforces California public sector collective bargaining laws and provides a timely and cost-effective method through which employers, employee organizations, and employees can resolve labor relations disputes. The Budget includes \$750,000 General Fund to address the Board's budgetary pressures and provide the appropriate level of funding to support existing permanent positions. This includes increased funding for fact-finding fees and Southern California regional

Figure SWE-01

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	Employer OPEB Prefunding^{4/}
2008-09	\$3,063		\$1,133	\$189	\$40		\$2,146	\$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		\$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 ^{5/}	\$449 ^{5/}	1,303	160	51		2,567	1,365 ^{5/}	\$222 ^{5/}	0
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	264	61
2016-17	4,754	621	2,473	202	68	1	3,101	1,647	273	339 ^{6/}
2017-18 ^{7/}	5,188	661	2,790	197	76	1	3,233	1,774	294	184

^{1/} The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the \$6 billion supplemental pension payment in 2017-18.

^{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/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

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

^{6/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{7/} Estimated as of the 2017-18 Budget Act. 2017-18 General Fund costs are estimated to be \$2,727 million for CalPERS, \$661 million for CSU CalPERS, \$2,063 million for Retiree Health & Dental, \$1,518 million for Active Health & Dental, and \$89 million for OPEB Prefunding. The remaining totals are all General Fund.

office relocation costs to move staff to a building that fully complies with federal and state disability access laws.

BOARD OF EQUALIZATION

The Department of Finance's Office of State Audits and Evaluations (OSAE) released an evaluation of the Board of Equalization (BOE) in March 2017 that found "certain board member practices have intervened in administrative activities and created inconsistencies in operations, breakdowns in centralized processes, and in certain instances result in activities contrary to state law and budgetary and legislative directives."

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Like the State Controller's Office found in an earlier audit, OSAE also identified significant errors in the BOE's allocation of sales and use tax revenue totaling in the hundreds of millions of dollars. The BOE has so far provided 11 different versions of what it purports to be the correct allocations.

Effective July 1, 2017, the Budget reorganizes tax administration in the state. The BOE will retain its constitutional duties, as the new California Department of Tax and Fee Administration (CDTFA) will perform the statutory duties formerly performed by the BOE, excluding the adjudication of tax appeals. The CDTFA will operate under the Government Operations Agency and its Director will be appointed by the Governor and confirmed by the Senate.

The Budget reforms ensure civil servants will not be subjected to political influence as they perform their tax administration duties. The reforms also entrust tax appeals to impartial administrative law judges who are experts in tax law, and who will fairly and uniformly apply the law to all taxpayers.

The BOE will continue to exist, but its authority will be limited to those duties specified in the State Constitution. These are the equalization of county property tax rates, assessing specified inter-county and business property, assessing taxes on insurers, and assessing and collecting alcohol excise taxes. Board Members, Board Members' staff, and the approximately 200 current BOE civil service employees who perform the aforementioned functions will remain part of the BOE. The Board Members will appoint an Executive Director to administer the BOE.

The Budget creates the Office of Tax Appeals (OTA) effective July 1, 2017, and appropriates \$5 million General Fund for start-up costs. The OTA Director will be appointed by the Governor and confirmed by the Senate. Beginning January 1, 2018, the OTA will adjudicate the tax appeals formerly assigned to the BOE, except for those related to the constitutional duties performed by the realigned BOE. The OTA will adjudicate tax appeals using panels with three administrative law judges selected through the civil service process. Taxpayers unsatisfied with OTA rulings may appeal to the Superior Court. The state may not appeal OTA rulings.

CANNABIS REGULATION

The Budget integrates the existing Medical Cannabis Regulation and Safety Act with the Adult Use of Marijuana Act (Proposition 64), which voters approved in November 2016.

The Budget provides a single regulatory system that will govern the cannabis industry in California while maximizing public and consumer safety.

To ensure health and safety, licenses to test cannabis will be independent of all other license categories. In addition, quality assurance compliance monitors will conduct random quality assurance audits of distributors including the review of test results and tax payments, to provide for greater public and consumer safety and to ensure appropriate tax remittance. These two processes will ensure that cannabis or cannabis products will undergo quality assurance, inspection, and testing before products may be offered for retail sale, and that the state properly collects the taxes.

The Medicinal and Adult-Use Cannabis Regulation and Safety Act (Act) allows for a vertically integrated licensing structure for both adult use and medicinal cannabis licenses, providing for models that allow small businesses to also thrive while preventing the development of monopolies. The Act provides for an open distribution model, allowing a business to hold multiple licenses, including a distribution license, making it easier for businesses to enter the market, encouraging innovation, and strengthening compliance with state laws. The Act also enhances environmental rules and regulations to provide greater protection against the impacts of cannabis on the environment.

The Budget includes approximately \$100 million to fund cannabis regulatory activities, including the processing of licenses, permits, laboratory services, information technology, quality assurance, environmental protection, and enforcement.

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 funding from the General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The Budget includes total funding of \$3.6 billion (\$1.7 billion General Fund and \$1.9 billion other funds) in 2017-18 for the Judicial Branch, of which \$2.8 billion is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

Significant Adjustments:

- Dependency Counsel—The Budget includes \$22 million General Fund for court-appointed dependency counsel that represents children and parent clients at

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every stage of the dependency proceeding. The additional funding helps reduce attorney caseloads statewide.

- Equal Access Fund—The Budget includes \$10 million General Fund per year for two years for local legal aid organizations to provide direct legal services to low-income Californians throughout the state.
- Investments in Information Technology—The Budget includes \$8.2 million (\$6.1 million General Fund) to implement a Statewide Electronic Filing Program for the trial courts, replace the Sustain Justice Edition Case Management System in nine small superior courts, deploy a Document Management System for the Appellate Courts, and transition the Judicial Council onto FI\$Cal.
- Trial Court Judge Reallocation—The Budget reallocates four vacant superior court judgeships. This will shift judgeships to the areas of the state where workload is highest without increasing the overall number of judges.

DEPARTMENT OF JUSTICE

The Budget provides \$6.5 million General Fund and 31 positions for the Department of Justice to address new legal workload related to various actions taken at the federal level that impact public safety, health care, the environment, consumer affairs, and general constitutional issues. The Department anticipates a continued level of legal workload to address concerns regarding further actions taken at the federal level. Additionally, the Budget provides \$1 million for the Attorney General to engage in reviews of county, local, or private locked detention facilities in which noncitizens are being housed or detained for purposes of civil immigration proceedings in the state. A comprehensive report outlining the findings is due March 1, 2019.

EARNED INCOME TAX CREDIT

As part of the 2015 Budget, California adopted its first state Earned Income Tax Credit to help the poorest working families in California. This targeted Earned Income Tax Credit provided a refundable tax credit for wage income only, and focused on the lowest income Californians. The 2017 Budget expands California's Earned Income Tax Credit to support more working families, including self-employed parents, in line with the federal EITC. In addition, it expands income ranges to help families working up to full-time at the newly increased minimum wage to benefit from the program. The expansion

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makes more than 1 million additional households eligible to claim the credit. The amount of tax credits provided to low-income working families is expected to grow from \$200 million in 2016 to \$340 million in 2017.

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