

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

OFFICE OF DIGITAL INNOVATION

A primary goal of government is the efficient delivery of government services. To further this goal, California must change the way it approaches service delivery and technology investments. Millions of Californians interact with government services every day: residents apply for drivers' licenses, students compare financial aid options, and small business owners apply for licenses or pay business taxes. Too often, outdated tools and complex systems make these interactions cumbersome and frustrating. Additionally, manual processes and the lack of digital service delivery often require individuals to take time off work and go to a physical office to interact directly with government staff.

The state must transform from a passive governance model that largely responds to individual statutory and policy mandates to one that actively establishes measurable customer service benchmarks and leading digital service delivery from a programmatic and statewide perspective.

The Budget includes initial start-up costs of \$36.2 million (\$33.7 million General Fund), \$14.6 million (\$9.6 million General Fund) ongoing, and 50 positions to establish the Office of Digital Innovation (Office) within the Government Operations Agency and embark on this transformation of state government. The Office will have the authority to develop and enforce requirements for departments to assess their service delivery models and underlying business processes from an end-user perspective. Establishing the Office will improve the accessibility and reliability of the state's vital services by focusing on business process reengineering and leveraging digital innovation, where appropriate.

INNOVATION ACADEMY

Sustainable innovation requires a culture of continuous improvement and a thoughtful approach to human change management. These are two areas that have been a particular challenge for government in general, and California is no exception. The Office will address these needs through the creation of a scalable innovation academy focused on continuous process improvement, human change management, executive sponsorship, and a customer-centric mindset. The academy will be mandatory for state supervisors, managers, and executives with the curriculum aligned to the audience.

ADDITIONAL INFORMATION TECHNOLOGY TRAINING

The Budget proposes additional information technology training for state staff in agile and other modern development methods to improve successful service delivery with a focus on continuous improvement. The state has already begun investing in modular procurements and agile project development (rather than depending on a single vendor for delivery). This iterative and modular methodology when implemented correctly reduces cost and risk. However, the state's current project managers generally lack expertise in managing these efforts, particularly agile development. While the state has agile curriculum developed, more emphasis on training is necessary for state project managers and information technology staff to experience success with these methods, which have proven successful in the private sector for years.

A FOCUS ON THE CUSTOMER

The Office will engage departments and stakeholders throughout the state to implement user-centric design, iterative software development, customer feedback loops, and other tools necessary to build a culture of continuous program improvement and 21st Century service delivery methods. Additionally, through its statewide mission,

the Office will be uniquely positioned to offer insights into the coordination of service delivery across departments.

INNOVATION FUND

The Budget proposes one-time funding of \$20 million to allow the Office to assist departments with the tools and resources necessary to address prioritized needs and to demonstrate transformational customer-focused digital service delivery.

The transformation of state operations and programs is essential to bringing government closer to the people and building user-friendly service delivery models. This state investment focuses on modernizing service delivery at all levels where Californians engage with government programs.

DEPARTMENT OF MOTOR VEHICLES (DMV)—A FRESH START

No other state department has as many interactions with Californians as the DMV. As recent events have highlighted, DMV has significant customer service challenges. The state is currently conducting an audit of the DMV to identify potential opportunities to improve its business processes and overall program management as well as an information technology assessment of its Motor Voter system. Both the audit and assessment will report findings and recommendations in early spring and the Administration anticipates submission of a formal spring budget proposal.

DMV has been taking actions to reduce wait times across the state, but more must be done. DMV is currently soliciting feedback from staff at all levels of its organization to make changes to business processes as well as making upgrades to its customer appointment management application and registration, payment, and identification programs. However, DMV must globally reassess all of its operations. It should better use its data to understand and meet customer needs through improved business processes and expanded digital service delivery. As such, DMV will be the first state department to pilot the digital services and innovation academy working with the Office of Digital Innovation in the budget year.

The Budget continues current efforts to address DMV's increased workload resulting from the federal REAL ID mandate by providing \$63 million and 780 positions, consistent with current year funding levels.

PENSION CONTRIBUTIONS

Over the past several years, the state has made progress in addressing its long-term pension liabilities to curb the growing costs of state retirement programs and help ensure its continuing ability to provide retirement benefits over the long term.

The California Public Employees' Pension Reform Act of 2013 (PEPRA) was enacted to save billions of taxpayer dollars by capping benefits, increasing the retirement age for new employees, and requiring them to pay at least half of their normal costs (or the amount of money that must be set aside today to pay for the future pension benefits that accrued that year). In 2014, the state implemented a funding strategy to shore up the California State Teachers' Retirement System (CalSTRS), which was projected to run out of money in 33 years. In 2017, the state made a one-time \$6 billion supplemental pension payment to the California Public Employees' Retirement System (CalPERS), funded by a loan from the Surplus Money Investment Fund, which is estimated to save the state an additional \$4.8 billion in the long term.

While the state's employee pension costs continue to grow, these efforts have placed the state in a better fiscal position to address them. The state's current unfunded pension liability for CalPERS is \$58.7 billion, and the overall unfunded liability for CalSTRS is \$103.5 billion (of which the state's share is \$35.3 billion). As of June 30, 2017, the funded status for CalPERS and CalSTRS was 67 percent and 64 percent, respectively, meaning the retirement systems only have approximately two-thirds of the funds required to make pension payments to retirees.

PAYING DOWN UNFUNDED RETIREMENT LIABILITIES

The Budget proposes significant investments totaling \$5.9 billion General Fund to address the state's long-term pension liabilities—including a one-time \$3 billion cash supplemental pension payment to CalPERS and \$2.9 billion over the next four years to CalSTRS. These supplemental pension payments are intended to curb the growing costs of the state's retirement programs and are estimated to result in \$14.6 billion in savings over the long term. Paying off the state's budgetary debts will allow all the required Proposition 2 debt payments to go toward paying the state's retirement liabilities.

STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS

The Budget includes a \$3 billion General Fund supplemental pension payment to be paid to CalPERS in 2018-19. Based on current CalPERS actuarial assumptions, this supplemental pension payment is estimated to result in a reduction in state employer

contribution rates beginning in 2020-21 and additional savings of roughly \$7.2 billion over the next three decades.

The Budget also includes a statutorily required annual contribution of \$6.8 billion (\$3.9 billion General Fund) to CalPERS for state pension costs, of which \$727.5 million General Fund is for California State University retirement costs. The estimated \$566 million increase is the net effect of changes in actuarial assumptions, including the lower discount rate adopted by the CalPERS Board in 2016, savings from greater investment returns, and the \$6 billion supplemental pension payment the state made to CalPERS in 2017-18.

An additional \$390 million in Proposition 2 debt funding is included in the Budget to pay down the General Fund's share of the loan that funded the \$6 billion supplemental pension payment to CalPERS in 2017-18.

TEACHERS' RETIREMENT CONTRIBUTIONS

The Budget includes a \$1.1 billion supplemental pension payment toward the state's share of the unfunded liability for the CalSTRS Defined Benefit Program. This amount is the first installment of an estimated \$2.9 billion to be paid to CalSTRS through 2022-23 using available Proposition 2 debt payment funding. The state will achieve estimated savings of \$7.4 billion over the next three decades as a result of the supplemental pension payments, based on current CalSTRS actuarial assumptions.

The Budget also provides a statutorily required annual payment equaling about \$3.3 billion in General Fund for state contributions to CalSTRS. This is a roughly \$235 million increase due to an anticipated increase in payroll growth and the lower assumed investment rate of return adopted by the Teacher's Retirement Board in 2017. The budgeted amount assumes the Board will exercise its authority to increase state contributions by 0.5 percent of teacher payroll, which is consistent with the funding strategy signed into law in 2014, and positions CalSTRS on a sustainable path toward eliminating the unfunded liability by 2046.

STATE HEALTH CARE BENEFITS

In total, the state is projected to spend approximately \$5.8 billion on health care benefits in 2019-20 for more than 850,000 state employees, retirees, and their family members. The Budget includes nearly \$2.3 billion for retiree health care benefits for 2019-20. These payments are five times what the state paid in 2001 (\$458 million) and now represent approximately 1.7 percent of the General Fund. Fifteen years ago,

Figure SWE-01
State Retirement and Health Care Contributions^{1/ 2/}
(Dollars in Millions)

	CalPERS ^{3/}	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental ^{4/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{5/}
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 ^{6/}	\$449 ^{6/}	1,303	160	51		2,567	1,365 ^{6/}	\$222 ^{6/}	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	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 ^{8/}
2017-18	5,188	661	2,790	197	76	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	195	74	1	3,329	1,784	311	394
2019-20 ^{7/}	6,028	727	3,318	216	79	1	3,495	1,895	331	577

^{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 to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).

^{2/} The 2019-20 Governor's Budget proposes multiple supplemental pension payments to CalPERS and CalSTRS, which are not reflected in the chart. The first proposal is a \$3 billion General Fund supplemental pension payment to CalPERS in 2018-19. The second proposal is a \$2.9 billion supplemental pension payment to CalSTRS over the next four fiscal years (\$1.1 billion in 2019-20), on the state's behalf, using estimated available Proposition 2 debt repayment funding. The third proposal is a \$3 billion General Fund supplemental pension payment to CalSTRS in 2018-19, on behalf of CalSTRS employers.

^{3/} 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.

^{4/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

^{5/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{6/} Beginning in 2012-13, CSU pension and health care costs are displayed separately.

^{7/} Estimated as of the 2019-20 Governor's Budget. 2019-20 General Fund costs are estimated to be \$3,166 million for CalPERS, \$727 million for CSU CalPERS, \$1,642 million for Active Health and Dental, \$2,222 million for Retiree Health & Dental (including CSU), and \$289 million for OPEB Prefunding. The remaining totals are all General Fund.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

retiree health care benefits made up less than one half of one percent of the General Fund.

Through the collective bargaining process, the state and its 21 employee bargaining units and related excluded and exempt employees now prefund retiree health benefits. As a result, more than \$1 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits, which has an estimated \$91 billion unfunded liability to be paid down over three decades. By the end of 2018-19, the trust fund balance will approach \$1.6 billion in assets.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.2 billion (\$605.3 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees. Included in these costs are collectively bargained salary and benefit increases resulting from contract negotiations and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). Funding is also included for 2020 calendar year increases in health care, dental, and vision premiums and enrollment.

The Administration will begin collective bargaining negotiations with 5 of the state's 21 bargaining units, representing Attorneys and Administrative Law Judges, Correctional Officers, Public Safety, Stationary Engineers, and Psychiatric Technicians, whose contracts will expire in late June or early July 2019. Additionally, collective bargaining negotiations with Highway Patrol Officers, whose contract expired in July 2018, are expected in the upcoming calendar year.

MEDICINAL AND ADULT-USE CANNABIS

The Budget includes \$200.6 million from the Cannabis Tax Fund and the Cannabis Control Fund, which receive revenues from cannabis licensing fees, for cannabis-related activities, as approved in the 2018 Budget Act. The Budget also includes an additional \$2.9 million for the California Department of Tax and Fee Administration for a cannabis tax enforcement program, to increase cannabis tax compliance.

Proposition 64, commonly known as the Adult Use of Marijuana Act, levied excise taxes on the cultivation and retail sale of both recreational and medical cannabis, effective January 1, 2018. As the legal cannabis market continues to develop, excise tax revenues are expected to continue to increase. The cannabis excise tax is forecast to generate \$355 million in 2018-19 and \$514 million in 2019-20. Revenue estimates for a newly created market are subject to significant uncertainty.

Pursuant to Proposition 64, revenues generated from the excise taxes are allocated for various purposes outlined in the Act. Funds loaned by the General Fund to jump-start cannabis-related activities will also need to be repaid. Given the timing of tax receipts, the Administration is deferring allocations for Proposition 64 programs until the May Revision, when more updated revenue data will be available.

CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is advancing California through the arts and creativity. The Council administers grants to support the state's arts and cultural communities through the development of partnerships with the public and private sectors to enhance the cultural, educational, social, and economic growth of California. The grant programs support arts education in school and community settings; system-engaged youth; recently incarcerated individuals; local and community economic development; recent immigrants and refugee communities; native communities; veterans and their families; and various arts service organizations, and are designed to serve populations and communities who are underrepresented in the arts and have reduced access to arts programs.

The Budget includes \$10 million General Fund to expand grant programs that offer support for public access to the arts, arts education, and the state's cultural infrastructure. Matching funds will enhance the state's investment.

CALIFORNIA VOLUNTEERS

As the State Service Commission for California, California Volunteers manages programs and initiatives aimed at increasing the number of Californians engaged in service and volunteering. California Volunteers supports nearly 4,000 AmeriCorps members serving statewide in programs that address critical community needs in education, public safety, health and human needs, and the environment.

AmeriCorps members are recruited, trained, supervised, and managed by eligible organizations, and may receive a living allowance and other benefits while serving. Upon successful completion of their service, AmeriCorps members are eligible to receive a Segal AmeriCorps Education Award from the National Service Trust that they can use to pay for higher education expenses or apply to qualified student loans. Currently, the Segal AmeriCorps Education Award is \$6,095 for a full-time AmeriCorps participant. The Budget includes \$20 million General Fund to begin the expansion of the state's AmeriCorps members to 10,000—more than double the current number—and to supplement the federal award to reach a target of \$10,000. It is anticipated that private funds will supplement the state's investment.

2020 CENSUS

The upcoming 2020 Census is critical to California because the data collected by the decennial census is used to determine the number of seats California will have in the U.S. House of Representatives and federal funding levels for local communities. This will be the first census conducted online, and this and other aspects of the federal census design may adversely impact resident participation. California has the largest number of hard-to-count residents—putting its population at risk of being underreported. Launched in 2017-18, California's Complete Count effort will be an extensive statewide outreach and awareness campaign designed to encourage and support full participation by all Californians in the upcoming 2020 Census.

The Budget includes an additional \$50 million for statewide outreach efforts related to increasing the participation rate of Californians in the decennial census, bringing the total funding available to \$140.3 million. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents. The Budget also includes \$4 million for the California Housing and Population Sample Enumeration, which is a survey that will identify barriers to a complete count and successful approaches taken by the various outreach efforts and help develop recommendations for the 2030 Census.

TRANSPORTATION AND INFRASTRUCTURE

The Administration is continuing to implement the Road Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017, SB 1), which provides stable, long-term funding for both state and local transportation infrastructure. SB 1 provides an average of \$5.4 billion per year over the next ten years for a strategic mix of state and local transportation projects. The sustained investment over the course of the next decade and beyond will support hundreds of thousands of jobs in California.

The Budget provides \$4.8 billion in new SB 1 funding. Of this amount, \$1.2 billion is available to all 479 cities and 58 counties for local road repairs, with another \$1.2 billion for the repair and maintenance of the state highway system. On top of this, \$400 million is available to repair and maintain the state's bridges and culverts, \$307 million is available to improve trade corridors, and \$250 million is available to increase throughput on congested commute corridors. The Budget also reflects \$458 million for local transit operations and \$386 million for capital improvements for transit, commuter, and intercity rail. SB 1 also provides annual funding for other local transportation

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priorities, including \$200 million for Local Partnership projects, \$100 million for projects in the Active Transportation Program, \$25 million for expansion of freeway service patrols, and \$25 million in local planning grants.

The Administration will release a Five-Year Infrastructure Plan that will identify priorities for investments in the state's infrastructure later this year.

The Budget includes one-time resources of \$315.8 million (\$287.2 million General Fund and \$28.6 million Proposition 68 bond funds) to address the most critical statewide deferred maintenance projects. At present, the reported statewide deferred maintenance need is more than \$70 billion. These one-time resources will continue to address the statewide backlog of deferred maintenance and help departments reduce the need to build costlier new infrastructure. This funding will be provided to the entities listed below:

- Department of Corrections and Rehabilitation: \$112,200,000
- Department of Parks and Recreation: \$45,600,000 (\$34,000,000 General Fund and \$11,600,000 Proposition 68 bond funds)
- Judicial Branch: \$40,000,000
- Department of State Hospitals: \$35,000,000
- Department of General Services: \$16,000,000
- Department of Fish and Wildlife: \$10,000,000 (Proposition 68 bond funds)
- Network of California Fairs: \$7,000,000 (Proposition 68 bond funds)
- Department of Forestry and Fire Protection: \$6,000,000
- Department of Developmental Services: \$5,000,000
- California Military Department: \$5,000,000
- California Highway Patrol: \$5,000,000
- Department of Veterans Affairs: \$5,000,000
- State Special Schools: \$5,000,000
- Department of Motor Vehicles: \$3,000,000
- Exposition Park: \$3,000,000
- Department of Food and Agriculture: \$3,000,000

- Housing and Community Development: \$3,000,000
- Employment Development Department: \$2,000,000
- Office of Emergency Services: \$2,000,000
- California Conservation Corps: \$1,000,000
- Hastings College of the Law: \$1,000,000
- Tahoe Conservancy: \$1,000,000

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