

# GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

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## **BROADBAND**

Universal access to high-speed Internet is critical to the state's economy, education, and basic health and well-being. The COVID-19 Pandemic has underscored the need for all Californians to have a robust connection that supports distance learning, telework, telehealth, and everyday needs. Long-standing inequities in Internet availability, affordability, and quality have persisted for too long.

California's connectivity needs and challenges are immense. More Californians are disconnected than any other state; more than 673,000 households do not have high-speed broadband connection. A full 33 percent of rural households in the state have no high-speed broadband. Tribal lands are also disproportionately impacted, with 24 percent of homes without access.

Even for those with an available connection, broadband service can still be out of reach because it is unaffordable. Hidden fees and expensive devices can make access unattainable. An estimated 31 percent of Californians with Internet access have not adopted broadband at benchmark speeds. While 1.6 million Californians subscribe

to the state's low-income subsidy program—the California LifeLine Program—this program does not provide sufficient service to support teleworking or distance learning. The state's largest Internet Service Providers (ISPs) offer reduced-cost programs for low-income individuals, but subscribership is limited, to only about 500,000 users. These programs do not meet the needs of the estimated 4.7 million Californians who live in poverty.

California will meet these challenges with a coordinated state effort based on key actions over the next five years to provide every Californian a reliable and affordable connection. To be effective, there must be collaboration between state, federal, and local governments, regional agencies, Native American tribes, the private sector, and members of the public.

In late 2019, the Governor launched the Broadband for All initiative, and issued Executive Order N-73-20 in August to mobilize state agencies and resources to bridge the Digital Divide and start the California Broadband Action Plan development process. The Plan provides a blueprint to guide coordinated actions to put California on a path toward complete broadband availability, reliability, and affordability. The Plan, adopted in December, lays out three main goals: that all Californians have access to high-performance broadband at home, that all Californians can afford broadband and the devices necessary to access the Internet, and that all Californians can access training and support to enable digital inclusion.

These actions carry out the recommendations of the Final Report of the Co-Chairs of the Governor's Task Force on Business and Jobs Recovery to continue efforts to close the Digital Divide and promote telemedicine.

It is essential that California take future steps to support the expansion of broadband infrastructure, improve and restructure the state's existing Universal Service programs to support broadband subsidies, and address inequities in how these programs are funded. California must make broadband service affordable by eliminating hidden fees on customers' bills and safeguarding consumer protection.

Finally, local governments and regional agencies must be supported in identifying gaps in broadband availability and improving broadband infrastructure within their jurisdictions.

These changes will allow all Californians to participate in the state's economic recovery and growth.

## EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

As a result of the COVID-19 Recession, and absent the receipt of additional federal funds, reductions in state employee compensation costs were necessary to balance the 2020 Budget Act. At the 2020 May Revision, declining revenues and fiscal uncertainty required difficult budget reductions, including the state asking employees through collective bargaining to make needed adjustments. All 21 bargaining units immediately came to the table and successfully reached agreements to achieve the necessary savings through the Personal Leave Program (PLP) 2020. As part of the PLP 2020 agreements, 19 of the 21 bargaining units agreed to continue the state employee compensation reductions through the 2021-22 fiscal year.

Although fiscal risk remains high, the revenue picture has improved. Given the updated revenue projections and the scope of the Budget, employee compensation reductions may not be necessary during the 2021-22 fiscal year. Accordingly, the California Department of Human Resources (CalHR) anticipates inviting bargaining units through collective bargaining to modify the side letter agreements that extended the PLP 2020 through the 2021-22 fiscal year immediately following the May Revision.

The Budget includes \$42.1 million ongoing (\$29.5 million ongoing General Fund) for increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3), 2022 calendar year increases in health care and dental premiums and enrollment for active state employees, and savings related to health affordability payments for several bargaining units.

Collective bargaining negotiations will continue with three bargaining units representing attorneys and administrative law judges, scientists, and health and social services employees, whose contracts expired in July 2020. Bargaining will commence in Spring 2021 with two bargaining units representing firefighters, and craft and maintenance employees, whose contracts expire in Summer 2021.

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### CHILDCARE BARGAINING

In July, Child Care Providers United (CCPU) was certified by the Public Employment Relations Board as the certified provider organization for the state's family childcare providers to act as the representative to meet and negotiate with the state. Although family childcare providers are not state or public employees, CalHR is the Governor's designee to meet and confer regarding matters within the scope of representation. As such, the state is committed to collective bargaining with CCPU, which commenced in

December 2020. See the Health and Human Services Chapter for more information on childcare.

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## **PAYING DOWN UNFUNDED PENSION LIABILITIES**

The long-term stability of the state's retirement benefits depends on reducing the state's \$167.2 billion unfunded pension liability. Recent state actions to address those liabilities include the reform of public pension law under the Public Employees' Pension Reform Act of 2013 (PEPRA) and the implementation of a funding strategy to pay down the California State Teachers' Retirement Systems (CalSTRS) unfunded liability. These efforts, in tandem with nearly \$10.2 billion in additional pension payments during 2017-18 through 2020-21, and on top of required annual payments to both the California Public Employees' Retirement Systems (CalPERS) and CalSTRS, have placed the state in a better fiscal position to provide retirement security for government workers while allowing short-term flexibility to respond to the fiscal pressures of the COVID-19 Pandemic and Recession.

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## **STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS**

The Budget includes \$5.5 billion one-time (\$3 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs. This is a \$115 million overall net decrease as compared to 2020-21, resulting from reduced employer contribution rates due to the application of a \$2.5 billion pension payment to the state's unfunded liabilities over 2019-20 to 2021-22, as authorized by Chapter 16, Statutes of 2020 (AB 84), and the payroll impact of the 2020 PLP. Included in these contributions are \$682 million one-time General Fund for California State University retirement costs.

Additionally, the Budget includes \$1.5 billion in one-time Proposition 2 debt repayment funding in 2021-22 to further reduce the state's CalPERS unfunded liability. This will result in up to \$3.5 billion in additional estimated savings to the state over the next three decades. Based on current revenue projections, an additional \$4.1 billion in Proposition 2 funding would be paid to CalPERS over the remaining forecast period (2022-23 to 2024-25), depending on the availability of Proposition 2 debt funding.

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## TEACHERS' RETIREMENT CONTRIBUTIONS

The Budget includes \$3.9 billion one-time General Fund for the statutorily required annual state contribution to CalSTRS. This is a roughly \$430 million increase as compared to 2020-21 due to payroll growth and the anticipated decision by the Teachers' Retirement Board to increase the state contribution rate, as permitted by statute. This contribution amount includes a \$173 million payment for the CalSTRS Defined Benefit Program to allow the funding plan to stay on track to be fully funded by 2046.

In addition to the state's required contributions, the Budget includes a \$410 million one-time Proposition 2 supplemental pension payment to be paid to CalSTRS in 2021-22 toward the state's share of the CalSTRS Defined Benefit Program unfunded liability. This payment is estimated to result in \$982 million net savings to the state through 2045-46. An additional \$602 million in Proposition 2 funding is estimated to be paid to CalSTRS over the remaining forecast period based on the availability of those funds.

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## STATE HEALTH CARE BENEFITS

The state is projected to spend \$6.8 billion ongoing on health care benefits in 2021-22 for more than 850,000 state employees, retirees, and their family members. This includes \$2.8 billion for retiree health care benefits for 2021-22, which has grown by 74 percent compared to what the state paid in 2012-13 (\$1.6 billion).

Through the collective bargaining process, the state's 21 employee bargaining units agreed to prefund retiree health benefits. Additionally, as determined annually by CalHR, related excluded and exempt employees also prefund retiree health benefits. As a result, more than \$3.2 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits, which has an estimated \$91.9 billion unfunded liability to be paid down by 2046. By the end of 2020-21, the trust fund balance will approach \$4.1 billion in assets.

The Budget includes \$310 million one-time Proposition 2 funding for the employer's share of General Fund prefunding contributions and an additional \$616 million one-time Proposition 2 funding to help reach full funding for retiree health benefits by 2046. Because employee prefunding contributions are suspended in 2020-21 due to the PLP 2020, \$616 million one-time will be provided by the state employer on behalf of employees, based on the actuarial liability for each bargaining unit.

The State Retirement and Health Care Contributions Figure 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.

**State Retirement and Health Care Contributions** <sup>1/ 2/ 3/</sup>

(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS <sup>5/</sup>	Active Health & Dental <sup>6/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>7/</sup>
2012-13	\$2,948	\$449	\$1,303	\$160	\$51		\$2,567	\$1,365	\$222	
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 <sup>8/</sup>
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 <sup>4/</sup>	225	86	1	3,665	2,023	357	600
2021-22 <sup>9/</sup>	4,808	682	3,858	193	86	1	4,045	2,350	413	1,292 <sup>10/</sup>

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

<sup>2/</sup> The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), and Chapter 859, Statutes of 2019 (AB 118), and Proposition 2 payments to CalPERS and CalSTRS proposed in the 2021 Governor's Budget.

<sup>3/</sup> In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

<sup>4/</sup> As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the Budget.

<sup>5/</sup> The state continues to make employer contributions to the Legislators' Retirement System. CalPERS reported the estimated 2020-21 contribution amount is \$84,308.

<sup>6/</sup> These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

<sup>7/</sup> Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

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

<sup>9/</sup> Estimated as of the 2021 Governor's Budget. Of the total estimated 2021-22 contributions, contributions sourced from the General Fund are estimated to be \$2,304 million for CalPERS, \$682 million for CSU CalPERS, \$1,899.6 million for Active Health and Dental, and \$926 million for OPEB Prefunding. Fiscal year 2021-22 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

<sup>10/</sup> Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, since employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

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## CANNABIS

Enacted in 2015, the Medical Marijuana Regulation and Safety Act created a regulatory framework for medical cannabis in California and distributed the responsibility for state licensing between three state entities—the Bureau of Cannabis Control within the Department of Consumer Affairs, the Department of Food and Agriculture, and the Department of Public Health. In November 2016, voters approved Proposition 64, the Adult-Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21 and levied new excise taxes on the cultivation and retail sale of state-regulated cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medicinal and adult-use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act, merging the medical and adult-use cannabis regulatory frameworks into a single system to govern the commercial cannabis industry in California.

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### DEPARTMENT OF CANNABIS CONTROL

In an effort to improve access to licensing and simplify and centralize regulatory oversight of commercial cannabis activity, the 2020 Governor's Budget included an announcement of the Administration's intention to consolidate licensing and associated regulatory functions into a new Department of Cannabis Control by July 1, 2020, and noted a more detailed plan and proposal would be submitted to the Legislature that spring. However, those plans were interrupted by the COVID-19 Pandemic, which required the Administration to re-evaluate its ability to implement the consolidation as scheduled. Subsequently, the Administration placed the consolidation and establishment of the new department on hold until the 2021 Governor's Budget.

The Budget includes \$153.8 million Cannabis Control Fund to reflect the consolidation of the functions and positions of the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health into a new stand-alone Department of Cannabis Control within the Business, Consumer Services, and Housing Agency on July 1, 2021.

This proposal seeks to further the goals of legalization and regulation by creating a single point of contact for cannabis licensees, local governments, and other stakeholders. With a focus on making licensing and compliance more straightforward, transparent, and efficient, this proposal aims to simplify participation in the legal market and support the successful and safe operation of a cannabis business in compliance with state law. Further, centralizing the licensing programs' enforcement efforts will result

in more effective enforcement that better protects public health, safety, and lands, and makes it more costly and inefficient to participate in the illicit cannabis industry.

The Bureau currently has a specialized Equity-Local Liaison Unit within its Licensing Division. The staff within this unit work directly with local jurisdictions who offer an equity program to identify and work directly with equity applicants and licensees, as well as serve as the statewide point of contact for all local jurisdictions.

Under the new Department of Cannabis Control, the services of this unit will be expanded to all equity applicants and licensees across all license types. The unit will continue to work closely with and support the work of local jurisdictions as they implement their equity programs, including the continuation of workshops held jointly with local jurisdictions to provide information to, and answer questions from, applicants and licensees about the state resources available to them.

Of the 621 positions in the new department, 598 are existing and 23 are new, primarily to establish an executive management structure consistent with that of other state departments. There are also two new positions related to Chapter 270, Statutes of 2020 (AB 1525) to process requests from financial institutions and accountants who engage with cannabis businesses for license-related information, including track and trace data. This data sharing will facilitate the ability of financial institutions to comply with due diligence reporting requirements to federal regulating agencies, thereby creating the potential for increased access to banking services for licensees.

In addition to the budget changes, the Administration will propose statutory changes to effectuate the consolidation and make related improvements.

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### **UPDATED ALLOCATION OF THE CANNABIS TAX FUND**

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are allocated to: (1) youth education, prevention, early intervention, and treatment; (2) environmental protection; and (3) public safety-related activities. The Budget estimates \$443.1 million will be available for these purposes in 2021-22, and the structure of these allocations is unchanged from 2020-21:

- Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$265.9 million).
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$88.6 million).
- Public safety-related activities—20 percent (\$88.6 million).

These figures reflect an increase of \$146.2 million compared to the allocation estimates in the 2020 Budget Act.

Lastly, the Budget includes statutory changes to establish permanent funding authority from the Cannabis Tax Fund for the local equity grant program that is administered by the Governor's Office of Business and Economic Development (GO-Biz). This change will provide permanent support so GO-Biz can help expand the work of facilitating greater equity in business ownership and employment in the cannabis market. The Budget includes \$15.5 million ongoing Cannabis Tax Fund for this program.

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## CALIFORNIA PRIVACY PROTECTION AGENCY

Proposition 24, the California Privacy Rights Act of 2020, approved by California voters in November 2020, created the California Privacy Protection Agency. The Agency is vested with administrative power, authority, and jurisdiction to implement and enforce the California Consumer Privacy Act of 2018, which is aimed at protecting the use of personal information and the promotion of public awareness and understanding of the risks, rules, and rights related to the collection, use, sale, and disclosure of personal information, including the rights of minors. The Budget includes \$5 million General Fund in 2020-21 and \$10 million ongoing General Fund beginning in 2021-22 to support the operations of the Agency.

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## STATE APPROPRIATIONS LIMIT

Under the Gann Limit, which was approved by the voters through Proposition 4 in 1979, growth in appropriations made by the state is limited, and the state is required to reallocate and refund any revenue in excess of the state appropriations limit. The growth limit only applies to appropriations from proceeds of taxes, and excludes a number of expenditure categories, such as debt service, qualified capital outlay costs, and emergencies. The limit for each year is based on the limit from the prior year, adjusted for changes in state per capita personal income and changes in population

(composed of state civilian population growth and K-14 average daily attendance growth). Any excess spending above the limit over a two-year period is divided equally between transfers to schools and community colleges (50 percent), and some form of refunds to taxpayers (50 percent).

The state has exceeded its appropriations limit only once, in 1986. In recent years, however, state appropriations have been trending closer to the limit, and in the 2018-19 fiscal year, total spending exceeded the limit by \$1.867 billion dollars. Strong revenue growth in these years, coupled with more moderate growth in the appropriations limit, served to shrink the room under the limit. Two of the three growth factors, the change in civilian population and the change in K-14 average daily attendance, have dropped to less than one percent and been negative, respectively, in a number of recent years.

The Budget presently projects that the 2019-20 fiscal year's appropriations are below that year's limit by \$1.765 billion. Given that the overage in the 2018-19 fiscal year exceeds the amount under the limit in the subsequent 2019-20 fiscal year, if this estimate remained the same in the Budget Act, the state would be over the limit in this two-year period by \$102 million. This in turn would trigger \$51 million in additional transfers to K-14 education, and \$51 million in taxpayer refunds.

It is important to note that this estimate will change again at the May Revision. First, final adjustments to both revenues and expenditures for the 2019-20 fiscal year will not be completed until the upcoming May Revision. Second, there are number of expenditures, including significant emergency expenditures that the state has made or is planning to make that may be excludable under Proposition 4. The Administration will update its estimates and make a recommendation at the May Revision if further action must be taken under Proposition 4.