

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

EARNED INCOME TAX CREDIT

The Budget enacts the first-ever Earned Income Tax Credit to help the poorest working families in California. This targeted Earned Income Tax Credit will provide a refundable tax credit for wage income, and will focus on the lowest income Californians—households with income less than \$6,580 if there are no dependents or less than \$13,870 if there are three or more dependents. The state program complements the existing federal Earned Income Tax Credit. The state credit will match 85 percent of the federal credits up to half of the federal phase-in range and then begin to taper off relative to these maximum wage amounts. This targeted approach will allow a greater benefit per household. The credit will be available beginning with tax returns filed for wages earned in 2015. The tax credit is expected to reduce revenues by \$380 million annually beginning in 2015-16. The maximum credit that is provided depends on a combination of earned income levels and qualifying children, with maximum benefits ranging from about \$200 (no dependents) to \$2,650 (three or more dependents).

To support the implementation of this program, the Budget includes approximately \$22 million, including \$10.4 million of one-time costs, for the Franchise Tax Board to build the necessary system infrastructure, respond to taxpayer and tax preparer questions, process tax returns, and prevent fraudulent returns from being paid. Nearly 20 percent

of the ongoing resources will be available for taxpayer support, advocacy, and outreach activities, to increase the number of Californians applying for the federal program, and encourage them to apply for the new California Earned Income Tax Credit.

JUDICIAL BRANCH

The Budget includes total funding of \$3.7 billion (\$1.7 billion General Fund and \$2 billion other funds) in 2015-16 for the 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.

Significant Adjustments:

- Trial Court Funding—The Budget includes an augmentation of \$90.1 million General Fund to support trial court operations. This is the second year of a two-year funding plan to stabilize trial court funding.
- Trial Court Employee Costs—The Budget includes \$38.8 million General Fund for trial court employee benefit costs, of which \$13.4 million reflects funding for trial courts that have now made progress towards meeting the Public Employees' Pension Reform Act of 2013 standard.
- Trial Court Trust Fund Revenues—The Budget includes \$66.2 million General Fund to reflect a reduction of fines and penalty revenues expected in 2015-16.
- Proposition 47—With the passage of Proposition 47 in November 2014, it is anticipated that trial courts will experience increased workload primarily in the early years of implementation due to the requirement that courts reclassify certain drug and theft crimes that involve less than \$950 from felonies to misdemeanors. The Budget includes \$26.9 million General Fund to reflect a projected increase in trial court workload.
- Amnesty Program—The Budget includes the establishment of an 18-month outstanding delinquent debt amnesty program that would be administered by the courts and counties. Courts and counties would recover their costs to administer the amnesty program utilizing revenues collected through the program. (See Public Safety Chapter for additional details.)

- Dependency Counsel Funding—The Budget includes an additional \$11 million to support counsel who represent abused and neglected children and their parents in dependency cases. This brings the total funding available annually for allocation for court-appointed dependency counsel to \$114.7 million.

SUSTAINING HEALTH CARE BENEFITS FOR STATE EMPLOYEES AND RETIREES

After statewide pension reform in 2012 and a funding plan for the California State Teachers' Retirement System in 2014, the Budget establishes for the first time a framework and the initial steps to address retiree health care costs.

Since California began providing health care benefits to state employees and retirees in 1962, health care costs have continued to escalate to nearly \$5 billion annually. The State's long-term liability for future retiree health benefits is estimated at \$72 billion. No significant amount of money has been set aside to pay the bill.

The Budget begins to gradually eliminate the unfunded liability for retiree health care by establishing a "lock box" trust fund to save investment income from matching employer-employee contributions until 2046. The Budget also tightens eligibility for health care benefits for family members and ensures retirees are enrolling in Medicare when they turn 65.

The Administration remains committed to pursuing affordable health care plans by increasing awareness of health care costs and engaging employees and policymakers. The Budget strengthens reporting requirements and oversight of the California Public Employees' Retirement System (CalPERS)—the administrator of the state's health benefits.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$594.9 million (\$224.1 million General Fund) for employee compensation and health care costs for active employees. Included in these costs are previously bargained salary increases for many of the state's rank and file employees and state managers and supervisors. Funding is also included for 2016 calendar year increases in health care premiums and enrollment.

The Administration is actively bargaining with four of the state's employee groups, representing correctional peace officers, engineers, scientists, and craft and maintenance workers, whose contracts with the state will expire in early July 2015. A key priority for the Administration during bargaining is addressing the state's \$72 billion unfunded health care obligation through shared prefunding of program costs along with other cost containment strategies.

STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS

The Budget includes \$4.9 billion (\$2.9 billion General Fund) for state contributions to CalPERS for state pension costs. Included in these costs are \$584.6 million (\$584.4 million General Fund) for California State University retirement costs. The budgetary impact of the demographic assumptions adopted by the CalPERS Board in February 2014, reflecting a mortality increase of 2.1 years for males and 1.6 years for females, are included in these costs.

TEACHERS' RETIREMENT CONTRIBUTIONS

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 for state contributions to CalSTRS. The funding strategy that includes increased payments from school districts and teachers, as well as the state, positions CalSTRS on a sustainable path forward.

Figure SWE-01 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.

DEPARTMENT OF TECHNOLOGY

The Department of Technology is the central information technology (IT) organization for California. It is responsible for the approval and oversight of all statewide IT projects; provides centralized IT services and training to government entities; promulgates statewide IT security policies and procedures; and has responsibility over telecommunications and IT procurements. The Project Management Office (PMO)

Figure SWE-01
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 Budget Act. 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.

was established in 2014-15 with the intent to develop project management resources and manage projects for entities without commensurate project management experience.

Significant Adjustment:

- Statewide Project Management Office—The Budget includes 11 positions, a \$1,067,000 loan from the General Fund and \$432,000 Technology Services Revolving Fund for 2015-16, and ongoing funding in support of the Statewide Project Management Office. These positions will develop a statewide project management framework and begin managing IT projects.

DEFERRED MAINTENANCE

The Budget includes \$125 million General Fund to address the most critical statewide deferred maintenance projects, including \$2 million that was appropriated to the Department of Forestry and Fire Protection earlier in the fiscal year as part of the drought relief package. These funds will start to address the backlog of deferred maintenance and help departments reduce the need to build costlier new infrastructure.

The amounts by entity are as follows:

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

CALIFORNIA ARTS COUNCIL

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

Significant Adjustment:

- Grant Funding—The Budget includes a \$7.1 million ongoing General Fund augmentation and two positions 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.

This page intentionally blank to facilitate double-sided printing.