

## STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

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### STATE EMPLOYEE AND TEACHER RETIREMENT

The Budget includes \$5.5 billion (\$3.2 billion General Fund) for state contributions to the California Public Employees' Retirement System (CalPERS) for state pension costs. These costs include the third and final phase-in of retirement rates to address the impact of demographic assumptions adopted by the CalPERS Board in February 2014.

In 2014, the Governor signed into law a comprehensive funding strategy to address the unfunded liability at the California State Teachers' Retirement System (CalSTRS), which is currently estimated to be \$72.7 billion. Consistent with this strategy, the Budget includes \$2.5 billion General Fund in 2016-17 for CalSTRS. The funding strategy positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in about 30 years. Based on a model of shared responsibility, the state, school districts, and teachers all increased their contributions to the system beginning in 2014-15. Specifically, the funding plan in 2016-17 increases the state contribution to 6.3 percent of teacher compensation, 10.2 percent for most teachers, and 12.6 percent for school districts. The state also makes an additional contribution of 2.5 percent of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

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. Pension and health care costs continue to increase and put additional pressure on the budget, with retiree health care costs—estimated at more than \$2 billion in 2016-17—growing more than 80 percent over the last 10 years.

Figure SWE-01  
**State Retirement and Health Care Contributions<sup>1</sup>**  
 (Dollars in Millions)

	CalPERS <sup>2</sup>	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental <sup>3</sup>	Retiree Health & Dental	CSU Retiree Health
2007-08	\$2,999		\$1,623 <sup>4</sup>	\$162	\$37	\$0	\$2,020	\$1,114	
2008-09	3,063		1,133	189	40	0	2,146	1,183	
2009-10	2,861		1,191	184	32	0	2,120	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 <sup>5</sup>	\$449 <sup>5</sup>	1,303	160	51	0	2,567	1,365 <sup>5</sup>	\$222 <sup>5</sup>
2013-14	3,269	474	1,360	188	52	1	2,697	1,383	225
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256
2015-16 <sup>6</sup>	4,338	585	1,935	190	67	1	2,938	1,585	264
2016-17 <sup>6</sup>	4,829	636	2,468	202	68	1	3,131	1,744	291

<sup>1/</sup> The chart does not include contributions for University of California pension or retiree health care costs.  
<sup>2/</sup> 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.  
<sup>3/</sup> These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and CSU.  
<sup>4/</sup> Includes repayment of \$500 million from Supplemental Benefit Maintenance Account lawsuit.  
<sup>5/</sup> Beginning in 2012-13, CSU pension and health care costs are displayed separately.  
<sup>6/</sup> Estimated as of the 2016-17 Governor’s Budget. 2016-17 General Fund costs are estimated to be \$2,534 million for CalPERS, \$636 million for CSU CalPERS, \$2,030 million for Retiree Health & Dental, and \$1,554 million for Active Health and Dental. The remaining totals are all General Fund.

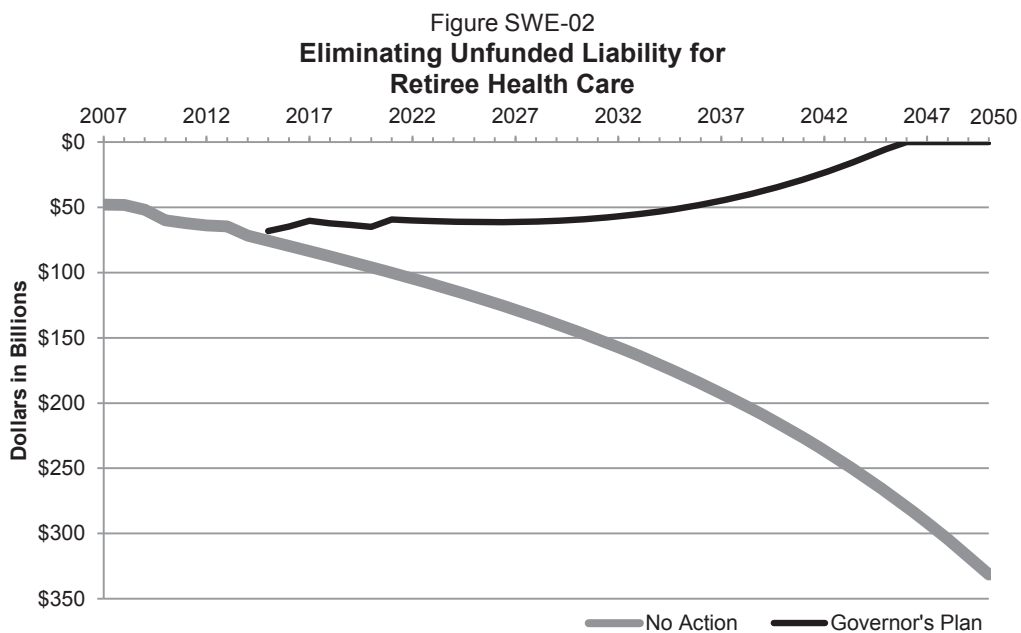
## EMPLOYEE COMPENSATION

The Administration continues to actively bargain with four of the state’s employee bargaining units, representing correctional peace officers, firefighters, scientists, and craft and maintenance workers. With the exception of firefighters, each of these

units' memorandum of understanding (MOU) with the state expired in early July 2015. For firefighters, the bargaining unit has exercised its option to reopen the contract, pursuant to existing provisions within its MOU. Additionally, in the upcoming calendar year, the Administration will begin collective bargaining negotiations with 15 of the state's 21 bargaining units, whose contracts with the state will expire in early July 2016.

For current and upcoming bargaining negotiations, the Administration remains focused on several key priorities aimed at eliminating the state's \$72 billion in unfunded retiree health care obligations. These strategies include the state and employees equally sharing in the prefunding of normal costs for future retiree health care benefits, and modifying the state's contribution and vesting schedules for retiree health care for future workers. The effort builds on progress the Administration made last year, including a prefunding agreement with Bargaining Unit 9 (professional engineers), as well as legislative changes that lock prefunding contributions in a trust fund to pay for future retiree health care obligations, tighten enrollment eligibility, and improve transparency and oversight of the state's health care program administered by CalPERS.

Figure SWE-02 shows that retiree health care unfunded liabilities will increase to more than \$300 billion over the next 30 years under the current pay-as-you-go approach. The Governor's plan will erase the unfunded liability over that same period, ultimately saving the state billions of dollars in the long term.



The Budget includes \$220 million (\$27 million General Fund) in 2016-17 for employee compensation and health care costs for active state employees. Included in these costs are collectively bargained salary increases for the state's rank-and-file employees represented by Bargaining Unit 9, which the Administration is extending to state managers and supervisors related to these employees. In addition, the Budget sets aside an additional \$350 million (\$300 million General Fund) to fund potential employee compensation increases subject to good faith bargaining under the Ralph C. Dills Act.

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### **IMPROVING THE STATE'S CIVIL SERVICE SYSTEM**

California state government continues to face many challenges as an employer in the ever-changing marketplace. A year ago, the Governor launched Civil Service Improvement, a comprehensive effort to systematically improve and modernize the state's civil service system. The Administration continues to implement reforms which were approved in 2015. These measures included simplifying the state's hiring processes, broadening the pool of potential candidates eligible for a civil service appointment, increasing transparency, and eliminating outdated and overly bureaucratic statutes governing departmental position authority.

However, the improvement process is far from complete. With more than 40 percent of the state workforce entering retirement age by 2018, more work is needed to develop and support the next generation of employees.

The state is in the process of making improvements to the application process for civil service jobs. Job candidates will soon be able to take more examinations online and submit their applications and résumés for job vacancies electronically. But the process remains unnecessarily cumbersome and confusing, especially to external applicants. The Administration plans to eliminate antiquated and duplicative classifications to allow state departments to hire from a broader applicant pool.

Once the state hires new employees, it also needs to improve training for these workers to meet the fast-evolving needs of 21<sup>st</sup> century California. A workforce training program is being developed to increase professional development and to give more experiential training through internships and partnerships. The state's leadership training will reflect modern trends in public administration and strengthen the state's culture of accountability.

To further support the Civil Service Improvement efforts, the Budget includes 16 positions and \$1.9 million (\$600,000 General Fund) for the California Department of

Human Resources (CalHR). With these resources, CalHR will develop and implement statewide solutions for workforce and succession planning, recruitment, and training.

The Administration will also continue making meaningful progress on simplifying the state's arcane and outdated job classification system, working with each department to create a workforce development plan, and improving the state's outreach and recruitment efforts.

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## **INFRASTRUCTURE**

### **DEBT SERVICE**

General Obligation (GO) and lease revenue bonds are used to fund major infrastructure improvements such as new road construction, flood control levees, and other critical public infrastructure. California voters have approved more than \$103.2 billion of new GO bonds since 2000, including the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) approved in November 2014. As the state issues the remaining voter-authorized bonds, debt service costs will continue to increase.

Estimated General Fund debt service expenditures in 2016-17, after various other funding offsets, will increase by \$60.3 million over current-year expenditures, to a total of \$5.4 billion. This increase is comprised of \$13.5 million for GO debt service (\$4.8 billion total) and \$46.8 million for lease revenue bonds (\$579 million total) and is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

The Administration continues to take actions to better manage this growing area of the Budget, such as requiring GO bond programs to demonstrate an immediate need for additional bond proceeds prior to issuing new bonds. These efforts have helped reduce the amount of unspent GO bond proceeds in the state treasury from approximately \$13.9 billion as of December 2010, to just less than \$1.7 billion by the end of October 2015, excluding the recent fall 2015 bond sales. In addition, only the most critical new lease revenue bond funded projects have been approved, thus minimizing new debt service while continuing to make needed investments.

### **CALIFORNIA FIVE-YEAR INFRASTRUCTURE PLAN**

In conjunction with the release of the Governor's Budget, the Administration is releasing the 2016 Five-Year Infrastructure Plan. The Plan outlines the Administration's infrastructure priorities for the next five years including investments in transportation and

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high-speed rail, state institutions, the judicial branch, natural resource programs, state office infrastructure, and education.

State office infrastructure in Sacramento—including the State Capitol Annex—is aged, inefficient, and inadequate to meet the state’s needs in the years to come. The Annex, completed in 1952, is undersized to meet current demands for legislative hearings and office space, and its antiquated building systems are prone to failure and expensive to maintain. A 2015 study of Sacramento state office infrastructure documented serious deficiencies with other existing buildings that will require their replacement or renovation. To address these needs, the Budget proposes a \$1.5 billion transfer from the General Fund to a new State Office Infrastructure Fund to be used for the long-deferred renovation or replacement of state office buildings in the Sacramento region.

The \$1.5 billion will improve the safety and capacity of the Capitol Annex building, as well as make significant first steps towards addressing other state office space deficiencies. Initial projects include replacement of the Natural Resources Agency building and construction of a new building on O Street in Sacramento to replace the vacant Department of Food and Agriculture Annex and to better use that existing parcel of state-owned land. Using cash for this investment rather than borrowing will allow projects to proceed more quickly because the bond sale calendar will not dictate construction schedules. As a result, the state will avoid \$1.3 billion in interest and related bond administration costs and there will be greater opportunities to incorporate mixed use into the projects.

Additionally, the Budget allocates one-time resources of \$807 million—\$500 million General Fund, \$289 million Proposition 98 General Fund, and \$18 million Motor Vehicle Account—to address the most critical statewide deferred maintenance needs. The proposed investments in deferred maintenance are as follows:

- California Community Colleges: \$289 million (Proposition 98 General Fund)
- Department of Water Resources: \$100 million for levee repairs
- Department of State Hospitals: \$64 million
- Judicial Branch: \$60 million
- Department of Parks and Recreation: \$60 million
- Department of Corrections and Rehabilitation: \$55 million

- California State University: \$35 million
- University of California: \$35 million
- Department of Developmental Services—Porterville Facility: \$18 million
- Department of Fish and Wildlife: \$15 million
- California Military Department: \$15 million
- Department of General Services: \$12 million
- California Highway Patrol: \$10 million (Motor Vehicle Account)
- Department of Motor Vehicles: \$8 million (Motor Vehicle Account)
- Department of Veterans Affairs: \$8 million
- Department of Forestry and Fire Protection: \$8 million
- State Special Schools: \$4 million
- Network of California Fairs: \$4 million
- California Science Center: \$3 million
- Hastings College of the Law: \$2 million
- Office of Emergency Services: \$800,000
- California Conservation Corps: \$700,000
- Department of Food and Agriculture: \$300,000
- San Joaquin River Conservancy: \$200,000

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## **SUPPLEMENTAL TRANSFER TO THE RAINY DAY FUND**

The Budget proposes a \$2 billion transfer from the General Fund to the Budget Stabilization Account in addition to the current projected amounts required by Section 20 of Article XVI of the California Constitution. In total, this \$3.6 billion transfer brings the balance of the Rainy Day Fund to \$8 billion in 2016-17, or 65 percent of its maximum. In the event the amounts required to be transferred for 2015-16 and 2016-17 exceed the current estimate in the Governor’s Budget (as part of the Proposition 2 “true

up” process), this supplemental transfer will be first applied towards meeting the additional requirement.

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### **DEPARTMENT OF TECHNOLOGY**

The Department of Technology is the central information technology (IT) organization for the State of California. The Department is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and centralized IT services to state and local governments. The Department promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and reportable IT project procurements. To support the Department, the Budget includes total funding of \$364.4 million (\$4.5 million General Fund).

Significant Adjustments:

- Information Security—The Budget includes an increase of \$1.6 million and 11 positions to expand an information security pilot program into a permanent audit unit that will review all departments for compliance with information security requirements.
- Project Oversight—The Budget includes an increase of \$1.7 million and 12 positions to provide project oversight and procurement support to departments to improve the quality, value, and likelihood that IT projects undertaken by the state will be successful.

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### **PUBLIC EMPLOYMENT RELATIONS BOARD**

The Public Employment Relations Board administers and enforces California public sector collective bargaining laws, promotes improved public sector employer-employee relations, and provides a timely and cost-effective method through which employers, employee organizations, and employees can resolve their labor relations disputes. To support the Board and its activities, the Budget includes total funding of \$10.3 million (\$10.2 million General Fund).

Significant Adjustment:

- Reducing Backlogs—The Budget includes an increase of \$885,000 General Fund and 5 positions to reduce backlogs and contribute toward meeting statutory timelines.



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## DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Department of Fair Employment and Housing is responsible for protecting the people of California from employment, housing and public accommodations discrimination, and acts of hate violence. The Department has jurisdiction over both private and public entities operating within the state, including corporate entities, private sector contracts granted by the state, and all state departments and local governments. To support the Department, the Budget includes total funding of \$25.9 million (\$20.2 million General Fund).

Significant Adjustment:

- **Enforcement Resources**—The Budget includes an increase of \$2.5 million General Fund and 21 positions to allow the Department to meet its federal and state requirements to provide thorough and timely investigations of discrimination complaints.

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## OFFICE OF EMERGENCY SERVICES

The principal objective of the Office of Emergency Services (OES) is to protect lives and property, build capabilities, and support communities for a resilient California. The OES collaborates with local governments in preparing for and responding to hazards and threats. During an emergency, the OES functions as the Governor’s immediate staff to provide guidance and coordinate the state’s responsibilities while responding to disasters such as fires, floods, earthquakes, and terrorism. To support the OES, the Budget includes total funding of approximately \$1.5 billion (\$166.5 million General Fund).

Significant Adjustment:

- **Enhanced Services**—The Budget proposes an increase of \$35.2 million General Fund to support the Office of Emergency Services’ responsibility for emergency preparedness and response. This proposal includes a one-time \$20 million General Fund augmentation to purchase wildland fire engines, which will be placed throughout the state as part of the State Fire and Rescue Mutual Aid System. In addition, this proposal includes \$4.2 million General Fund for both the Fire and Rescue Branch and the Law Enforcement Branch to expand the capacity to respond to major fires and other natural and man-made disasters throughout

the state. This also includes \$5 million General Fund to support Statewide Disaster Programs.

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### **MEDICAL MARIJUANA REGULATIONS**

The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for the licensing and enforcement of the cultivation, manufacture, transportation, storage, and distribution of medical marijuana in California.

The Budget includes \$5.4 million Medical Marijuana Regulation and Safety Act Fund in 2015-16 to fund initial regulatory activities. In addition, the Budget includes \$12.8 million General Fund, \$10.6 million Medical Marijuana Regulation and Safety Act Fund, \$1.2 million other special funds, and 126 positions to implement the regulation of medical marijuana in California. Specific proposals include:

- Department of Consumer Affairs—\$1.6 million in 2015-16 and \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund and 25 positions in 2016-17 to create the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution, and sale of medical marijuana within the state and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.
- Department of Public Health—\$457,000 in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund and 14 positions in 2016-17 to the Department of Public Health for the licensing and regulation of medical marijuana product manufacturers and testing laboratories.
- Department of Food and Agriculture—\$3.3 million in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund and 18 positions in 2016-17 to the Department of Food and Agriculture to provide Medical Cannabis Cultivation Program administrative oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report. In addition, the Department of Food and Agriculture will be responsible, with assistance from the Board of Equalization, to establish a “seed-to-sale” program to report the movement of medical marijuana products throughout the distribution chain using unique identifiers.

- Department of Pesticide Regulation—\$700,000 Pesticide Regulation Fund and 3 positions in 2016-17 to the Department of Pesticide Regulation to develop guidelines for the use of pesticides in the cultivation of medical marijuana.
- Department of Fish and Wildlife—\$7.6 million General Fund and 31 positions in 2016-17 for the Department of Fish and Wildlife to expand and make permanent the statewide multi-agency task force established in 2014 to address environmental impacts of medical marijuana cultivation and work with the State Water Resources Control Board (Water Board) and Department of Food and Agriculture to regulate water diversions.
- State Water Resources Control Board—\$5.7 million (\$5.2 million General Fund and \$472,000 Waste Discharge Permit Fund) and 35 positions in 2016-17 for the Water Boards to develop and implement a regulatory program to address the environmental impacts of medical cannabis cultivation. This program will protect instream flows for fish from water diversions related to marijuana cultivation.

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## **PRECISION MEDICINE**

The Budget provides \$10 million on a one-time basis to the Office of Planning and Research (OPR) to further the efforts of the California Initiative to Advance Precision Medicine (CIAPM), and build on the \$3 million appropriation made in the 2014 Budget Act. Hosted by the University of California (UC) San Francisco and University of California Health through an interagency agreement with OPR, CIAPM currently funds two demonstration projects: the Kids Cancer Comparison Project, led by UC Santa Cruz, and the Precision Diagnosis of Acute Infectious Disease project, led by UC San Francisco, with both projects representing multi-institution collaboration and in-kind support. The \$10 million augmentation will fund additional demonstration projects in precision medicine over a multi-year period and facilitate additional multi-institution and private-sector partnerships, with a portion of this funding subject to nonstate matching funds. Projects will be expected to demonstrate concrete results and findings related to uses of precision medicine within a 24-month period.

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## **DEPARTMENT OF INDUSTRIAL RELATIONS**

The Department of Industrial Relations works to improve working conditions, enforces laws relating to wages, hours, conditions of employment, and workers' compensation, and adjudicates workers' compensation claims.

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### Significant Adjustments:

- **Private Attorney General Act Resources**—The Labor and Workforce Development Agency receives notices for approximately 6,000 Private Attorney General Act cases per year. The Budget includes an increase of \$1.4 million Labor and Workforce Development Fund and 9 positions for the Department of Industrial Relations to review and investigate additional cases and evaluate proposed settlement agreements to determine if they are consistent with the Act. The Budget also includes \$207,000 Labor and Workforce Development Fund and 1 attorney at the Agency to oversee the program. The Budget additionally includes proposed legislation to streamline the administration of the Act.
- **Retaliation Complaint Investigation Caseload**—The Budget includes an increase of \$3.2 million Labor Enforcement and Compliance Fund and 19.5 positions to address a significant increase in caseload, eliminate the current backlog of old cases, and provide an appropriate number of supervisory staff. From 2011 to 2014, the unit experienced a 48-percent increase in caseload and over 2,400 cases remained open at the end of 2014.
- **Wage Claim Adjudication Hearings**—The Budget includes an increase of \$1.8 million Labor Enforcement and Compliance Fund and 9 positions to address a growing backlog of wage claim adjudication hearings. The growing complexity of labor law has resulted in higher wage claims comprised of multiple violations. As a result, hearings are taking longer. In 2014, it took an average of four months for a hearing to be held after an initial conference failed to result in a settlement. In busier offices, this can take as long as eight months.