

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Administration is currently in active contract negotiations with 17 of the state's 21 bargaining units. Recently, the Administration negotiated successor contract agreements with Correctional Peace Officers and Professional Scientists, whose unit contracts with the state expired in early July 2015. Through the collective bargaining process, the Administration remains focused on addressing the state's \$74 billion unfunded liability for retiree health benefits. The strategy for addressing the liability includes equal cost-sharing between the employee and employer to pre-fund retiree health benefits, extending the period to qualify for retiree health benefits, and reducing the employer subsidy for retiree health benefits. Agreements reached with the Correctional Peace Officers, Engineers, and Scientists have included these retiree health provisions.

The May Revision reflects a \$362 million (\$314 million General Fund) increase in employee compensation and retiree health care costs relative to the Governor's Budget. These additional costs are driven primarily by increases to salaries and benefits recently negotiated with Correctional Peace Officers and Professional Scientists and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). The May Revision also includes retention incentives for Department of Developmental Services employees working in facilities that will be closing in the coming years.

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The May Revision also includes a proposal to more closely align the benefit structure of state-level employees in the Judicial Branch with other civil service employees.

As part of this proposal, these employees, excluding justices, will receive a 7.5-percent General Salary Increase over two years, contribute more to their pensions, participate in the Administration's strategies to address the retiree health care unfunded liability, and receive an employer health benefit contribution that is similar to most civil service employees.

Recognizing the substantial and likely cost pressure of negotiating successor contract agreements with remaining units, the May Revision sets aside \$500 million (\$200 million General Fund) to offset potential employee compensation and benefit cost increases subject to good-faith bargaining under the Ralph C. Dills Act.

Additionally, as part of Chapter 2, Statutes of 2016 (AB 133), the Administration made a one-time allocation of \$240 million to pay down the state's unfunded liability for retiree health care. This amount will be apportioned to the trust fund accounts of bargaining units that reach a memorandum of understanding with the Administration by November 1, 2016 and where such agreement includes prefunding for retiree health care.

STATE RETIREMENT CONTRIBUTIONS

The May Revision reflects the following adjustments for state retirement costs:

- State contributions to the California Public Employees' Retirement System (CalPERS) for pension costs have decreased by \$89.8 million (\$43 million General Fund) relative to the Governor's Budget. The reduction reflects the impact of employees entering the system under the reduced benefit formula pursuant to the Public Employees' Pension Reform Act of 2013 and greater-than-expected contributions to the system.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$4.6 million General Fund due to revised compensation for K-12 and community college teachers.

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.

Figure SWE-01
State Retirement and Health Care Contributions¹
(Dollars in Millions)

	CalPERS ²	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental ³	Retiree Health & Dental	CSU Retiree Health
2007-08	\$ 2,999		\$ 1,623 ⁴	\$ 162	\$ 37		\$ 2,020	\$ 1,114	
2008-09	3,063		1,133	189	40		2,146	1,183	
2009-10	2,861		1,191	184	32		2,120	1,182	
2010-11	3,230		1,200	166	54		2,277	1,387	
2011-12	3,174		1,259	195	58		2,439	1,505	
2012-13	2,948 ⁵	\$ 449 ⁵	1,303	160	51		2,567	1,365 ⁵	\$ 222 ⁵
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 ⁶	4,338	585	1,935	190	67	1	2,938	1,585	264
2016-17 ⁶	4,754	621	2,473	202	68	1	3,131	1,744	291

¹ The chart does not include contributions for University of California pension or retiree health care 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 health care costs are displayed separately.

⁶ Estimated as of the 2016-17 May Revision. 2016-17 General Fund costs are estimated to be \$2,506 million for CalPERS, \$621 million for CSU CalPERS, \$1,739 million for Retiree Health & Dental, and \$1,554 million for Active Health and Dental. The remaining totals are all General Fund.

MINIMUM WAGE INCREASE

In April 2016, the Governor signed legislation making California the first state in the nation to commit to raising the minimum wage to \$15 per hour statewide. The legislation increases the minimum wage to \$10.50 per hour beginning January 1, 2017, for businesses with 26 or more employees. The minimum wage will incrementally increase to \$15 per hour for all businesses by 2023. This historic action provides additional time for small businesses with 25 or fewer employees to phase in the increases and flexibility to pause the scheduled increases if negative economic or budgetary conditions emerge.

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The May Revision includes \$39.4 million General Fund to fund state costs associated with the first scheduled increase. This includes increased state employee wages, increased payments to In-Home Supportive Services providers and community-based service providers for residents with developmental disabilities, increases in Medi-Cal costs, and increases for other costs associated with the new minimum wage allocated through a new statewide Budget Act control section. This also reflects modest savings associated with lower enrollment in Medi-Cal and CalWORKs due to the minimum wage increase's effects on families' incomes.

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.

Significant Adjustments:

- Trial Court Civil Case Management System (V3) Replacement—The May Revision includes an additional \$12.4 million General Fund to replace V3 Court Case Management Systems in the Superior Courts in Orange, Sacramento, San Diego, and Ventura counties. This funding will enable these trial courts to establish a digital court foundation by implementing a modern and supportable case management system needed to efficiently deliver services to the public.
- Trial Court Employee Costs—The May Revision includes an additional \$531,000 to reflect health benefit and retirement costs for trial court employees.

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 May Revision includes total funding of approximately \$1.52 billion (\$208 million General Fund).

Significant Adjustments:

- California Disaster Assistance Act—An increase of \$30 million General Fund to support local jurisdictions using the California Disaster Assistance Act program. The program supports recovery from all disasters, such as tree mortality, wildfires, earthquakes, floods, and drought.
- California Earthquake Early Warning—An increase of \$10 million General Fund to support the implementation of the California Earthquake Early Warning System and Program for a comprehensive and reliable earthquake early warning system statewide. The proposed funding will be used to perform research on necessary technology and other technical aspects which will integrate public and private infrastructure, provide public education, and conduct training.

STATE APPROPRIATIONS LIMIT CALCULATION

2016-17 State Appropriations Limit (SAL) Calculation—Pursuant to Article XIIIB of the California Constitution, the 2016-17 SAL is estimated to be \$99.787 billion. This amount is used for various calculations related to state budgeting. The revised limit is the result of applying the growth factor of 5.96 percent. The revised 2016-17 limit is \$950 million above the \$98.837 billion estimated in January. This increase is due to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 4.36%
 - May Revision Percentage Growth: 5.37%
- State Civilian Population
 - January Percentage Growth: 0.87%
 - May Revision Percentage Growth: 0.90%
- K-14 Average Daily Attendance
 - January Percentage Growth: 0.16%
 - May Revision Percentage Growth: 0.10%

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