

# STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

---

## CALIFORNIA LEADS AS AN EMPLOYER

The State of California has a responsibility to serve all Californians, which requires a workforce that reflects the state's diversity.

In September 2019, the Governor convened Secretaries, Undersecretaries, Directors, and Chief Deputy Directors for a forum to reflect and learn about ways to create a more inclusive, respectful, and equitable workplace.

Attendees of the forum volunteered to participate in four task forces addressing the following topics: Sexual Harassment and Discrimination Prevention and Response, Diversity and Inclusion, Public Safety Diversity, and Racial and Gender Pay Equity. The task forces are overseen by the Government Operations Agency with assistance from the Department of Human Resources (CalHR), State Personnel Board, and Department of Finance. Final recommendations of the task forces will be presented to the Governor by July 2020.

The state will use these recommendations to shape a bold vision to make the state workforce more inclusive and diverse. This will entail core reforms to how the state

recruits, onboards, develops, manages, and retains talent. A more diverse and inclusive workforce will make the state an “employer of choice.”

---

## OFFICE OF DIGITAL INNOVATION

California is changing the way it delivers government services to the millions of Californians who interact with government every day. The state is building the foundation for the shift from a passive governance model that responds to statutory mandates to a pro-active, customer-focused service delivery model. The state needs to recast the relationship between Californians and their government, and redesign how government operates to enable modern service delivery. This requires a cultural shift in government that:

- Provides an intuitive customer experience—Residents should be able to interact with state government in the same way they receive non-governmental services—largely digital and often mobile-enabled.
- Engages and responds to residents—The state must broaden its engagement to improve its ability to deliver services and more effectively reach residents throughout the state.
- Tracks outcomes—The state needs to set open and transparent standards for customer service, deliver on those standards, and continue to learn and improve.

In its first year, the Administration has laid the foundation for this transformation by:

- Investing in digital service transformation capacity through the Office of Digital Innovation, which is under the Government Operations Agency;
- Conducting nationwide digital talent searches to fill key positions;
- Simplifying digital interactions with people starting with a redesign of the CA.gov website;
- Making data more accessible to the public by launching a Geographic Information System portal;
- Improving procurement with the flexible Request for Innovative Ideas approach; and
- Encouraging data sharing and data-informed decision making.

---

## INFORMATION TECHNOLOGY SECURITY

The Budget includes \$11.3 million one-time (\$8.3 million General Fund) and \$38.8 million ongoing (\$29.4 million General Fund) and 85 positions to strengthen the state's information technology security operations.

The Administration is committed to protecting the state's critical information assets and infrastructure, which includes personal data. The state has taken numerous steps over the past decade to audit state entities' compliance with state security and privacy policies. This includes the creation of the California Cybersecurity Integration Center to coordinate information sharing with local, state, and federal agencies. The Department of Technology currently monitors cyber traffic continuously on the state's network and coordinates incident response.

The Budget provides funding to mature the state's overall security posture, improve statewide information security initiatives, analyze cyber threat intelligence, and respond to and mitigate potential threats.

---

## DEPARTMENT OF MOTOR VEHICLES

A 2019 audit of the Department of Motor Vehicles (DMV) found its operations were not always efficient and effective in delivering services to its customers. The work of the DMV Strike Team resulted in additional recommendations to improve the operations at field offices, particularly as the department addresses the spike in customer transactions due to federal REAL ID implementation. In response to these findings, the 2019 Budget Act included \$242 million Motor Vehicle Account (MVA) in 2019-20 and \$200 million MVA in 2020-21 to address immediate needs and long-term improvements.

The DMV is making strides to improve public access and increase its ability to serve the public more efficiently. As of December 2019, the DMV hired an additional 926 temporary employees, and wait times, once exceeding several hours, have returned to target levels at most field offices throughout the state. Additionally, the DMV has made improvements to its training program with a greater focus on customer service.

The DMV has improved the overall customer service experience by expanding Internet capabilities in its field offices, enabling employees to better queue incoming customers, and adding a Chatbot feature to its website to assist customers with REAL ID questions, which reduces the need for customers to come to field offices. In addition, the DMV

piloted the acceptance of credit cards in field offices, and will accept credit cards in all field offices in 2020.

With an October 2020 deadline for REAL ID issuance, the DMV has engaged in a media campaign to educate the public about REAL ID requirements. The DMV is also working with international and regional airports to provide information and educate travelers about REAL ID requirements. The two-year funding allows the DMV to continue its efforts to meet the requirements of REAL ID and make necessary changes to improve daily operations and customer service.

---

## **PAYING DOWN UNFUNDED PENSION LIABILITIES**

Reducing the state's \$165 billion unfunded pension liability is critical to ensuring the long-term security of the state's retirement benefits. The state has taken significant steps in addressing those liabilities by reforming public pension law under the Public Employees' Pension Reform Act of 2013 (PEPRA), and by implementing a funding strategy to pay down the California State Teachers' Retirement System (CalSTRS) unfunded liability. The state made unprecedented supplemental payments including \$6 billion to CalPERS in 2017-18 funded through a loan from the Surplus Money Investment Fund, which is projected to save the state a net of \$6 billion over the next three decades. In the 2019 Budget Act, the state committed \$3 billion to the California Public Employees' Retirement Systems (CalPERS) and \$2.9 billion to CalSTRS over the next few years. Collectively, these efforts have placed the state in better fiscal position for retirement security, and will help maintain a key recruitment tool for the state's workforce.

---

## **STATE EMPLOYEES' RETIREMENT CONTRIBUTIONS**

The Budget includes \$7 billion one-time (\$4 billion General Fund) for the statutorily required annual state contribution to CalPERS for state pension costs. This is \$284 million higher than 2019-20. Included in these costs are \$739 million General Fund for California State University retirement costs.

In addition to the state's required contributions, the 2019 Budget Act included a \$3 billion supplemental pension payment authorized to be paid towards the unfunded liabilities of the CalPERS state retirement plans over fiscal years 2018-19 through 2022-23. The Budget proposes to accelerate the payment of the remaining \$500 million currently scheduled over fiscal years 2020-21 through 2022-23 into a single payment in 2019-20.

This proposed change will result in an additional \$42 million in estimated savings to the state over the next three decades.

---

## TEACHERS' RETIREMENT CONTRIBUTIONS

The Budget also includes \$3.6 billion one-time General Fund for the statutorily required annual state contribution to CalSTRS. This is roughly \$268 million higher than 2019-20.

In addition to the state's required contributions, the 2019 Budget Act included a \$2.9 billion supplemental pension payment to be paid towards the state's share of the unfunded liability for the CalSTRS Defined Benefit Program over fiscal years 2019-20 through 2022-23 using available Proposition 2 debt payment funding. For 2020-21, the Budget includes \$802 million toward this payment.

---

## STATE HEALTH CARE BENEFITS

The state is projected to spend approximately \$6.1 billion on health care benefits in 2020-21 for more than 850,000 state employees, retirees, and their family members. This includes \$2.4 billion for retiree health care benefits for 2020-21, which has grown by 75 percent compared to what the state paid in 2010-11 (\$1.4 billion).

Through the collective bargaining process, the state's 21 employee bargaining units and related excluded and exempt employees now prefund retiree health benefits. As a result, more than \$2 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits, which has an estimated \$85.6 billion unfunded liability to be paid down by 2046. By the end of 2019-20, the trust fund balance will approach \$2.6 billion in assets.

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

(Dollars in Millions)

	CalPERS <sup>3/</sup>	CSU CalPERS	CalSTRS	JRS	JRS II	LRS <sup>4/</sup>	Active Health & Dental <sup>5/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>6/</sup>
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 <sup>7/</sup>	\$449 <sup>7/</sup>	1,303	160	51		2,567	1,365 <sup>7/</sup>	\$222 <sup>7/</sup>	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 <sup>9/</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	263	87	1	3,443	1,892	331	562
2020-21 <sup>8/</sup>	6,303	739	3,591	225	87	1	3,713	2,068	362	703

<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 \$6 billion supplemental pension payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), Chapter 33, Statutes of 2019 (SB 90), and Chapter 859, Statutes of 2019 (AB 118), authorized multiple one-time supplemental pension payments to CalPERS and CalSTRS, which are also not reflected in the chart.

<sup>3/</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. Amounts displayed in this column reflect statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

<sup>4/</sup> The state continues to make employer contributions to the Legislators' Retirement System. The most recent estimated contribution amount reported by CalPERS is \$101,262 in 2019-20.

<sup>5/</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>6/</sup> Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

<sup>7/</sup> Beginning in 2012-13, CSU pension and health care costs are displayed separately.

<sup>8/</sup> Estimated as of the 2020-21 Governor's Budget. Of the total estimated 2020-21 contributions, contributions sourced from the General Fund are estimated to be \$4,033 million for CalPERS, \$739 million for CSU CalPERS, \$1,744 million for Active Health and Dental, and \$335 million for OPEB Prefunding. Fiscal year 2020-21 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are all General Fund costs.

<sup>9/</sup> Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

## EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The Budget includes \$1.5 billion ongoing (\$654 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees. Included in these costs are collectively bargained salaries and benefit increases as a result of contract negotiations, including the recently negotiated contract with the Service Employees International Union, Local

1000, and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). Funding is also included for 2021 calendar year increases in health care premiums and enrollment.

Collective bargaining negotiations will commence with seven bargaining units representing Attorneys and Administrative Law Judges, Correctional Officers, Engineers, Scientists, Craft and Maintenance, Physicians/Dentists/Podiatrists, and Health and Social Services, whose contracts expire in late June or early July 2020.

---

## 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, 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, establishing a single regulatory system to govern the commercial cannabis industry in California.

---

## REGULATION AND TAX REFORM

In an effort to improve access to licensing and simplify regulatory oversight of commercial cannabis activity, the Administration plans to consolidate the three licensing entities into a single Department of Cannabis Control by July 2021. Establishing a stand-alone department with dedicated enforcement will centralize and align critical regulatory functions to build a successful legal cannabis market, and create a single point of contact for cannabis licensees and local governments. The Administration will submit more details on this proposal in spring 2020.

As approved in Proposition 64, excise taxes are levied on the cultivation and retail sale of both adult-use and medicinal cannabis with tax revenues deposited into the Cannabis Tax Fund, to be allocated to various state entities pursuant to Proposition 64. The cannabis excise tax is forecast to generate \$479 million in 2019-20 and \$550 million in 2020-21. The forecast assumes continued growth of more than 15 percent annually as new businesses continue to enter the marketplace and local jurisdictions adjust to the

state's legal framework. In the near term, revenue estimates will be subject to significant uncertainty because the market has only recently been established.

The Administration also proposes to simplify tax administration for cannabis by changing the point of collection of cannabis taxes. The changes move the responsibility for the cultivation excise tax from the final distributor to the first and for the retail excise tax from the distributor to the retailer. Because the retail excise tax is currently collected by the distributor, the California Department of Tax and Fee Administration (CDTFA) must biannually estimate an average mark-up rate on cannabis products to determine a wholesale tax rate that ensures the tax paid by the distributor is equal to 15 percent of gross receipts at retail. Moving the incidence of this tax to the retailer will eliminate CDTFA's requirement to estimate product mark-ups and set wholesale tax rates. The changes will reduce the tax collection burden on the cannabis industry and simplify the tax collection process. The revenue impact from the changes includes a loss of revenue in 2020-21, as the excise tax would be collected later in the process, with a small increase in revenue in future years related to these changes.

The Administration, in consultation with the industry and stakeholders, will consider other changes to the existing cannabis tax structure, including the number of taxes and tax rates to simplify the system and to support a stronger, safer legal cannabis market.

---

### 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 youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. The Budget estimates \$332.8 million will be available for these purposes in 2020-21, and the structure of these allocations is unchanged from 2019-20:

- Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$199.7 million).
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$66.6 million).
- Public safety-related activities—20 percent (\$66.6 million).



---

## 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 2019 Budget Act provided \$10 million ongoing General Fund for grants made by the Council.

California Cultural Districts were established in 2015 through Chapter 396, Statutes of 2015 (AB 189). These districts leverage the state's artistic and cultural assets, and celebrate California's diversity, helping to grow and sustain grassroots arts and cultural opportunities, increasing the visibility of local artists and community participation in local arts and culture, and promoting socioeconomic and ethnic diversity. The Budget includes \$9 million one-time General Fund to support the existing 14 cultural districts and the addition of cultural districts in underrepresented areas, such as the Central Valley and Inland Empire. The Arts Council will coordinate outreach and engagement with non-governmental organizations and the philanthropic community in this effort.

The Budget also includes \$1 million one-time General Fund for the Arts Council to develop disaster preparedness guidelines and best practices at the county level to protect and preserve artifacts during a disaster.

---

## CALIFORNIA CONSUMER FINANCIAL PROTECTION

California's economy and its people thrive when predatory business practices are policed and innovation is cultivated. This is especially true for consumer financial products, as evidenced by the financial crisis a decade ago. In response to the crisis, the federal Consumer Financial Protection Bureau (CFPB) was established to enforce consumer rights, monitor markets and identify patterns of abuse, and listen to and educate consumers. The federal government's rollback of the CFPB leaves Californians vulnerable to predatory businesses and leaves companies without the clarity they need to innovate.

## STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

Currently, the Department of Business Oversight (DBO) regulates certain financial services and oversees state-licensed financial institutions, including banks, credit unions, and money transmitters. DBO also licenses and regulates securities brokers and dealers, investment advisers, payday lenders, mortgage lenders, escrow agents, student loan servicers, and other commercial and consumer lenders.

The Budget expands DBO's authority and capacity to protect consumers and foster the responsible development of new financial products. To better reflect its current and future role, DBO's name will be changed to the Department of Financial Protection and Innovation. The Budget includes \$10.2 million Financial Protection Fund and 44 positions in 2020-21, growing to \$19.3 million and 90 positions ongoing in 2022-23, to establish and administer the California Consumer Financial Protection Law, which will provide consumers with more protection against unfair and deceptive practices when accessing financial services and products. This will be accomplished by expanding the Department's authority to pursue unlicensed financial services providers not currently subject to regulatory oversight such as debt collectors, credit reporting agencies, and financial technology (fintech) companies, among others.

Specific new activities include:

- Offering services to empower and educate consumers, especially older Americans, students, military service members, and recent immigrants;
- Licensing and examining new industries that are currently under-regulated;
- Analyzing patterns and developments in the market to inform evidence-based policies and enforcement;
- Protecting consumers through enforcement against unfair, deceptive, and abusive practices;
- Establishing a new Financial Technology Innovation Office that will proactively cultivate the responsible development of new consumer financial products;
- Offering legal support for the administration of the new law; and
- Expanding existing administrative and information technology staff to support the Department's increased regulatory responsibilities.

Initial costs for the new program will be covered by available settlement proceeds in the State Corporations and Financial Institutions Funds, with future costs covered by fees on the newly covered industries and increased fees on existing licensees.

---

## 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 AmeriCorps members serving statewide in programs that address critical community needs in education, public safety, health and human services, and the environment.

The 2019 Budget Act provided \$20 million to increase the number of AmeriCorps members. California Volunteers issued the first round of grants in fall 2019 to twelve new programs supporting 360 members. These new programs are focused on building service initiatives in underserved communities in the Central Valley. In addition, this funding supported an increase in the educational award provided to certain new and existing members from \$6,095 to \$10,000. California Volunteers anticipates issuing a second round of grants from the \$20 million to further expand the number of AmeriCorps members in 2020-21.

The Budget takes another important step towards expanding the AmeriCorps program and increasing opportunities for Californians to serve their communities. Specifically, the Budget includes \$1.7 million ongoing General Fund for administrative and strategic planning staff to support future service initiatives, including continuing to grow the AmeriCorps program. These staff will be responsible for volunteer initiative development, administrative and program oversight, AmeriCorps volunteer recruitment, development of strategic public/private volunteer partnerships, and conducting a service and volunteer public engagement campaign.

The Administration continues to work on expanding the state's AmeriCorps program to support needed increases in civic engagement and volunteering, with an update expected in spring 2020.

---

## CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

The California Department of Veterans Affairs (CalVet) works to serve the nearly 1.6 million veterans and their families living in California. CalVet strives to ensure that veterans of every era and their families receive state and federal benefits and services they have earned and deserve as a result of selfless and honorable military service. CalVet operates eight homes throughout the state that provide residential and medical care services to aged or disabled California veterans who served on active duty.

CalVet also offers direct low-cost loans to acquire farms and homes. The Budget includes \$520.6 million (\$450.2 million General Fund) for CalVet.

CalVet recently released its statutorily required Master Plan for the overall operation of the veterans homes. The Master Plan discusses veteran population trends in California, the potential location of future facilities and alternate service delivery models, and includes several recommendations, some of which are reflected in the Budget as follows:

- **Realigning Levels of Care**—The Budget proposes to begin realigning levels of care by adjusting domiciliary populations at Barstow, Chula Vista, and Yountville; converting current Intermediate Care Facilities to Residential Care Facilities at Barstow and Yountville; and increasing Skilled Nursing Facility beds at Barstow. In examining its current services, CalVet identified significant community interest for the highest levels of care. For example, CalVet maintains a waitlist with nearly 85 percent of applicants seeking skilled nursing or memory care, while independent living and intermediate care units are underutilized. Residents needing intermediate care will be placed in either Residential Care or Skilled Nursing Facilities based on the severity of their treatment needs. This will provide a continuum of care for residents of the veterans homes. Current residents will not be displaced and realigning levels of care will be achieved following the attrition of existing residents. The Budget anticipates a \$2.5 million decrease in General Fund revenues in 2020-21 due to fewer residents and the associated reduction in federal per diem payments and other related revenue.
- **Mental Health Services for Veterans**—The Budget includes \$2.3 million ongoing General Fund to improve behavioral health services at the veterans homes by standardizing mental health support staffing.
- **Rightsizing Funding and Support for the Homes**—The Budget includes \$6.8 million ongoing General Fund related to funding shortfalls at the three oldest veterans homes. The funding will primarily support increased costs for maintenance and service contracts, supplies, workers' compensation, utilities, dietary supplies, and pharmaceuticals.

---

## FARM TO SCHOOL PROGRAM

Farm to school programs are a vital way to improve the health and well-being of California school children through integrated nutrition education and healthy food

access. Hundreds of millions of meals are served each year in California schools, and expanding opportunities for local food procurement that is tied to nutrition education is essential for establishing healthy eating habits that children can carry into adulthood. Procurement of more California Grown food also supports connecting California's agriculture to California consumers.

The Budget proposes \$10 million one-time General Fund in 2020-21 and \$1.5 million annually thereafter for the California Department of Food and Agriculture to establish a Farm to School Grant Program. This program will help support California farmers and expand healthy food access in schools by providing grants to schools to establish programs that coordinate local and California Grown food procurement and utilization in school meals as well as food and agriculture education in classrooms and cafeterias through experiential learning opportunities in school gardens, on farms, and other culinary and agricultural pathways. This funding will also support the new Farm to School Working Group to advance farm to school implementation and explore how to create a more resilient and climate-smart food supply in California.

---

## GRANTS FOR ANIMAL SHELTERS

The Budget includes an increase of \$50 million one-time General Fund for the University of California Davis Koret Shelter Medicine Program to develop a grant program for animal shelters. The program will include interactive group training for approximately 100 shelters, selected on a voluntary basis and prioritized by need; California and regional best practices summits; and an online resource library available to all shelters. Over a five-year period, this program will provide expertise, support, and local assistance to help local communities achieve the state's longstanding policy goal that no adoptable or treatable dog or cat is euthanized.

