

# 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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## EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

As a result of the COVID-19 Recession, reductions in state employee compensation costs and deferrals to negotiated general salary increases 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 defer scheduled pay increases and agree to a pay reduction. State employees stepped up at a time of uncertainty and all 21 bargaining units 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 and defer pay increases through the 2021-22 fiscal year.

At the 2021 May Revision, the near-term revenue picture had drastically improved thanks to higher-than-anticipated tax revenue and additional federal funding from multiple stimulus bills. Given the May Revision revenue projections, the California Department of Human Resources invited the bargaining units through collective bargaining to discuss revising the PLP 2020 agreements. As a result of these discussions,

agreements were reached to end PLP 2020, resume employee prefunding contributions for other post-employment benefits, and end the deferral of pay increases by providing one or two general salary increases on July 1, 2021.

The 2021 Budget Act includes \$1.96 billion ongoing (\$1.06 billion ongoing General Fund) for collectively bargained pay increases, various one-time and ongoing special salary adjustments and pay differentials, increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3), and adjustments to the health and dental contributions based on the 2022 estimated premiums and updated enrollment for active state employees.

Collective bargaining negotiations will continue with the union representing scientists, whose contract expired in July 2020, and the union representing firefighters, whose contract expired in July 2021.

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## STATE RETIREMENT CONTRIBUTIONS

As California's economic conditions recover from the COVID-19 Pandemic and Recession, the state has an opportunity to further improve retirement security for public employees. Actions taken in the 2021 Budget Act continue to reflect the state's commitment to address the estimated \$169 billion in unfunded pension obligations over the long term. To achieve this goal, the Budget reflects the following:

- **California Public Employees' Retirement System (CalPERS) Supplemental Pension Payment**—The Budget includes \$1.9 billion in one-time Proposition 2 debt repayment funding in 2021-22 to further reduce the unfunded liabilities of the CalPERS state plans. Any supplemental payment made towards the state's CalPERS unfunded liability is estimated to result in a minimum long-term gross savings ratio of 2:1.
- **California State Teachers' Retirement System (CalSTRS) Supplemental Pension Payments**—The Budget includes \$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's unfunded liability. In addition, the Budget includes \$174 million one-time General Fund to offset the statutory reduction in the state's contribution in 2020-21. These payments are estimated to result in \$1.1 billion gross savings to the state through 2045-46.

## Other Significant Adjustments

- **Surplus Money Investment Fund Loan**—The Budget includes \$225 million within the 2021-22 Proposition 2 debt payment requirement to pay down the General Fund's share of the internal cash loan authorized by Chapter 50, Statutes of 2017 (SB 84) to make a \$6 billion supplemental pension payment to CalPERS state plans in 2017-18.
- **State Employees' Retirement Contributions**—The Budget includes \$6 billion (\$3.2 billion General Fund) for state contributions to CalPERS for state pension costs. This includes \$677 million General Fund for California State University pension costs.
- **Teachers' Retirement Contributions**—The Budget includes \$3.7 billion General Fund for state contributions to CalSTRS beyond the \$584 million supplemental pension payments discussed above.

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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 eligible dependents. This includes \$2.7 billion for retiree health care benefits for 2021-22.

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 \$3.9 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 as of June 30, 2019, to be paid down by 2046. By the end of 2021-22, the trust fund balance is expected to approach \$5.9 billion in assets.

The 2021 Budget Act 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 increase prefunding for retiree health benefits. Because employee prefunding contributions were suspended in 2020-21 due to the PLP 2020, \$616 million one-time will be provided by the state on behalf of employees, based on the actuarial liability for each bargaining unit.

The State Retirement and Health Care Contributions Figure provides an 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>	5,363	677	3,862	193	86	1	4,018	2,335	410	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.

<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 2021 Budget Act includes \$174 million one-time General Fund to offset the rate suspension in 2020-21. The amount shown excludes supplemental pension payments 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 2021-22 contribution amount is \$87,680.

<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 Budget Act. Of the total estimated 2021-22 contributions, contributions sourced from the General Fund are estimated to be \$2,556 million for CalPERS, \$677 million for CSU CalPERS, \$1,887 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.

## GOVERNMENT OPERATIONS AGENCY

The Budget includes \$588,000 ongoing General Fund to establish and support the state's first ever Chief Equity Officer within the Government Operations Agency (GovOps), which will build upon and implement the work of the California Leads Taskforce. The Chief Equity Officer will develop a uniform framework for creating equitable policies, practices, and metrics for hiring and procurement. The Budget also

includes \$200,000 General Fund in 2021-22 through 2025-26 to establish the Racial Equity Advisory Council, which will advise GovOps in developing statewide policies that promote diversity, equity, and inclusion in the state workforce. The Administration will continue to work with the Legislature this summer to finalize the creation of the Council.

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## CALIFORNIA DEPARTMENT OF TECHNOLOGY

The COVID-19 Pandemic revealed weaknesses in the state's technology infrastructure while also necessitating the state's need to rapidly implement new digital services. The 2021 Budget Act includes \$25 million one-time General Fund, available for expenditure through 2023-24, to the California Department of Technology (CDT), to fund technology modernization solutions. These modernization initiatives will be identified and approved by CDT and the Department of Finance through CDT's assessments of existing technology systems and the evaluation of strategic technology modernization proposals submitted by departments. To be eligible for modernization funding, the technology proposals must meet at least one of the following criteria: (1) improve, retire, or replace existing technology systems; (2) improve information security; (3) improve the efficiency and effectiveness of state entities; or (4) transition state entities' legacy technology systems to cloud computing.

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## DEPARTMENT OF GENERAL SERVICES

- **Regional K-16 Education Collaboratives**—The Budget provides \$250 million one-time General Fund for a regional K-16 collaboratives grant program. The funds are appropriated to the Department of General Services (DGS) to award grants to between five and eight regional collaboratives. More detailed information regarding this grant program is located in the Higher Education Chapter.
- **STEM Teacher Recruitment Grants**—The Budget provides \$3 million one-time General Fund to the DGS for the purpose of providing grants to recruit Science, Technology, Engineering, and Math (STEM) professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. These grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities. DGS intends to administer this grant program with the assistance of a third party administrator.

- **Office of Public School Construction Facility Inspection Tool**—The Budget provides \$250,000 one-time General Fund to the Office of Public School Construction (OPSC) within the DGS to update OPSC's Facility Inspection Tool. The Facility Inspection Tool is used to rate school facilities and determine whether those facilities are in good condition.

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## STATEWIDE DEFERRED MAINTENANCE

A fall 2020 survey of state departments indicated that the statewide deferred maintenance need totals approximately \$66.9 billion, 72 percent of which was reported by the Department of Transportation (\$36.2 billion) and the Department of Water Resources (\$12 billion).

The 2021 Budget Act includes additional one-time resources of approximately \$2.2 billion (\$1.7 billion General Fund and \$511 million Proposition 98 General Fund) for statewide deferred maintenance. This investment will help to address the statewide backlog of deferred maintenance and will reduce the need to build costlier new infrastructure. These resources are allocated to the entities listed below:

- University of California—\$325 million
- California State University—\$325 million
- California Community Colleges—\$511 million
- Department of Water Resources—\$237 million
- Judicial Branch—\$188 million
- Department of Parks and Recreation—\$185 million
- Department of State Hospitals—\$100 million
- Department of Corrections and Rehabilitation—\$100 million
- Department of Forestry and Fire Protection—\$50 million
- Department of General Services—\$50 million
- Housing and Community Development, Office of Migrant Services, Farmworker Housing—\$30 million
- State Special Schools—\$25 million

- California Military Department—\$15 million
- Department of Fish and Wildlife—\$15 million
- Department of Veterans Affairs—\$15 million
- California Highway Patrol—\$10 million
- Department of Motor Vehicles—\$10 million
- Department of Developmental Services—\$5 million
- Exposition Park—\$5 million
- Office of Emergency Services—\$5 million
- Department of Food and Agriculture—\$2 million
- Employment Development Department—\$2 million
- California Conservation Corps—\$1 million

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## CANNABIS

The Budget includes 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 beginning July 1, 2021. This consolidation will simplify participation in the legal market and support the successful and safe operation of cannabis businesses in compliance with state law. The consolidation includes the creation of a Deputy Director of Equity and Inclusion to further the Department's mission to implement inclusive cannabis policies and license and regulate commercial cannabis activity in a way that best protects public health, safety, the environment, and local communities throughout the state.

The Budget includes statutory language to implement the consolidation and address other important issues. Chief among these is extending the Department's ability to issue new provisional cannabis licenses by six months, to June 30, 2022, under certain circumstances, and extend the sunset date of the provisional license program to January 1, 2026. The changes outline more rigorous environmental compliance requirements before annual licensure, and prohibit the Department from renewing certain cultivation provisional licenses after January 1, 2023, and all other provisional licenses after January 1, 2025. The statutory changes also require the Department to

promulgate regulations identifying steps that must be taken for provisional licensees to show progress toward achieving annual licensure.

Additionally, statutory changes authorize cannabis or cannabis products designated as trade samples to be given for licensee-to-licensee advertising, and establish related requirements for quality assurance testing and labeling, as well as for recording trade samples in the track and trace program. These changes will go into effect no later than January 1, 2023, and only after the adoption of regulations by the Department.

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### **CANNABIS LOCAL JURISDICTION ASSISTANCE GRANT PROGRAM**

To help local governments and aid licensees in successfully and swiftly moving from provisional licensure into annual licenses, and to do so in a way that supports environmental compliance requirements, the Budget includes \$100 million one-time General Fund in 2021-22 to establish a local jurisdiction assistance grant program for cannabis. The grant program is intended to:

- Aid local governments in processing substantial workloads associated with permitting and regulating cannabis businesses.
- Incentivize local governments to modify their permitting methods to better align with the state's effort to remove barriers to licensure.
- Support provisional license holders by allowing local governments to pass through funding to applicants for purposes of assessing and mitigating environmental impacts.
- Provide more financial assistance to licensed cultivators and localities that license them, as both often experience enhanced environmental compliance and resource challenges when transitioning operations to annual licensure.
- Provide enhanced support to eligible jurisdictions that are implementing social equity programs.

#### **Other Significant Adjustments**

- The Budget includes \$20 million one-time General Fund in 2021-22 for the Cannabis Local Equity Grant Program, administered by the Governor's Office of Business and Economic Development (GO-Biz), to assist local equity applicants and licensees. This amount is in addition to the \$15.5 million ongoing Cannabis Tax Fund allocated to GO-Biz for this purpose, bringing the 2021-22 total to \$35.5 million.



- The Budget includes \$30 million one-time General Fund in 2021-22, contingent upon future legislation, to implement a fee waiver or deferral program pursuant to the provisions of Chapter 852, Statutes of 2019 (SB 595), to reduce barriers to entry into the legal cannabis market.

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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 youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities. The Budget estimates \$629.1 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 (\$377.5 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$125.8 million)
- **Public safety-related activities**—20 percent (\$125.8 million)

These figures reflect a total increase of \$185.9 million compared to the Governor's Budget estimate.

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## FINANCIAL EMPOWERMENT FUND GRANT PROGRAM

The Budget includes a one-time transfer of \$10 million General Fund to the Financial Empowerment Fund to increase the amount available for non-profits to serve unbanked and underbanked Californians. Non-profit grantees may use these funds to provide free financial education to help unbanked and underbanked consumers achieve, identify, and access lower cost financial products and services, establish or improve their credit, increase savings, or lower debt. Chapter 478, Statutes of 2019 (SB 455) authorized the Department of Financial Protection and Innovation to award grants of up to \$100,000 per grant applicant, up to a total of \$1 million per fiscal year, with a sunset date of January 1, 2025. The 2021 Budget Act authorizes awards up to

\$200,000 per grant applicant and a total of \$2 million per fiscal year, and extends the program to January 1, 2030.

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## 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. The Budget includes significant investments to expand service opportunities for all Californians.

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### CALIFORNIANS FOR ALL COLLEGE SERVICE PROGRAM

The Budget includes \$146.3 million one-time (\$127.5 million federal American Rescue Plan Act of 2021 (ARPA) funds and \$18.8 million General Fund) to create the Californians for All College Service Program in partnership with the University of California, California State University, California Community Colleges, and private California university systems. This program provides 6,250 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response. Modeled after the pilot Civic Action Fellowship (launched by California Volunteers in 2020), this program will support debt-free college pathways for low-income students. Californians for All College Service Program students will have both the opportunity to receive a stipend of up to \$7,000 and a scholarship of up to \$3,000, while gaining valuable experience serving in their communities. This program intends to unite young Californians of all backgrounds in service, and specifically creates opportunities for AB 540 eligible individuals to serve their communities.

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### YOUTH WORKFORCE DEVELOPMENT

The Budget includes \$185 million one-time federal ARPA funds for California Volunteers to administer grants to cities and counties to create or expand youth employment opportunities. Of this amount, \$150 million will be provided directly to large cities on a per capita basis and \$35 million will be available to other cities and counties through a competitive grant process. The goal of this program is to increase employment opportunities, such as part-time work or summer jobs, for youth to provide them an opportunity to gain valuable work experience.

## Other Significant Adjustments

- **Student Success Coach Grant Program**—\$15 million one-time General Fund to create a grant program that will establish student success coaches in communities to establish relationships with K-12 students and collaborate with teachers to help prepare students with skills to achieve their goals.
- **Statewide Emergency Response Framework**—\$1.3 million ongoing General Fund to maintain an emergency response framework capable of preparing, training, and mobilizing a collective team of disaster volunteers efficiently and effectively.

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## INVESTMENTS IN THE ARTS

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### CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is strengthening arts, culture, and creative expression as the tools to cultivate a better California for all. The Arts Council administers grants and programs 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 Arts Council supports local arts infrastructure and programming statewide through grants, programs, and services. This year, the California Arts Council is prioritizing grant funding to nurture and heal communities through the arts; keep the doors of arts and cultural institutions open; protect jobs in the creative field; and to preserve cultural heritage.

### CALIFORNIA CREATIVE CORPS PILOT PROGRAM

The Budget includes \$60 million one-time General Fund in 2021-22, to be spent over three years, to implement the California Creative Corps Pilot Program. This program will support artists and local arts organizations with a focus on art campaigns including: (1) public health awareness messages to stop the spread of COVID-19; (2) public awareness related to water and energy conservation, and emergency preparedness, relief, and recovery; (3) civic engagement, including election participation; and (4) social justice and community engagement. The Arts Council shall provide grants in every county and prioritize grants in zip codes in the lowest quartile of the California Healthy Places Index.

## **CREATIVE YOUTH DEVELOPMENT GRANT PROGRAMS**

The Arts Council has several grant programs that support creative youth development through arts education and arts workforce development. These programs include Youth Arts Action, Artists in Schools, Arts Education Exposure, JUMP StArts, and Arts Integration Training. In 2020-21, the Arts Council awarded more than \$12 million to 705 grantees in these programs. The Budget includes \$40 million one-time General Fund in 2021-22, to be spent over three years, to support the Arts Council's existing Creative Youth Development programs. The Arts Council will use partnerships between community-based organizations, educators, and local artists to expand participation in these programs statewide.

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## **CALIFORNIA NONPROFIT PERFORMING ARTS GRANT PROGRAM**

The Budget includes \$50 million one-time General Fund in 2021-22 for the Governor's Office of Business and Economic Development to administer a California Nonprofit Performing Arts Grant Program to provide grants of up to \$75,000 to eligible nonprofit performing arts organizations to encourage workforce development. The funds will be distributed in one or more rounds until all of the funds have been allocated, and the amount of the grant is based on the total gross revenue of the organization.

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## **STATE APPROPRIATIONS LIMIT**

The State Appropriations Limit, or "Gann Limit," caps the amount of revenues from proceeds of taxes that can be appropriated by the state, which serves to constrain state spending. Any excess revenues appropriated above the state's limit over a two-year period must ultimately be reallocated evenly between schools and taxpayer refunds.

The May Revision projected 2020-21 fiscal year appropriations to exceed the limit by \$26.2 billion, and 2021-22 fiscal year appropriations to be under the limit by approximately \$10 billion, resulting in the state exceeding its two-year limit by \$16.2 billion across that two-year period.

The Budget now projects the state to be under the limit for the same two-year fiscal period by \$16.9 billion, based in part on statutory changes enacted as part of the Budget that more accurately account for selected expenditures under both state and local limits. Specifically, the Budget identifies expenditures of approximately \$20.5 billion in fiscal years 2020-21 and 2021-22, relative to the May Revision, that are excludable

from the State Appropriations Limit. The notable additional exclusions to the to the 2020-21 and 2021-22 State Appropriations Limit calculations include the following:

- Counting sales tax generated realignment revenues of \$11.6 billion in the 2020-21 fiscal year and \$12.3 billion in the 2021-22 fiscal year toward local city and county appropriations limits, consistent with how Vehicle License Fee realignment revenues have been accounted for historically, creating greater consistency in the treatment of all realignment revenues.
- Excluding all Golden State Stimulus 2.0 program expenditures of \$8.1 billion from the 2021-22 State Appropriations Limit as emergency expenditures, pursuant to existing law.

Estimates for the 2020-21 and 2021-22 state appropriations limit calculations are not final, because final revenue and expenditure adjustments for the 2020-21 and 2021-22 fiscal years will not be determined until the Budget Acts of 2022 and 2023 respectively. The Administration will continue to monitor the excess appropriations level and make required adjustments over the next two years.