

GENERAL GOVERNMENT AND STATEWIDE ISSUES

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

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.

Although long-term fiscal risk remains high, the near-term revenue picture has drastically improved thanks to higher-than-anticipated tax revenue and additional federal funding from multiple stimulus bills. Given the May Revision revenue projections, for

some bargaining units, employee compensation reductions and pay deferrals will end automatically by provisions of their PLP 2020 agreements. The California Department of Human Resources is inviting the remaining bargaining units through collective bargaining to discuss revising the PLP 2020 agreements.

The May Revision includes \$164.5 million ongoing (\$83.4 million ongoing General Fund) for collectively bargained pay increases that were not deferred, 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 new 2022 estimated premiums and updated enrollment for active state employees.

Collective bargaining negotiations will continue with three bargaining units representing attorneys and administrative law judges, scientists, and health and social services employees, whose contracts expired in July 2020. The Administration recently began bargaining with the union representing craft and maintenance employees, and will commence bargaining with the union representing firefighters in late spring 2021, whose contracts expire in summer 2021.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) state plans have increased by a net total of \$550 million (\$247 million General Fund) relative to the Governor's Budget. The Governor's Budget included \$5.5 billion (\$3 billion General Fund) one-time funding. The adjustment assumes state employee compensation reductions will not continue through the 2021-22 fiscal year.
- The Governor's Budget included \$1.5 billion in one-time Proposition 2 debt repayment funding in 2021-22 to further reduce the unfunded liabilities of the CalPERS state plans. Due to an increase in the estimated availability of Proposition 2 debt repayment funding, the May Revision increases this proposed payment to \$1.9 billion. Any supplemental payment made toward the state's CalPERS unfunded liability is estimated to result in a minimum long-term gross savings ratio of 2:1.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$4.9 million General Fund, relative to the Governor's Budget, due to a revision in reported compensation for K-12 and community college teachers. The Governor's Budget included \$3.9 billion one-time General Fund for required contributions. Consistent with the Governor's Budget proposal, this contribution

amount includes a one-time \$174 million payment to offset the reduction in the state's contribution in 2020-21 to allow the funding plan to stay on track to be fully funded by 2046.

- The May Revision maintains the Governor's Budget proposal to include a one-time \$410 million 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. This payment is estimated to result in \$1.1 billion gross savings to the state through 2045-46.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) II decreased by \$0.6 million one-time General Fund. This decrease is attributed to a decrease in the JRS II employer contribution rate. The Governor's Budget included \$86.4 million one-time General Fund for required contributions.

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, which has grown by 73 percent compared to what the state paid in 2012-13 (\$1.6 billion).

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 \$3.8 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 to be paid down by 2046. By the end of 2021-22, the trust fund balance will approach \$5.7 billion in assets.

The Budget 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 help reach full funding for retiree health benefits by 2046. Because employee prefunding contributions are suspended in 2020-21 due to the PLP 2020, \$616 million one-time will be provided by the state employer 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 ^{1/ 2/ 3/}
(Dollars in Millions)

	CaIPERS	CSU CaIPERS	CaISTRs	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
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 ^{8/}
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 ^{4/}	225	86	1	3,665	2,023	357	600
2021-22 ^{9/}	5,363	677	3,862	193	86	1	4,018	2,335	410	1,292 ^{10/}

^{1/} The chart does not include contributions for University of California pension or retiree health care costs.

^{2/} 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.

^{3/} 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.

^{4/} 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 amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the Budget.

^{5/} The state continues to make employer contributions to the Legislators' Retirement System. CalPERS reported the estimated 2021-22 contribution amount is \$87,680.

^{6/} 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).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Estimated as of the 2021-22 May Revision. 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.

^{10/} 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.

CANNABIS

The Governor's Budget proposes 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 seeks to simplify participation in the legal market and support the successful and safe operation of cannabis businesses in compliance with state law. The May Revision builds on this effort by:

- Creating a Deputy Director of Equity and Inclusion to further the Department's mission to implement progressive 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.
- Proposing additions to the statutory changes put forward earlier this year. Chief among these is language to extend the Department's ability to issue new provisional cannabis licenses by six months, to July 1, 2022, make explicit environmental compliance requirements before annual licensure, and require the Department to promulgate regulations identifying steps that must be taken for provisional licensees to show progress toward achieving annual licensure. As of early April 2021, approximately 82 percent of the state's cannabis licensees held provisional licenses. Absent this extension, it is possible that a significant number of these licensees could fall out of the legal cannabis system, significantly curtailing the state's efforts to facilitate the transition to a legal and well-regulated market.

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 the environmental compliance requirements, the May Revision includes \$100 million one-time General Fund 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 transitioning businesses to a regulated market.
- 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.

This grant program targets funds in a way that seeks to maintain stability across the supply chain and distributes these one-time resources to a significant number of jurisdictions implementing local equity programs, transitioning larger populations of legacy operators to the regulated market, and/or that are located in areas rich in natural resources and require additional capital to meet environmental compliance standards.

SIGNIFICANT ADJUSTMENT

- The May Revision includes \$9 million one-time General Fund for the new Sustainable California Grown Cannabis pilot program. The program will collect data to establish benchmark best practices in: (1) reducing the environmental impact of cannabis water and energy use; (2) pest management and fertilizer practices; and (3) enhancing soil health.

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 May Revision 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.

INVESTMENTS IN THE ARTS

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 our communities through the arts; keep the doors of our arts and cultural institutions open; protect jobs in the creative field; and to preserve our cultural heritage, our stories, and our culture bearers.

CALIFORNIA CREATIVE CORPS PILOT PROGRAM

The Governor's Budget included \$15 million one-time General Fund (\$5 million in 2020-21 and \$10 million in 2021-22) to implement the California Creative Corps Pilot Program to fuel positivity and inspire safe and healthy behavior across California's diverse populations through a media, outreach, and engagement campaign to increase vaccine adoption.

The May Revision includes a total investment of \$60 million one-time General Fund in 2021-22, to be spent over three years, to implement the California Creative Corps Pilot Program. This includes shifting the \$5 million proposed in 2020-21 to 2021-22, and increasing the total amount available in 2021-22. This additional investment will allow the Arts Council to expand the media outreach and engagement campaign to

include: (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.

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 May Revision 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.

CLEAN CALIFORNIA

As referenced in the Transportation Chapter, the May Revision includes the new Clean California initiative to clean and beautify the state's transportation network. Among other things, the initiative provides resources to beautify the state highways and local roads with regional art and other projects. The Department of Transportation will collaborate with the Arts Council to distribute funding to artists, schools, and students to install art projects in transportation areas that can serve as gateways to communities and can enhance the character of a community, while creating new safe public space.

INFRASTRUCTURE PROJECT ACCELERATIONS

The Governor's Budget, including spring revisions, proposed approximately \$1.9 billion to support infrastructure projects statewide, excluding transportation infrastructure. The May Revision provides an additional one-time \$318 million (\$312.5 million General Fund and \$5.5 million General Obligation Bonds) to accelerate projects that were previously planned for funding in future years or deferred indefinitely due to funding constraints.

Accelerated projects include the following:

- Three court replacement and renovation projects for the Judicial Council.
- Five area office replacement projects for the California Highway Patrol.
- Six office replacement or reconfiguration projects for the Department of Motor Vehicles.
- Two helitack base replacements and other new construction projects for CAL FIRE.
- Two facility upgrade projects at California School for the Deaf and California School for the Blind, Fremont and one at the California School for the Deaf, Riverside.
- Eight projects for the California Community Colleges.

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 Governor's Budget included one-time resources of \$600 million General Fund for the most critical of these statewide deferred maintenance needs. The May Revision includes additional one-time resources of approximately \$1.4 billion (\$648 million General Fund, \$550 million federal American Rescue Plan Act (ARPA) Capital Project Fund, and \$162 million federal ARPA Coronavirus State Fiscal Recovery Fund) for a total of approximately \$2 billion for statewide deferred maintenance in 2021-22. This investment will help to address the statewide backlog of deferred maintenance and will reduce the need to build costlier new infrastructure.

The one-time resources of approximately \$2 billion for statewide deferred maintenance in 2021-22 will be provided to the entities listed below:

- University of California—\$325 million
- California State University—\$325 million
- California Community Colleges—\$250 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

COVID-19 PANDEMIC WATER ARREARAGES RELIEF

Many Californians experienced a substantial loss of income resulting from business closures, reduced work hours or wages, or layoffs related to the pandemic. This hindered their ability to make payments for essential water service and had the potential to subject them to water service shutoffs for non-payment. As part of the emergency response to protect Californians during the pandemic, the Governor issued Executive Order N-42-20, which prohibited water shutoffs for residential customers. As a result of this necessary action, many Californians have accumulated arrearages, and water systems' revenues have been impacted. The May Revision proposes \$1 billion one-time, federal ARPA funds, for direct payments to water systems to alleviate individuals' household water debt accrued during the pandemic and aid water

systems' recovery from their revenue loss, especially small systems already struggling prior to the emergency.

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 May Revision includes significant investments to expand service opportunities for all Californians.

CALIFORNIANS FOR ALL COLLEGE SERVICE PROGRAM

The May Revision includes \$285.2 million one-time (\$239.4 million federal ARPA funds and \$45.8 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 12,500 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 create 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 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.

YOUTH WORKFORCE DEVELOPMENT

The May Revision includes \$200 million federal ARPA funds for grants to cities and counties to create or expand youth employment opportunities. The funding, which will be administered by California Volunteers, will be provided both directly to large cities on a per capita basis, and to other cities and counties through a competitive grant process. This funding is to help youth gain valuable work experience by increasing employment opportunities, such as part-time work or summer jobs.

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 nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills and mindsets to achieve their goals.
- **California Climate Action Corps Program**—\$4.7 million General Fund annually in 2021-22, 2022-23, and 2023-24, and \$823,000 ongoing thereafter, to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.
- **STEM Teacher Recruitment Grants**—\$3 million one-time General Fund to provide grants to help recruit 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.
- **Statewide Emergency Response Framework**—\$1.3 million ongoing General Fund to maintain an emergency response framework to prepare and train for future disaster response.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2021-22 limit is estimated to be \$125.7 billion. The revised limit is the result of applying the growth factor of 4.75 percent to the prior year limit. The revised 2021-22 limit is \$8.1 billion above the \$117.6 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 1.71 percent
 - May Revision Percentage Growth: 5.73 percent
- State Civilian Population
 - January Percentage Growth: 0.25 percent
 - May Revision Percentage Growth: -0.48 percent

- K-14 Average Daily Attendance
 - January Percentage Growth: -0.34 percent
 - May Revision Percentage Growth: -1.57 percent

Current law requires the state to absorb any amount of funding in excess of local school and community college district limits. The Administration has updated its January calculation of the 2021-22 limit to recognize \$4.6 billion of combined room in local school and community college district spending limits. The Administration has not accounted for this room previously, even though \$19.4 billion in school district spending that exceeds local limits is projected to count towards the state's limit in 2021-22. The Administration will propose technical statutory changes to reflect the treatment.