Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 5 Agenda

Senator Loni Hancock, Chair
Senator Joel Anderson
Senator Jim Beall

Thursday, April 9, 2015
9:30 a.m. or upon adjournment - State Capitol Room 113

Consultants: Farra Bracht and Anita Lee

Items Proposed for Vote-Only

Items Proposed for Discussion

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INFORMATIONAL ONLY ITEM

Governor's Proposals for Employee and Retiree Health Care

Presentation by Department of Finance, Eric Stern
Commentary by Legislative Analyst's Office

6645	**CSU Health Benefits for Retired Annuitants**
7900	**Public Employee's Retirement System**
9650	**Health and Dental Benefits for Annuitants**
9651	**Prefunding Health and Dental Benefits for Annuitants**

Governor's Budget Proposal. The Governor's budget includes proposals related to employee and retiree health care (except for employees of the University of California) in three general areas: 1) paying off the existing $72 billion unfunded liability for retiree health; 2) prefunding retiree health care benefits; and 3) reducing the cost of health care benefits. Affected employees include active and retired state workers, California State University (CSU), employees of the legislature, and the statewide entities of the Judicial branch of government.

Background and Details. The Governor's proposals are discussed in more detail below.

Paying Off the Existing Liability of $72 Billion for Retiree Health Care Benefits
The state's pay-as-you-go system for retiree health care benefits has resulted in an unfunded liability of $72 billion that will grow to $100 billion by 2020 and $300 billion by 2047-48 absent any action. A pay-as-you-go system means that state and employees do not set aside funds during an employee's working years to pay for future benefits. As a result, funds are not invested and there are no investment returns to help pay the future costs for retirees.

Prefunding Retiree Health Care Benefits
The Administration proposes that the state and its employees share equally in prefunding the normal costs of retiree health care benefits, similar to the new pension-funding standard. Normal costs represent the actuarially determined value of retiree health care benefits that are earned by the employee during a current year.

The Administration seeks to phase in this approach through cost-sharing agreements as labor contracts come up for renewal. Under this plan, investment returns will help pay for future benefits, just as with the state pension plans, to eventually eliminate the unfunded liability by 2044-45. Once fully implemented, this plan will increase state costs by approximately $600 million annually, but ultimately decrease the retiree health care liability, savings billions in the future.

The Administration proposes to eliminate the stand alone Budget Item 9651 as the budgetary mechanism for prefunding retiree health care and instead add Control Section 3.61. Through this mechanism, the prefunding dollars will be built into department budgets and captured through State Controller's Office payroll processes, similar to CS 3.60 for pension contributions.

The state has already established at least partial prefunding agreements with three of its labor unions (Bargaining Unit 5: Highway Patrol, Bargaining Unit 12: Craft and Maintenance, and Bargaining Unit 16: Physicians, Dentists, and Podiatrists). Under the Governor's proposals, agreements would be established with all the unions through the collective bargaining process and phased in as existing MOUs expire. The proposal does not specify how the new contribution requirement would be established for CSU employees excluded from collective bargaining, legislative staff, and judicial employees.

Reducing the Cost of Health Care Benefits

Health care benefits are one of the fastest growing areas of state government, and outpace population and inflation growth. The state is projected to spend $4.8 billion in 2015-16 on health care benefits for more than 800,000 state employees, retirees, and their family members. The Governor is proposing a plan to make health care costs more affordable to the state. This could be important as the level of coverage the state makes available to employees is vulnerable to the pending federal "Cadillac Tax". The federal Patient Protection and Affordable Care Act (PPACA, as amended by the Health Care and Education Reconciliation Act of 2010), imposes an annual 40 percent excise tax on plans with annual premiums exceeding $10,200 for individuals or $27,500 for a family starting in 2018, to be paid by insurers (in this case, the State of California). The tax is not imposed on the total cost of the plan, but on the costs exceeding the aforementioned values, which, after 2018, will adjust to inflation annually. The key cost containment proposals of the Governor's plan are described below.

Offer High Deductible Health Plans and Health Savings Accounts. To help reduce costs, the Governor proposes to require the California Public Employees' Retirement System (CalPERS) to offer a High Deductible Health Plan (HDHP), and the Administration will provide contributions to an employee's Health Savings Account (HSA) to defray out-of-pocket expenses for employees who choose the lower-cost plan. The Governor proposes to pursue changes to lower the state's premium subsidy, currently based on a formula using the average premiums of the four highest enrolled plans, to encourage employees to select lower-cost health plans. The Governor's proposals to add high deductible health plans and health savings accounts to the Public Employees' Medical and Hospital Care Act were the subject of a joint hearing of the Senate Public Employment and Retirement and Assembly Public Employees, Retirement, and Social Security committees on March 18, 2015.

Adjust Premiums for Health Promotion and Disease Prevention. The Administration also calls for encouraging healthy behavior of employees and retirees to reduce costs. AB 2142 (Furutani), Chapter 445, Statutes of 2012, authorized CalPERS to pursue premium credits and penalties related to health promotion and disease prevention.

Increase Time to Vest. The Governor also proposes that, rather than state employees working 10-20 years to receive state subsidies for retiree health care, newly hired employees would only receive this benefit if they work 15-25 years and they would not receive a higher subsidy for premiums in retirement than they received while working.

Limit Coverage to Eligible Members. Under the Governor's proposal, additional dependent tiers for insurance coverage and surcharges for spouses who could obtain coverage from their employer would be put in place. Finally, the Governor proposes ongoing monitoring to ensure only eligible family members receive health care coverage and to ensure that seniors enroll in federally subsidized Medicare plans, rather than remaining on expensive state-paid plans.

The budget also proposes several measures to increase the amount of information shared by CalPERS.

Both budget bill language (BBL) and trailer bill language (TBL) are proposed to implement the changes described above:

The BBL changes are as follows:

- ***Control Section 3.61.*** Newly created control section will expand other post-employment benefit (OPEB) prefunding mechanics.

- ***Control Section 4.20.*** Amended to clarify that state Public Employees' Contingency Reserve Funds will be exclusively used for state healthcare benefit administration costs.

- ***0840-001-0001, Provision 9.*** Expands OPEB valuation reporting to include additional normal cost break-outs by Bargaining Unit and pending changes to Government Accounting Standards Board requirements.

- ***7900-001-0950, provisional language.*** Adds a new Medicare supplement policy report detailing efforts to convert age 65 retirees from Basic plans to Medicare plans, and related costs/benefits of improving those conversion efforts.

- ***7900-015-0822, provisional language.*** Modifies an existing report to include a more detailed reconciliation of premium changes when the CalPERS Board adopts new health rates.

The two proposed trailer bills include the following key changes:

Health Benefit Administration

Section 1: California Department of Human Resources authority for Health Savings Accounts (HSAs).

- Establishes legal authority for CalHR to administer a HSA program.

- HSAs are federally tax-advantaged accounts designed to facilitate savings for health care spending and must be tied to a qualified High Deductible Health Plan (HDHP).

Section 2: Dependent eligibility and enrollment for state healthcare benefits.

- The recent Dependent Eligibility Verification project revealed a significant number of inappropriately enrolled former spouses and uncertified parent-child relationships. This section clarifies former spouses or former domestic partners are not eligible for benefits.

Section 3: Prefunding normal cost-sharing for Other Post-Employment Benefits.

- Updates the "prefunding" definition to clarify Other Post-Employment Benefits (OPEB) prefunding can include normal costs, unfunded liabilities, or both. Previously, the definition only included unfunded liabilities.

Section 4: Dependent eligibility and enrollment for state healthcare benefits.

- This section establishes that the employer must verify dependent eligibility prior to their enrollment, maintain records, and verify eligibility every three years.

Section 5: Medicare eligibility.

- Tightens requirements for 65-year-old retirees to convert to Medicare plans, and ensures CalPERS does not grant additional exemptions through regulations.

Section 6: High Deductible Health Plans.

- Requires CalPERS to offer a HDHP and a low-cost Medicare Supplemental Plan, beginning with the 2016 calendar year. HSAs must be tied to a HDHP in order to be offered. Exempts these plans from risk-adjustment procedures in order to promote their affordability.

Section 7: Data information sharing.

- Authorizes Department of Finance to review CalPERS medical trend data from providers.

Section 8: Notification of benefit and premium changes report.

- Updates existing notification statute so that the Administration and the Legislature are aware of and can better respond to upcoming changes by CalPERS to health care benefits and premiums that will result in increased employer/employee costs.

Section 9: CalPERS annual health benefits program report.

- Modifies existing statute to create a comprehensive annual report describing the health benefits program.

Section 10: Contingency Reserve Fund (CRF) administrative fees.

- Currently, the administration fees for CalPERS health benefits program are paid by the local governments/public agencies at the same rate to the CRF as the state's administration fee. This has resulted in the state paying a larger share of the administrative costs. This amendment clarifies that CalPERS can establish separate rates for local contract agencies.

Section 11: Health Care Fund (HCF) authority.

- The HCF is comprised of health premiums for disbursement to the CalPERS self-funded (Preferred Provider Organization) plans. A portion of these premiums and their respective investment earnings provide the funding to administer the program.

- The HCF trust fund was established for the exclusive benefit of members and retirees. Several years ago, an amendment added the fund administrator (CalPERS) as an exclusive beneficiary. This amendment removes CalPERS from the list.

Section 12: Prefunding normal cost-sharing for OPEB.

- Prevents OPEB benefit payments using investment income from the trust fund until the earlier of: 1. Bargaining unit subaccount reaches 100% funded ratio, 2. July 1, 2046—the date the actuarial calculation of the accumulated assets of the Governor's plan are expected to reach a funded ratio of 100%.

Section 13: Prefunding normal cost-sharing for OPEB.

- Intent language signaling the Administration's strategy of prefunding normal cost-sharing for OPEB: 50-50 normal cost-sharing to be pursued through collective bargaining.

Retiree Health Care

Section 1: State retiree subsidy—pre-Medicare-age retirees.

- Sets a ceiling for the employer contribution that should not exceed the active employee formula for most state employees (80-80 or 85-80). The contribution formula continues to use the average premiums of the four highest enrolled Basic plans.

- Effective for new employees hired after January 1, 2016. Applies to all state entities, including CSU, legislative, and judicial branches.

Section 2: State retiree subsidy—Medicare-age retirees.

- Sets a ceiling for the employer contribution to the Medicare supplemental plan premiums that should not exceed the active employee formula for most state employees (80-80 or 85-80). A new contribution formula will use the average premiums of the four highest enrolled Medicare supplemental plans.

- The state contribution for retirees who are 65 years old will be tied to the Medicare supplemental plan contribution.

- Effective for new employees hired after January 1, 2016. Applies to all state entities, including CSU, legislative, and judicial branches.

Section 3: OPEB vesting schedule for new employees.

- Modifies graduated vesting for retiree healthcare benefits for new employees from 10-20 years to 15-25 years.

- Effective for new employees hired after January 1, 2016. Applies to all state entities, including CSU, legislative, and judicial branches.

Section 4: Medicare Part B premiums.

- The federal government requires all Medicare enrollees to pay a Part B premium (about $110/month). Currently, the state reimburses retirees and their dependents for their Medicare Part B premium payment, on top of the state's contribution to Medicare supplemental plans. California is one of three remaining states that continue to provide this additional subsidy. Local agencies that contract with CalPERS for retiree health also do not provide this additional subsidy.

- This amendment would remove the Part B reimbursement for future retirees who began working for the state after January 1, 2016. Applies to all state entities, including CSU, legislative, and judicial branches.

LAO Comments: The LAO recommends the Legislature give this issue at least the same level of review as it gave the development of plans to address the CalPERS and CalSTRS retirement liabilities. Therefore, the LAO recommends the policy committees of the Legislature hold hearings to discuss the Governor's proposal—as well as other options to address retiree health liabilities—with actuaries, employee groups, policy experts, and the public. The LAO further recommends that the Legislature not approve a funding plan until it has had an opportunity to review the plan and a written evaluative report of it prepared by a professional actuary.

The LAO acknowledges that subjecting the Governor's proposal to deliberation could delay the plan's implementation—possibly by as much as a year. However, it is more important to get the plan right than to rush into a prefunding plan just to have it in place in 2015–16.

Staff Comments: The Governor's budget proposes to make changes to prefund retiree health care costs for state employees and to make significant policy changes through the budget process. The Administration has not provided an estimate of the fiscal impact of these changes on the state budget. At this time, there are a lot of unknowns regarding these proposals, including what happens through the collective bargaining process.

Questions:

The LAO raises some key questions to consider for the Legislature:

1. Should California change its benefit package for future employees?

2. Does the proposal fund normal costs and reduce unfunded liabilities?

3. Will the proposal cause pressure to increase compensation?

4. Are all funding sources considered?

5. Will the proposal reduce the state's long-term fiscal flexibility?

6. Would the plan affect employee recruitment and retention?

7. Should employees make contributions to prefund retiree health benefits?

8. Would a more traditional amortization schedule reduce future budgetary pressure?

Staff Recommendation: Hold open

ITEMS PROPOSED FOR VOTE ONLY

7501 Department of Human Resources

Issue 1	Assembly Bill 1397 - Veteran Opportunity in the Workforce and State

Description. The Governor's Budget requests one two-year limited term position and $135,000 and $135,000 ($77,000 in General Fund and $58,000 in Central Service Recovery Fund) in 2015-16, and $133,000 ($76,000 in General Fund and $57,000 in Central Service Cost Recovery Fund) in 2016-17, and $20,000 ($11,000 in General Fund and $9,000 in Central Service Cost Recovery Fund) for on-going costs.

Background. Assembly Bill 1397 Committee on Veterans Affairs, Chapter 645, Statutes of 2014, requires CalHR to collect statistical information on veterans seeking civil service employment, veterans in the state civil service system, and veterans separating from state civil service. It also requires CalHR to maintain a tracking system to provide data for the analysis of veteran utilization within the state civil service.

The proposal is requesting a limited term programmer to assist in the performance of enhancements and upgrades to the existing system and will be responsible for analyzing, coding, testing and installing production approved modification to the reporting system. Currently, CalHR only has one programmer that works on mainframe applications, and the current maintenance and reporting workload limits the time available for the programmer to work on other projects.

Staff Recommendation. Approve as budgeted.

7920 California Teachers' Retirement System

Issue 1 CalSTRS Budget Proposals

Governor's Budget Proposal. The following four CalSTRS budget proposals are recommended for vote only:

- **Investment Portfolio Complexity.** CalSTRS requests a permanent funding augmentation of $2.7 million and 10 permanent positions to address an increase in internal management and growing complexity of the investment portfolio. All ten positions will be assigned to the Investment Branch to help increase the likelihood of earning the 7.5 percent actuarial assumed rate and to reduce the overall risk of the investment portfolio.

- **Member Service Center Development and Operations.** CalSTRS requests a funding augmentation of $3.3 million ($2.7 million one-time funding and $590,740 permanent funding) and eight full-time positions for 2015-16. Also, CalSTRS requests a permanent augmentation of $1.0 million for 2016-17 and beyond. This proposal is to establish and staff the San Diego Member Service Center and to provide for increasing operational costs of the previously established member service centers.

- **Technology Infrastructure and Licenses.** CalSTRS requests a permanent augmentation of $3.8 million in operating expenses and equipment. Of this amount, $1.6 million is for software licenses and support and $2.2 million to cover the refresh costs of CalSTRS technology infrastructure. The augmentation will provide ongoing licenses and support for the CA Clarity Project Portfolio Management, JAMA Requirements Management tools, and SAP (Systems, Applications, Products in Data Processing) Managed Services and software licensing costs to support CalSTRS Business Direct system implemented in January 2013.

- **Enterprise Information Management.** CalSTRS requests a permanent funding augmentation of $435,859 and four permanent full-time positions to establish and sustain an Enterprise Information Management (EIM) program. The EIM is intended to provide governance over all enterprise wide data in the long term, although its initial focus is on data for the Pension Solution.

Staff Comment. Staff has no concerns with these proposals.

Staff Recommendation. Approve as proposed.

ITEMS PROPOSED FOR DISCUSSION

7100 Employment Development Department

The Employment Development Department (EDD) is designated to enhance California's economic growth and prosperity by collaboratively delivering valuable and innovative services to meet the evolving needs of employers, workers, and job seekers. The EDD connects employers with job seekers, administers the Unemployment Insurance, Disability Insurance, and Paid Family Leave programs, and provides employment and training programs under the federal Workforce Innovation and Opportunity Act. Additionally, the EDD collects various employment payroll taxes including the personal income tax, and collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2013-14	2014-15	2015-16	2013-14*	2014-15*	2015-16*
5900	Employment and Employment Related Services	1,062.1	1,329.7	1,329.7	$164,303	$185,720	$184,506
5910	Tax Collections & Benefit Payments	5,850.3	5,765.3	-	14,601,564	13,206,240	-
5915	California Unemployment Insurance Appeals Board	587.0	575.3	480.4	74,756	82,469	74,750
5920	Unemployment Insurance Program	-	-	2,937.2	-	-	6,832,894
5925	Disability Insurance Program	-	-	1,299.7	-	-	6,255,148
5930	Tax Program	-	-	1,564.8	-	-	204,675
5935	Employment Training Panel	78.1	85.1	85.1	55,576	72,289	73,416
5940	Workforce Innovation and Opportunity Act	128.3	144.2	144.2	398,206	393,049	409,299
5945	National Dislocated Worker Grants	1.8	1.5	1.5	1,895	45,000	45,000
9900100	Administration	631.2	701.0	701.0	53,387	53,369	86,495
9900200	Administration - Distributed	-	-	-	-48,906	-50,983	-86,095
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**8,338.8**	**8,602.1**	**8,543.6**	**$15,300,781**	**$13,987,153**	**$14,080,088**

Issue 1 Unemployment Insurance Program Administration

Description. The Governor's budget proposes $39.7 million General Fund ($18 million in new funds and $21.7 shifted from the current year to the budget year) and $8.2 million Contingent Fund to support 594 positions equivalents (PEs) (344 new temporary help PEs and 250 existing PEs) for 2015-16 to continue to support Unemployment Insurance Program service levels.

Background. The UI Program is a federal-state program that provides weekly payments to eligible workers who lose their jobs through no fault of their own. Benefits range from $40 to $450 per week depending on earnings in a 12-month base period. To be eligible, an applicant must have received enough wages during the base period to establish a claim, be totally or partially unemployed, be unemployed through no fault of their own, be physically able to work, be seeking work, be immediately available to accept work, and meet eligibility requirements for each week of benefits claimed.

UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first $7,000 in wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate.

Beginning in January 2009, the state's UI Fund was exhausted due to an imbalance between benefit payments and annual employer contributions. To continue to make UI benefit payments without interruption, EDD began borrowing funds from the Federal Unemployment Account. While the unemployment rate has been slowly decreasing, the UI Fund deficit is still projected to be $7.4 billion at the end of 2015.

The Governor's budget for 2015-16 includes $184.4 million General Fund to make an interest payment on funds borrowed from the federal government to pay California's Unemployment Insurance benefits without interruption.

The administration of the base UI program is intended to be fully reimbursed through a federal cost recovery model, which allocates funding based on states' workload counts, processing times, and actual cost rates. However, the federal appropriation for UI administrative funding has been set at a level below what is needed nationwide to fully support this program. As a consequence, California continues to recover less funding than it would otherwise be entitled. This has resulted in EDD utilizing other state funds and unspent federal carryover funds from prior years to bridge this gap.

To address this issue, the Department of Finance, EDD, and the Labor and Workforce Development Agency undertook a detailed budget analysis of UI program functions, devising process improvements and identifying cost saving measures. The 2014 budget included a package of $49 million of efficiencies and a one-time increase of $46.6 million General Fund to provide additional resources for the administration of the UI Program.

Thee efficiencies efforts included:

- **Extending the Grace Period for Continued Claim Forms Arriving Late from 14 days to 21 days:** Eligibility for UI benefits is determined on a weekly basis. Previously, claimants were required to complete and return their continued claim form within 14 days of the date noted on the form. Extending this timeframe to 21 days will reduce the amount of follow-up work done by the EDD staff to determine if the claimant had good cause for returning the forms late. This will allow more staff to focus on providing other necessary services to claimants, while avoiding delays in paying benefits to claimants.

- **Streamline Identity Verification System:** Currently, if the EDD is unable to verify a claimant's identity, the claimant receives a request to provide additional verifying information so that EDD can ensure benefits are paid appropriately. The EDD is working to streamline this process, resulting in greater efficiency and more staff being available to provide other necessary services to claimants.

- **Shorten Initial Phone Message When Calling EDD:** When customers call the toll-free number for the UI program, they hear a lengthy recorded message providing general information. By shortening the length of this message, callers will spend less time in the phone system, at a reduced cost to the UI program, and will be able to get to their desired selection more quickly. This was implemented in late 2013 and will save an estimated $900,000.

- **Eliminate Certain Requirements for those Enrolled in School:** Currently, a claimant who indicates they are attending school or training is scheduled for an eligibility interview, even if they also indicate they are still available for work and able to work. However, with the use of alternate school schedules such as night classes and online schooling increasing, claimants are increasingly able to attend school or training and also be able and available for work. Eliminating eligibility interviews in these cases will reduce unnecessary workload and assign additional staff to provide other services to claimants, while avoiding delays in payment of benefits to claimants. This was partially implemented in December 2013, and fully implemented in January 2014, saving an estimated $500,000.

- **Review and Reduce Operational Costs:** The EDD conducted a thorough review of the operational costs of the UI program and has made changes resulting in savings in mailing, facility, administrative, hiring, and other overhead costs. In addition, the California Unemployment Insurance Appeals Board, which is the appellate body for the UI program and works closely with the EDD, is making process improvements and identifying additional efficiencies. These cost savings help close a budget gap without reducing staff that provide direct services to claimants. For example, the estimate savings from consolidating facilities ($3.5 million) and implementing a hiring freeze of administrative staff ($6.8 million) will result in saving an estimated $10.3 million.

Additionally, during the recent economic recession, EDD struggled to pay unemployment benefits or answer phone calls from the public in a timely manner. During the fall of 2013, problems with the Continued Claim Redesign (CCR), a new system to handle UI transactions through self-service phone and internet interactions, temporarily exacerbated the department's customer service problems. This resulted in increased processing times and workload, as it required manual data entry into EDD's internal UI benefit payment, also known as California Unemployment Benefit Services (CUBS) and EDD's old data base.

As a result, the 2014-15 Budget Act included a $67.6 million augmentation to support UI Program service levels. Specifically, these resources were used to increase the number of calls answered, reduce call demands by processing paper and internet claims, and scheduling eligibility determinations interviews more timely.

Additionally, a portion of the increased workload will be offset when customers are able to submit information on their own through UI Online, which is slated to roll-out this month. Additionally, EDD expects that as more customers adopt UI online and paperless options, greater efficiencies will occur and the number of staff needed to process work in the system will decrease.

Staff Comments.
In the past few years, EDD has faced many challenges in administering the UI program. Many of these challenges have received significant attention, including: 1) the September 2013 problems with the rollout of the first phase of the CCR, which delayed unemployment checks to approximately 150,000 recipients; 2) a Los Angeles Times report that, from October 2013 to January 2014, phone calls were answered by a live human only 10 percent to 17 percent of the time and, even then, some people had to call 40 times to reach an agent; and, 3) recent reports that at least half of EDD's denials of benefits are reversed on appeal. In addition to these issues with administration of the UI program, a recent audit by the California State Auditor found that EDD failed to participate in a federal program that would have allowed the state to collect hundreds of millions of dollars.

Primarily, the EDD attributes most of the challenges the department has faced in carrying out its UI program responsibilities to the lack of appropriate resources provided by the federal government. As such, it is encouraging that the Administration and department are aggressively pursuing efforts that enhance resources available to the EDD to administer the program. Additionally, while California's economy has shown steady improvement over the past year and UI workload is decreasing, the UI workload continues to exceed the pre-recessionary levels prior to 2007. The EDD has taken numerous steps to meet ongoing needs and the initiatives have already dramatically improved UI service and performance levels.

The EDD is requesting additional state funding to continue its efforts to meet the four service levels goals:

- Answer more than 50,000 calls per week.
- Process 100 percent of initial claims within three days of receipt.
- Process 100 percent of online inquiries within five days of receipt.
- Schedule timely at least 95 percent or greater eligibility determination appointments requested weekly.

The EDD has recently reported that significant gains are being made. Following are examples of improvements recently cited by EDD:

- The average amount of calls answered grew from 43,924 in March 2014, to an average amount of 48,133 calls answered in January 2015.
- Increased the percentage of calls answered from a low of 11 percent in late November 2013 to 77 percent in mid-February 2015.
- From April 2014 to October 2014, EDD met the goal to process 100 percent of initial claims in three days and responding to 100 percent of online inquiries within five days.
- The average percentage of determination appointments scheduled timely was 86 percent from April 2014 to the week ending February 14, 2015. This is a substantial increase compared to November 2013 through January 2014, when only 13 percent were timely scheduled.
- Reduced the average number of times a person has to dial to access the call center from an average number of redials decreased of 30.9 in March 2013 to 4.3 in March 28, 2015.

- The weekly average wait time for March 2015 is just under two and a half minutes compared to November through December 2013 where the weekly average wait time was about seven minutes.

Additionally, the EDD has made several other program and customer service enhancements, such as:

- Virtual hold: Provides callers the option of an automated call back when contacting EDD call centers, or schedule a call back at a later, more convenient time. Additionally, the Voice Call Back project has been designed to accept call backs in English, Spanish, Vietnamese, Cantonese and Mandarin.
- Outbound Notification: Provides UI claimants with a reminder call of their scheduled eligibility determination interview or notification of cancelled appointment, to help decrease the number of missed appointments, which can delay the EDD from issuing a timely determination and paying or denying the claimants promptly.
- As of February 2015, a total of 18 UI forms have been posted or are in the process of being translated and posted to the UI website. All forms with be made available to the following languages: Armenian, Chinese/ Cantonese, Chinese/ Mandarin, Hmong, Korean, Laotian, Punjabi, Russian, Tagalog, Vietnamese and Spanish.

Staff recommendation: Approve as budgeted.

Issue 2 Capital Outlay

Description. The Governor's budget requests the authority to exercise the lease-purchase option to acquire the building at 5401 Crenshaw Blvd. in Los Angeles. Capital outlay acquisition authority is required to exercise this lease-purchase option because EDD will be acquiring real property on behalf of the state. The cost of the total acquisition is $1,000.

Background. Since February 1996, the EDD has occupied 5401 Crenshaw Blvd under the terms of the current lease agreement. EDD has paid the owner over $19 million in rent. Although the state would assume estimated monthly operating costs of $19,750 for this building, those costs would be offset by no longer paying monthly rent of $96,345. By exercising the purchase option for the building for $1.00 (one dollar), it will allow EDD to save over $900,000 a year in month rent costs. Additionally, the associated federal dollars could be redirected back into the benefiting programs. This option can be pursued based on the purchase option in EDD's current lease agreement.

Additionally, two EDD programs, the Tax Collections program and the Workforce Investment Act (WIA) program, will benefit by remaining in the building.

Staff Recommendation. Approve as budgeted.

7350 Department of Industrial Relations

The Department of Industrial Relations (DIR) is responsible for protecting the workforce in California, improving working conditions, and advancing opportunities for profitable employment. The department is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation claims, and working to prevent industrial injuries and deaths. The department also promulgates regulations and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, and analyzes and disseminates statistics which measure the condition of labor in the state. The following Governor's budget display shows the proposed funding and positions for DIR.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2013-14	2014-15	2015-16	2013-14*	2014-15*	2015-16*
6080	Self-Insurance Plans	20.7	27.1	27.1	$4,379	$6,336	$6,256
6090	Division of Workers' Compensation	940.8	1,070.8	1,070.8	175,786	201,827	201,535
6095	Commission on Health and Safety and Workers' Compensation	6.0	8.1	8.1	2,407	3,464	3,482
6100	Division of Occupational Safety and Health	650.8	727.9	779.9	113,766	130,871	141,668
6105	Division of Labor Standards Enforcement	432.9	512.4	514.4	64,057	73,634	74,426
6110	Division of Apprenticeship Standards	51.6	55.3	55.3	10,076	10,754	10,612
6120	Claims, Wages, and Contingencies	-	-	-	58,766	181,182	181,712
9900100	Administration	340.6	387.0	390.0	52,855	51,652	51,865
9900200	Administration - Distributed	-	-	-	-52,877	-51,654	-51,865
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		2,443.4	2,788.6	2,845.6	$429,215	$608,066	$619,691

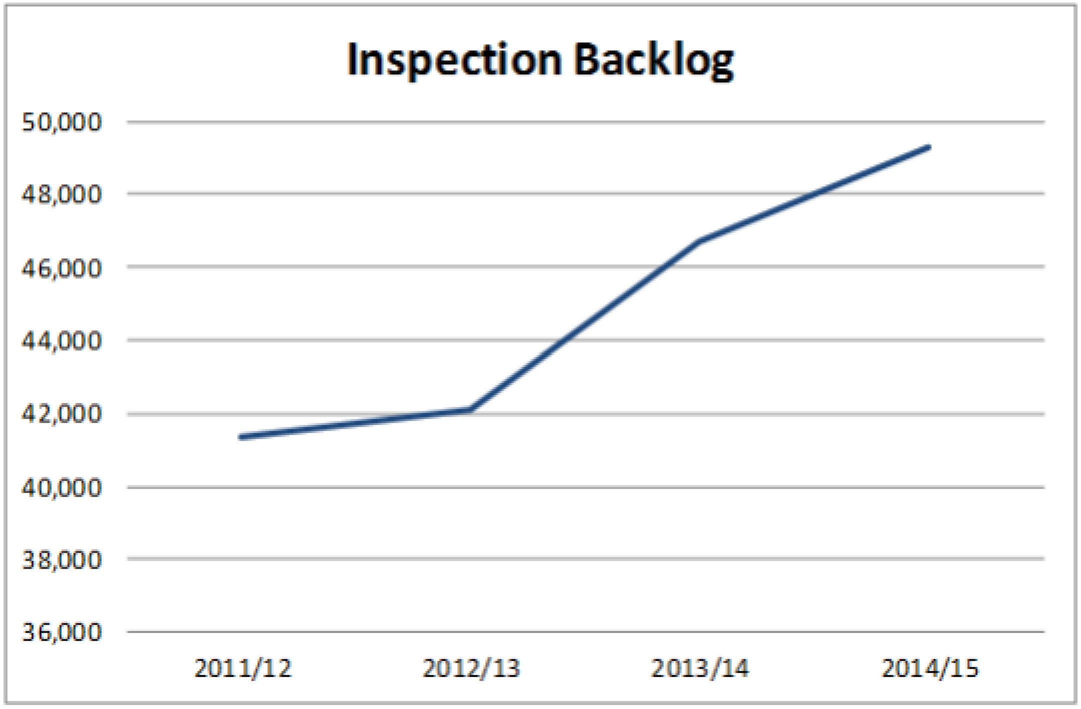
Issue 1 Elevator Public Safety Unit

Description. The Governor's budget requests an increase in authority of $4.4 million (Elevator Safety Account) for Division of Occupational Safety and Health (DOSH) and 27.5 positions in 2015-16, and on-going costs of $4.1 million to reduce inspection backlogs and help the division meet permitting mandates.

Trailer bill language also proposes to suspend the fee for annual inspection of elevators for 2015-16, and provides the director of the Industrial Relations, upon concurrence with the Department of Finance, the authority to suspend or reduce the fee for annual inspection in future years, as needed, to reduce surplus fund balance of Elevator Safety Account.

Background. Existing law requires that every elevator in California may only be operated when a valid permit is properly issued and displayed. Existing law also states that each elevator shall be permitted and inspected annually in order to meet the minimum safety standard and be able to be operated lawfully. Additionally, existing law states that plans to construct or modify elevators must be reviewed and approved before new elevators can be constructed and placed into service.

There are currently 107,660 elevators that require permitting within California. With the improving economy and increased construction activity, the increase in new units is expected to continue to grow annually for the next five years. New construction inspections totaled 2,613 in the 2013-14 fiscal year. Compared to this growth in the number of units, staff resources have remained relatively static over time, and the backlog has ranged from 41,000 units to 49,000. This backlog has existed for over a decade. The chart below shows the annual number of conveyances over the last four years which were not inspected.



During the four year time period above, the number of units which were not inspected by their required annual due date increased by 19 percent, from 41,354 to 49,285 units.

Surplus Fund Balance

It is projected that the Elevator Safety Account will have a surplus balance of $37 million in 2015-16. According to the Department of Finance, a prudent balance for a fund similar to the Elevator Safety Account would be a two to three month balance. This balance would hover about $4.5 million versus the projected $37 million for the budget year.

To address the surplus balance, the Governor's trailer bill language proposes to suspend the fee for annual inspections in 2015-16, and to allow for the fee for the annual inspections to be suspended in future years, if necessary, to reduce any surplus fund balance.

Staff Comments: Staff has no concerns with the proposal. The proposed budget change proposal will help address and reduce the backlog of inspections over time. It will also help maintain a reasonable balance of the Elevator safety account in current and future years.

Staff Recommendation: Approve as budgeted.

Issue 2 Division of Occupational Safety and Health (DOSH): Health and Safety Inspections

Description. The Governor's budget proposes a total of 44 positions and $4.6 million in 2015-16 and $7.1 million ongoing from the Occupational Safety and Health Fund, for the Department of Industrial Relations (DIR) and DOSH to increase enforcement inspections in high hazard industries, improve performance in meeting state and federal mandates and inspecting high-risk worksites, and bring California's total rate of enforcement inspections in line with the national average.

The proposal also includes trailer bill language to prioritize investigations of serious accidents over complaints received for non-serious hazards, as well as costs to defend and negotiate claims filed against Cal/OSHA related to adequacy enforcement of the heat illness prevention regulation.

Background. In 1973, California received initial approval as a state to assume responsibility for developing and enforcing occupational safety and health laws in lieu of federal OSHA performing those functions in California. Continued approval and funding of California's State Plan by the federal OSHA is contingent on California performing in a manner that is at least as effective as the federal program.

Federal OSHA has long criticized low staffing levels in DOSH. In a recent evaluation report, federal OSHA found that California is delayed in responding to complaints and in issuing citations after workplace has been inspected; understanding was cited as a case of both problems. While California has one of the lowest rates of workplace deaths, ranking 6th in the nation, its rates of non-fatal on-the-job injuries and illnesses are above the national average. Overall, California had higher rates of injuries and illnesses in 20 of the 28 major industries (covering 99 percent of the workforce).

As a part of the 2014-15 budget, the Legislature approved two proposals that provided an additional 11 positions to Cal/OSHA's process safety management unit (discussed below), which oversees enforcement of occupational safety and health standards at refineries and other facilities that store large quantities of toxic, flammable, and explosive chemicals, to help implement the recommendations of the Governor's Interagency Working Group on Refinery Safety. Concurrently, a new fee on the refinery industry was put in place to support additional staff dedicated to refineries. The second proposal increased Cal/OSHA's expenditure authority by $3.3 million from the Occupational Safety Fund to support 26 positions that had previously been unfunded.

Governor's Budget Proposal.

The budget requests a total of 44 positions and $4.6 million in 2015-16 and $7.1 million ongoing for the following positions:

- 16 Assistant District Managers
- 18 Associate Safety Engineers
- 4 Attorneys (IRC II)
- 2 Legal Secretaries
- 4 Administrative Staff
- Upgrade Office Technicians to Administrative Assistant II

These positions are proposed to be phased in beginning in the fall of 2015-16 and continuing in 2016-17. The additional resources will be used to address the following:

Increase enforcement inspections: Current law requires DOSH to establish procedures for ensuring the highest hazardous employers are inspected on a priority basis and employ sufficient personnel to meet minimum federal inspection standards. However, these mandates do not provide specific metrics to establish the current number of annual program inspections. Existing law does not require DOSH to conduct a minimum number of program inspections in high hazard industries, and no time limit is specified for responding to accidents resulting in death or serious industry.

In the absence of a formal complaint or a serious injury or illness, a California employer in a high hazard industry can expect to be visited by a DOSH inspector once every 83 years. It is anticipated that the Governor's budget proposal for 14 additional inspectors will result in an additional 630 inspections each year of employers of high hazard industries.

Improve performance in meeting state and federal mandates and inspecting high-risk worksites:

- Improve response times for formal and non-formal complaints;
- Lowering the California citation lapse time, which is currently 72.5 work days for safety inspections and 76 days for health inspections, which is above the three year national average of 43 days and 57 days, respectively;
- Addressing re-inspection, which in 2013 DOSH only conducted 49 re-inspections of workplaces that had previously been found to have serious violations. State law requires re-inspection of at least 20 percent, therefore DOSH should have conducted 231 re-inspections;
- Inspections of projects involving high-risk activities;
- Investigation of non-formal complaints of serious violation; and
- Additional resources and restricting of enforcement staffing;

Bring California's total rate of enforcement inspections in line with the national average. Currently, the national ratio of inspectors to workers is one to 59,000; in California this ratio is one to 69,000. In 2012, the average number of annual inspections conducted by the inspectors in all state plan states was nearly 50 the average for California inspectors was 43. Of the total 44 position requests, 34 will have inspection responsibilities, this would help bring California's rate of total enforcement inspections in line with the national average.

Prioritize inspections of serious accidents over non-serious complaints. Trailer bill language would prioritize the inspections of serious accidents over complaints received regarding non-serious hazards.

The Administration states that this proposal will increase the annual number of inspections by 1,400. This includes 630 inspections of employers in high hazard industries, 210 re-inspections of employers cited for serious violations, 90 inspections of permitted projects or projects involving possible exposure to carcinogens, and 480 inspections involving non-formal complaints.

Legislative Analyst's Office (LAO) Comments and Recommendations

The LAO recommends the Legislature approve the requested staffing levels with some modifications. LAO states that the Governor's proposal will likely allow Cal/OSHA to meet requirements in state law, and improve worker safety and health outcomes through increase planned inspections. LAO recommends the following modifications:

- Require DIR to testify on the benefits and costs of extending the assistant district manager concept to high-hazard unit. LAO believes that it is unclear why the assistant district manager classification is needed for general Cal/OSHA enforcement activities, but not for planned inspections in high-hazard industries.
- Require DIR to testify on effectiveness of high-hazard targeting and evaluation methodologies.
- Establish formal reporting process on proposal outcomes. Specifically, LAO recommends the Legislature to require DIR to report on the extent Cal/OSHA has improved compliance with the requirements in state law and federal expectations; outcomes of its enforcement activities, including the impact of positions approved as a part of the 2015-16 budget package; rate of serious violations from different type of inspections and how the rate of serious violations from planned inspections compares to the federal OSHA benchmarks, among others.

Staff Comments.

The department reports that this proposal will help bring California's inspections in line with the national average and help OSHA to meet the requirements in state law. However, it is not clear what the appropriate level of additional inspections is and if this proposal will fully close these program gaps. The subcommittee may wish to consider what the appropriate standards for safety enforcement should be and what level is necessary to achieve that level of performance.

The subcommittee may wish to consider adopting the LAO's recommendation to establish a formal reporting process on outcomes in order to continue to look at the needs of this department and monitor outcomes of its enforcement activities, including the impact of additional positions.

Staff Recommendation: Hold open, and direct staff and DIR to work with LAO on reporting requirements.

Issue 3 Implementation of New Statutory Requirements

Description. The Governor's budget proposes nine positions and $1 million for 2015-16, and $940,000 ongoing non-General Fund to implement four legislative bills: SB 1299 (Padilla), Chapter 842, Statutes of 2014), SB 1300 (Hancock), Chapter 519, Statutes of 2014, AB 1522 (Gonzalez), Chapter 317, Statutes of 2014, and AB 2272 (Gray), Chapter 900 Statutes of 2014.

Background. This proposal will allow the Department of Industrial Relations (DIR) to carry-out new statutory requirements pursuant to recent legislation. Specifically:

SB 1299 (Padilla), Chapter 842, Statutes of 2014. DIR requests one position and $156,000 in 2015-16, and one position and $148,000 ongoing, to support the Division of Occupational Safety and Health (DOSH) in meeting the requirements of SB 1299. SB 1299 requires the Occupational Safety and Health Standards Board (OSHSB) to adopt standards developed by the DOSH requiring certain hospitals to adopt a workplace violence prevention plan as part of the hospital's Injury and Illness Prevention Plan (IIPP) by July 1, 2016. The Division is also required to post an annual report, by January 1, 2017, on its website containing information regarding violent incidents at hospitals. The additional staff will enable OSHSB to adopt standards developed by the DOSH.

SB 1300 (Hancock), Chapter 519, Statutes of 2014. DIR requests two support staff and an augmentation of $151,000 in 2015-16, and $136,000 ongoing, to support the new DOSH mandate evaluating the turnaround information provided by refineries on a short time line (at 60 and 30 days prior to on-site inspection) in order to identify expected hazardous work processes to be done at the targeted site and plan an effective and comprehensive inspection. SB 1300 implements some of the safety recommendation made in the Governor's Interagency Refinery Task Force February 2014 report and will enhance not only worker safety, but the safety of the communities surrounding the refineries. Due to the short timeframes to evaluate and process the documentation, DOSH is requesting two management services technicians to ensure documentation is received, processed, and reviewed and to allow the Process Safety Management Unit to further analyze the data and prioritize turnaround inspections.

AB 1522 (Gonzalez), Chapter 317, Statutes of 2014. DIR requests five positions and an augmentation of $590,000 (Labor Enforcement and Compliance Fund) in 2015-16, and $551,000 ongoing, to support the Division of Labor Standards Enforcement's (DLSE) legislative mandates related to AB 1522. AB 1522 enacts the Healthy Workplaces, Healthy Families Act of 2014, and provides that an employee who works in California for 30 or more days within a year from the commencement of employment is entitled to paid sick leave to be accrued at a rate of no less than one hour for every 30 hours worked. An employer is prohibited from discriminating or retaliating against an employee who requests paid sick days.

The proposal requests three deputy labor commissioner I, and two deputy labor commissioner II positions, to support additional workload created by AB 1522. This request will help ensure DLSE has sufficient staffing to assist the public with filing claims, hold wage claim conferences, hold investigatory hearings, make appropriate decisions on violations of labor laws, enforce order, decision or awards, and investigate retaliation complaints.

AB 2272 (Gray, Chapter 900 Statutes of 2014). DIR requests one position and $114,000 (State Public Works Enforcement Fund) in 2015-16, and $105,000 ongoing, to support DSLE in efforts to comply with AB 2272. AB 2272 extends coverage under the California Prevailing Wage Law (CPWL) to require that all projects funded by the California Advanced Services Fund (CASF) pay the appropriate prevailing wage to all workers performing labor on these specific projects. AB 2272 extends the reach of the CPWL to include infrastructure projects funded by grants from CASF by including such projects with the definition of public works. The Senate Labor and Industrial Relations Committee cited that as of December 2013, CASF had committed to funding 56 projects. Each project can have a range of 10-20 contractors. Based on this, DLSE estimates the potential for about 700 new cases for which there could be a complaint. If DLSE receives actual complaints on only 15 percent of these potential cases, there would be 105 additional investigations. DLSE's Public Works Investigation Unit requires an additional one deputy labor commissioner to handle the increased workload.

Staff comments: Staff has no concerns with the positions requested to implement the legislation above.

Staff recommendation: Approve as budgeted.

Issue 4 Process Safety Management (Informational)

Background. The Process Safety Management (PSM) Unit within the Division of Occupational Health (DOSH) enforces process safety management procedures for potentially hazardous processes that exist in a wide variety of industries, including oil refineries. The PSM Unit was established after the 1999 fire at the Tosco refinery in Martinez that killed four workers.

California is the only state to have a dedicated unit for this function, which has 25 staff and one vacancy to inspect 15 refineries and over 1,600 other facilities that use, process, or store large quantities of toxic, flammable, or explosive chemicals. On average, from 2001-2012, this unit inspects 27 refineries as well as 112 other facilities per year.

The 2014-15 budget approved $2.4 million from the Occupational Safety and Health Fund, and 11 positions to expand the PSM Unit to implement recommendations of the Governor's Interagency Working Group on Refinery Safety for the enforcement of workplace health and safety regulations in 15 refineries and over 1,800 other chemical facilities. These positions are funded by a new fee on the refinery industry, which is based on the amount of crude oil being processed at each refinery as a percentage of the state's total.

In addition, budget bill language required the department to report by February 1, 2015 on the status of PSM efforts. Specifically, budget bill language required the department to report on:

- The status of the Process Safety Management and Risk Management Program regulatory changes;
- The status of all efforts the department is making to implement recommendations of the final report from the Governor's Interagency Working Group on Refinery Safety;
- The status of the department's annual workload evaluation of the staffing needed to meet the enforcement requirements of Section 7870 of the Labor Code, for both refinery facilities and non-refinery facilities that meet the threshold for Cal-OSHA Process Safety Management regulatory oversight, and the aggregate fees needed to support the function;
- The department's process or plan for categorizing non-refinery facilities that meet the threshold for Cal-OSHA Process Safety Management regulatory oversight by type of facility, risk level, and inspection cycles;
- The number of staffing vacancies, by classification, within the Process Safety Management Unit, and
- The number of inspections performed, to date, during the current fiscal year, by both type of facility and type of inspection.

Status Report: PSM Regulatory Oversight

The report discussed above was released last week. DIR reports that Cal / OSHA will continue monitoring workload and inspection/ enforcement needs to ensure staffing levels and fee amounts are sufficient to support enforcement of existing law.

In the 2014 calendar year, the PSM Unit conducted 37 refinery inspections, two of which were planned Program Quality Verification (PQV) inspections. A PVQ inspection is a multi-point inspection covered by PSM regulation, which is more thorough than any other inspection performed by the division and entails comprehensive evaluation of the establishment's program, the quality of the establishments procedures compared and verification of the effectiveness of the establishment's program implementation. Below is a chart of the PQV Refinery inspections in 2014.

Case		Facility	Opening Date	Inspection hours
1		Exxon Mobile	5/30/2014	2,096
2		Chevron Richmond Refinery	7/14/2014	1,413

Additionally in the 2014 Calendar Year, the PSM conducted 39 non-refinery inspections and 37 refinery inspections.

	Contractors Inspections	Unplanned/ Unprogrammed Inspections	Program Quality Verification Inspections	Total Inspections
Non-Refinery Inspections	2	12	25	39
Refinery Inspections	14	21	2	37

Additionally, new regulations are also in progress to address PSM for refineries. Draft regulations were released on October 31, 2014. DIR is working with the California Environmental Protection Agency (CalEPA) to incorporate elements of process safety management that experts have learned over the last two decades.

Staff Comments. While the Legislature approved additional staff in previous budget years to enhance PSM Unit resources in response to the Chevron refinery explosion, it is unclear how much more support DIR needs to reform its PSM responsibilities at both refinery and non-refinery facilities. The PSM Unit plays a critical role in protecting workers and the communities in which the facilities operate. Recent incidents demonstrate the need for this important state function. At Tesoro Corp.'s Golden Eagle refinery just outside of Martinez, in which four workers suffered first- and second-degree burns when they were splashed with acid from a broken pipe. More recently, the Exxon Mobile refinery in Torrance suffered an explosion on February 18th, resulting in minor injuries to four workers. These incidents remind us of the critical need to ensure appropriate safety measures are in place.

The PSM Units inspections of non-refinery facilities are no less important, as highlighted by the Central Texas fertilizer plant explosion that killed 14 people and injured approximately 200, and the incident in which chemicals used to clean coal leaked into the Elk River in Charleston, West Virginia, contaminating drinking water of some 300,000 residents.

The subcommittee may wish to ask the following questions:

1. What are the highest risk non-refinery PSM facilities? Have those facilities been inspected?
2. What is the appropriate staffing level for non-refinery and refinery inspections? What type of analysis has been done?
3. When will the Interagency Enforcement Group identify refineries that need to be targeted for inspections?
4. Where is the DIR in addressing the recommendations of the Governor's report?

7501 Department of Human Resources

The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the "employer" in all matters concerning state employer-employee relations. CalHR is responsible for issues related to recruitment, selection, salaries, benefits, and position classification, as well as provides a variety of training and consultation services to state departments and local agencies.

Issue 1 Additional Appointments

Description. An additional appointment is a term used when a state civil service employee is appointed to more than one position in state service. Existing law requires CalHR to propose legislation to establish the state's policy regarding the use of additional appointments. The proposed trailer bill language will establish CalHR's authority to set policies directing appropriate use of additional appointments.

Background. In 2013, the Legislature directed CalHR to review the state's policy concerning additional appointments. In particular, the Legislature was concerned about reported instances of managers with a fixed salary also assuming a secondary rank-and-file position within the same department.

CalHR promulgates policies on matters involving employee salaries and benefits, job classifications, training, exams, recruitment and retention, among others through Policy Memoranda. On January 30, 2013, CalHR issued Policy Memo 2013-007 to prohibit departments from making any new additional appointments without CalHR authorization. CalHR then began the process of reviewing relevant laws, rules, and prior procedures that had been applied to additional appointments to date. On April 25, 2013, CalHR issued Policy Memo 213-015 to prohibit departments from making any additional appointments for managers and supervisors.

Section 19210 (b) of the Government Code requires CalHR to propose legislation to establish the state's policy regarding the use of additional appointments. The proposed trailer bill language satisfies this requirement and establishes CalHR's authority to set policy regarding the state's use of additional appointments.

Trailer Bill Language.
"Additional appointment" is the term used when a state civil service employee is appointment to more than one position in state service. An additional appointment shall comply with state civil service law and rules. Consistent with board rules, the Department of Human Resources shall adopt policies to advise state agencies regarding the procedures and appropriate use of additional appointments.

Staff Comments. Staff does not have any concerns about the trailer bill language for additional appointments. This is consistent with the direction the Legislature provided CalHR. The language provides clear direction that CalHR sets the policy for additional appointments.

Staff Recommendation: Approve as budgeted.

Issue 2 Affordable Care Act Mandates – Policy and Compliance

Description. The Governor's budget proposes two permanent positions and $426,000 in reimbursement authority for 2015-16 and $408,000 for 2016-17 to comply with the provisions of the Affordable Care Act (ACA) and address related health policy issues, including addressing the state's unfunded liabilities for Other Post-Employment Benefits (OPEB).

Background. The ACA was enacted on March 23, 2010, to ensure access to quality and affordable health care. Over the next few years, CalHR will implement several employer-administered provisions of the ACA to ensure the state's compliance with federal mandates. Implementation will require significant departmental resources to provide ongoing monitoring and analysis of health care reform and health policies, such as cost-management strategies to reduce the state's OPEB liability exposure.

CalHR, as the state employer, has the primary responsibility for implementing several employer-administered provisions, such as Employer Shared Responsibility provisions, automatic enrollment and excise tax on high-cost benefits, known as the Cadillac Tax. CalHR is responsible for overseeing statewide implementation efforts to ensure that the state's human resources practices and process align with the ACA as penalties for non-compliance are significant.

The Employer Shared Responsibility provisions will take effect in 2015 and the automatic and enrollment of new hires and implementation of the 40 percent excise tax on high-cost benefits are set to take effect over the next few years.

The Employer Shared Responsibility

- The provisions of the ACA mandates large employers to offer health coverage of at least 95 percent of its full-time employees (70 percent in 2015), as defined with those with 130 or more hours of service per month.
- Requires health coverage to be affordable, and not exceed 9.5 percent of employee's monthly salary or wage, for the calendar year.
- Beginning in January 2016, the state will be required to file annual reports, via the State's Controller's Office (SCO), with the Internal Revenue Service (IRS) to demonstrate compliance and help determine premium tax credits and penalties. The state will be required to report a number of data elements that are currently not captured by the SCO, such as the offer of health coverage. Over the past year, Cal HR has been working with the SCO to implement processes to capture the data onto comply with reporting requirements and to ensure timely reporting. Additionally, the will need to develop a joint audit and compliance program to monitor departments' compliance efforts to minimize the state's risk of penalties.

Automatic Enrollment

- The ACA requires employers with more than 200 full-time employees to automatically enroll new full-time employees in health coverage, unless the employee makes an affirmative election to opt out. Regulations for this have yet to be promulgated.

However federal authorities are expected to mandate this following the implementation of the Employer Shared Responsibility provisions.

- Automatic enrollment requires additional changes to how departments administer health benefits for state employees.
- CalHR will be required to develop new business processes and procedures to conform with the law to identify a health plan to auto-enroll newly eligible employees. These changes will be subject to collective bargaining.

Excise Tax on High Cost Plans

- Beginning in 2018, the ACA imposes a 40 percent excise tax on the cost of coverage for health plans that exceed a certain threshold: $10,200 for individual coverage, and $27,500 for family coverage. This tax will impact an employer's retiree health valuations as it will be included in the value of retiree benefits.
- Makes employers responsible for calculating the excise tax on the cost of an employee's health coverage and reporting the taxable excess benefits to the health plan and the IRS.
- The excise tax does not take effect for another three years, however CalHR should begin implementation activities during 2015-16, as CalHR expects it to be as complex as implementing the Employer Shared Responsibility has proven to be.

Other Post-Employment Benefit Liability

- As of June 30, 2014, the state's estimated unfunded liability for future retiree health care costs was $71.8 billion. Over the next year, CalHR will need to coordinate with staff from CalPERS, SCO and DOF on the development of strategies to reduce OPEB liability exposure
- The Administration's' request states that CalHR will need to access to consulting actuary in mid-2015 and begin discussions with various stakeholders on potential strategies to reduce the state's OPEB liabilities for possible adoption in 2016.

Positions requested. The Administration is requesting two positions: a staff personnel program analyst and personal program analysts to perform the following:

- Ongoing monitoring of departments' compliance with health care reform;
- Providing research and analysis on health care reform and policy issues;
- Providing guidance, consultation and training to departments on new ACA policies;
- Coordinating statewide implementation activities;
- Developing audit and compliance program with the SCO;
- Consulting with legal and labor staff and experts, including actuaries, on health policies, such as reducing the state's OPEB liabilities;
- Monitoring where the state stands in offering health coverage to 95 percent of its full-time employees.
- Coordinate with the SCO to ensure timely reporting; and
- Consulting with legal staff and labor organizations on impacts of health care reform.

Additionally, the Governor's budget requests additional $200,000 for ongoing legal consultation and analysis of the impact on health care reform to the state, and external actuarial analysis of prefunding strategies to reduce the state's exposure to OPEB liabilities.

The funding for the actual consulting costs is consisting with consulting costs incurred by SCO, DOF and CalPERS. These funds would only be expended if services are required.

Staff Comments

The state needs to ensure that personnel policies and business practices are developed to conform with the ACA provisions, that they are consistently applied, and that the state captures the required data on its full-time employees to report to the IRS beginning in early 2016. It is critical that CalHR has the infrastructure in place to monitor health reform and develop procedures and processes that minimize the state's compliance risks and exposure to penalties. The resources requested in this proposal will help CalHR meet the demand of the new ACA requirements.

Staff Recommendation. Approve as budgeted.

Issue 3 Long-term Delegation Monitoring Compliance

Description. The Governor's budget proposes five additional permanent positions and $540,000 ($308,000 General Fund and $232,000 Central Service Cost Recovery Fund) in 2015-16 and ongoing to address workload resulting from Goal 1 of CalHR 2014-18 Strategic Plan, which incorporates the Governor's Reorganization Plan Number One of 2011 (GRP1), to provide more delegated decision-making to line agencies under a system of unified oversight, transparency, and accountability.

Background. On July 2, 2012, the human resources management functions performed by the State Personnel Board (SPB) and the Department of Personnel Administration (DPA) were consolidated into CalHR as a result of GRP1.

The Personnel Management Division (PMD), within CalHR, was created by merging responsibilities from former DPA Classification and Compensation Division with the SPB Career Executive Assignment (CEA) and Appointments Compensation Unit. PMD has responsibility for providing policy direction and oversight regarding numerous personnel management issues, such as classification plan, auditing, and civil service merit principles for 150 line departments statewide, ultimately impacting 230,000 state employees.

In 2012, PMD analyzed its responsibilities for functional areas that could be delegated to line departments, as a result, CalHR proposed to delegate three human resources functions to departments:

- **Career executive assignment (CEA) leveling and salaries:** CEAs are state employees in high-level managerial positions. CEAs develop and implement policy and may serve in a department Director's cabinet or form a department's executive staff. CEAs serve at the top levels in a department. Departments who have signed the CEA Delegation Agreement will have the authority to determine appropriate levels for CEAs and set salaries within an established cap.

- **Classification and/or certification action requests for historically misallocated higher level management positions and exceptional allocations**: misallocated positions are positions that do not follow the "like pay for like work" requirement. When CalHR delegates this authority, departments will need to ensure that allocation of every position to the appropriate class.

- **Unlawful appointment investigations**: Unlawful appointments occur when the hiring of an individual does not comply with applicable civil service laws and regulations, examples include an appointment of an individual with no civil service appointment eligibility or an individual who does not meet the minimum qualifications of the classification. These appointments may result from administrative mistakes or misinformation, improperly clearing the employment list, or in rare cases, attempts to circumvent the state's civil service system.

In 2013-14, PMD received budget approval for 8.5 two-year limited term positions to develop and implement the Delegation Project, which gradually delegates these three programs through six waves between January 2014, and March 2016. With each wave, CalHR and selected departments sign Delegation Agreements under which departments agree to uphold the state's Personnel Classification Plan, comply with CalHR's reporting requirements, submit to audits of delegate programs on a regular basis, and adhere to training sessions.

Using the 8.5 limited term positions, PMD has 1)designed a phased in delegation system with built-in process to track accountability, 2) begun implementation of that system to the first 85 departments, and 3) is on track to accomplish initial delegation to the remaining eligible line departments. However, on July 1, 2015, when the limited term positions expire, many departments will still be within the middle of their first year of delegation,

Staff Comments
Ongoing compliance monitoring, auditing and training work will help annual renewal will help ensure successful delegation of departments.

Staff recommendation: Approve as budgeted.

7920 California Teachers' Retirement System

The California State Teachers' Retirement System (CalSTRS) administers retirement benefits for 868,493 (as of June 30, 2013) active and retired educators in public schools from pre-kindergarten through the community college system in California. Benefits include retirement, disability, and survivor's retirement benefits.

CalSTRS is governed by the Teachers' Retirement Board. The California Constitution provides that the Teachers' Retirement Board has authority over the administration of the retirement system; therefore, while the budget is subject to a budget act appropriation, the proposed appropriations are not reviewed or approved by the Governor. The following Governor's budget display shows the proposed funding and positions for CalSTRS.

The budget proposes:

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2013-14	2014-15	2015-16	2013-14*	2014-15*	2015-16*
6450	Service to Members and Employers	681.5	868.3	907.3	$81,515	$185,165	$525,970
6455	Corporate Governance	9.2	9.1	9.1	2,062	42,457	44,499
6460	Administration	252.6	265.6	269.6	274,543	247,508	-
6465	Benefit Payments	-	-	-	12,076,393	12,324,479	12,888,650
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**943.3**	**1,143.0**	**1,186.0**	**$12,434,513**	**$12,799,609**	**$13,459,119**

FUNDING		**2013-14***	**2014-15***	**2015-16***
0835	Teachers Retirement Fund	$12,393,399	$12,756,981	$13,416,445
0995	Reimbursements	22	339	339
8001	Teachers Health Benefits Fund	32,932	33,408	33,433
8005	Teachers Replacement Benefits Program Fund	7,314	7,661	7,600
8041	Teachers Deferred Compensation Fund	846	1,220	1,302
TOTALS, EXPENDITURES, ALL FUNDS		**$12,434,513**	**$12,799,609**	**$13,459,119**

Issue 1 Update on CalSTRS Funding– Information Only Item

CalSTRS will provide an update on the implementation of the $74 billion CalSTRS funding plan enacted in AB 1469 (Bonta), Chapter 47, Statutes of 2014 as part of the 2014 Budget Act.

Background. AB 1469 establishes a plan to address the CalSTRS Defined Benefit Program's unfunded liability, which is approximately $74 billion, by increasing contribution rates, beginning July 1, 2014, of teachers, employers, and the state. AB 1469 discussed a shared solution with increased contributions from teachers (over three years), schools (over seven years), and the state (over three years).

Consistent with this strategy, the budget includes $1.9 billion General Fund in 2015-16 for CalSTRS. The funding strategy is intended to eliminate the unfunded liability in about 30 years. Based on a model of shared responsibility, the state, school districts, and teachers all have increased their contributions to the system beginning in 2014-15. Specifically, contributions to the system in 2015-16 will increase to 4.9 percent for the state, 9.2 percent for most teachers, and 10.7 percent for school districts, as shown in the Figure below. The state also makes an additional contribution of 2.5 percent of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

CalSTRS Funding Plan – Updated 1-10-15
3-Year Ramp Up for State and Teachers
7-Year Ramp Up for Schools

Share of Unfunded Liability	STATE $20 billion	TEACHERS $8 billion		SCHOOLS $47 billion	TOTAL $74 billion
Total Contribution Rate	**STATE**	**TEACHERS** Classic	PEPRA	**SCHOOLS**	**TOTAL**
2013-14	3.04%	8.00%	8.00%	8.25%	19.29%
2014-15	3.45%	8.15%	8.15%	8.88%	20.48%
2015-16	4.89%	9.20%	8.56%	10.73%	24.82%
2016-17	6.33%	10.25%	9.205%	12.58%	29.16%
2017-18	6.33%	10.25%	9.205%	14.43%	31.01%
2018-19	6.33%	10.25%	9.205%	16.28%	32.86%
2019-20	6.33%	10.25%	9.205%	18.13%	34.71%
2020-21 – 2045-46	6.33%	10.25%	9.205%	19.10%	35.68%
Incremental Increase Over 2013-14 Contribution Rate					
2014-15	$59 million	$42 million		$175 million	$276 million
2015-16	$371 Million	$329 million		$714 million	$1.414 billion
Total Lifetime Payments					
2014-15 – 2045-46	$42.4 billion	$25.4 billion		$169.9 billion	$237.7 billion

Notes:

- "Teachers" and "Schools" columns refer to all CalSTRS members and CalSTRS employers (K-12 and community colleges).
- PEPRA members would contribute a total of 9.205% of pay.

Staff Recommendation. Information only item. No action necessary.