

SUBCOMMITTEE NO. 5

Agenda

Senator Laura Richardson, Chair
Senator María Elena Durazo
Senator Kelly Seyarto



Thursday, April 23, 2026
9:30 a.m. or Upon Adjournment of Session
State Capitol – Room 112

Consultant: Diego Emilio J. Lopez

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Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR DISCUSSION

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) enhances California's economic growth and prosperity by collaboratively delivering valuable and innovative services to meet the evolving needs of employers, workers, and job seekers. 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, 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.

Issue 1: EDDNext Modernization

Panelists.

- Nancy Farias, Director, EDD
- Caleb Horel, Deputy Director for Administration, EDD
- Ajit Girn, Deputy Director of Information Technology, EDD
- Cynthia Elmore, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Proposal. The Governor's budget requests \$145.5 million (\$60.9 million General Fund and \$84.6 million) in 2026-27 to continue the EDDNext modernization project. The resources requested in this proposal are intended to continue supporting the modernization of benefits systems and services through the next phase of the EDDNext life cycle. This request also includes reversion of \$70.6 million General Fund from previously appropriated funds for the EDDNext project.

Background. The Employment Development Department (EDD) administers three major employment benefit programs for the state: unemployment insurance (UI), disability insurance (DI), and paid family leave (PFL). Together, these programs provide \$22 billion in annual benefit payments to about 2 million workers.

Unemployment Insurance. California's UI program is a state-federal partnership that provides temporary wage replacement benefits to unemployed workers. By backfilling lost wages, the program bolsters the state's economy during downturns and helps alleviate families' temporary economic challenges. Most workers receive about \$400 per week while they remain unemployed. When the unemployment rate is low, about 1 million workers claim UI benefits each year. On the other hand, roughly 2 million workers have claimed benefits each year during past downturns (not including the pandemic). Benefits paid range from \$5 billion to \$10 billion each year.

Disability Insurance. California’s DI program—EDD’s largest benefit program—provides short-term payments to workers who are injured outside of work (and therefore not covered by workers’ compensation insurance). Benefit duration is set according to a physician assessment of the injury but is capped at 52 weeks. About 750,000 workers receive DI each year, with average weekly benefits of about \$1,000. Benefits paid have totaled about \$14 billion in recent years.

Paid Family Leave. California’s PFL program provides up to eight weeks of partial wage replacement to workers for bonding with a new child, taking care of an ill family member, and a few other family circumstances. About 300,000 workers claim PFL benefits each year, totaling about \$2.5 billion annually.

EDDNext Seeks to Modernize EDD. Beginning in March 2020, the state’s unemployment rate sharply increased due to actions taken in response to the pandemic. As a result, EDD experienced an historic increase in UI applications that strained the department’s existing IT systems and (together with other factors) led to delays in processing and payment of UI claims. In July 2020, the Governor formed a strike team to address the delays and in September 2020, the strike team released its assessment of the department’s challenges in administering the UI program and its recommendations to solve them. One recommendation (of many related to EDD’s outdated technology) was to restart the proposed Benefit Systems Modernization (BSM) IT project—the predecessor to EDDNext—using an incremental and iterative approach to address critical areas of need in the department’s technology portfolio. (An incremental and iterative approach is one that delivers system functionalities to a department as they are developed, so a department can use and improve them over time instead of at the end of system development.) The 2021 Budget Act provided EDD with funds to restart the proposed BSM IT project, and the 2022 Budget Act funded the first year of projects in the new EDDNext portfolio. The 2023 Budget Act then added \$198 million to continue work related to the second year of the EDDNext modernization, and the 2024 Budget Act included \$327 million for the third year of the project. Most recently, the 2025 Budget Act included \$124 million for the fourth year of the project.

EDDNext Is a Combination of IT and Non-IT Projects. The current EDDNext portfolio includes three IT projects that seek to modernize and/or replace existing IT systems and several non-IT projects that seek to improve the department’s business processes, customer service, and information security.

IT Projects:

- **Document management Systems (DMS).** This approved IT project seeks to develop and implement a new system that captures, processes, and manages the large number of documents used by the department’s programs. Improved business processes, together with new technology and tools, are expected to make DMS a more flexible, reliable, and secure system than the existing document management system(s).
 - 2025-26 Plan: Complete Scanning, Data Capture, and Document Content Management for UI and DI. Start Tax Form and Remittance System Replacement. Start Maintenance and Operations for delivered features.

- 2026-27 Plan: Complete Tax Form and Remittance System Replacement and Data Migration. Continue providing Maintenance and Operations, consolidated data services, and licenses for the system.
- **Integrated Case Management System/Integrated Data Management (ICMS/IDM).** This proposed IT project seeks to replace the department’s legacy claims management systems for its programs with a new claims management system. This system also will integrate with a modern data management system that uses external and internal data sources to help facilitate program claims processing.
 - 2025-26 Plan: Complete the Stage 4 Project Readiness and Approval (S4PRA) and the procurement of the ICMS/IDM System Integrator. Start the multi-year replacement of the legacy claims systems.
 - Note: As part of the RFP (expected award February 2026), EDDNext and California Department of Technology have revised the ICMS implementation schedule to prioritize DI/PFL, then UI, a reversal of the original order. Because of the historic investments in the UI Program to date, many of the systemic issues identified by the Strike Team have been triaged. In contrast, the DI/PFL Programs now require critical investment in system infrastructure to meet service demands amid aging technology. EDD will now prioritize addressing the DI/PFL programmatic issues via ICMS implementation. Additionally, the UI implementation was designated as “mandatory optional” to reduce risk for the state by allowing multiple implementation pathways, rather than pursuing a single large, monolithic project.
 - 2026-27 Plan: Continue the multi-year replacement of the legacy claims systems.
- **Shared Customer Portal (SCP).** This approved IT project seeks to develop and implement an improved online portal for customers to log in and access their program benefits. EDD implemented the first phase of this project in June 2023, and later provided six additional language options on the portal in 2023-24. The scope of the second phase of this project is consolidated into the ICMS/IDM IT project.
 - 2025-26 plan: Conduct Maintenance and Operations and continue providing licenses for previously delivered enhancements.
 - 2026-27 plan: Conduct Maintenance and Operations and continue providing licenses for previously delivered enhancements.

Non-IT Projects:

- **Forms Redesign and Research/Analysis.** This project seeks to categorize, analyze, and prioritize program forms for improvement and/or re-design by creating a inventory of current forms for design work that is part of the proposed ICMS/IDM IT project, and making forms more usable through business process improvements and use of customer analytics data by, for example, using fewer questions and/or simpler language.
 - 2025-26 plan: Complete system changes related to SB 1058 and incremental delivery of usability and business process enhancements to SDIO and the PFL application. (Work completed by Legislative deadline of July 1, 2026.)
 - 2026-27 plan: Conduct Maintenance and Operations of previously delivered features.

- **Fraud and Data Analytics.** This project seeks to enhance the information security of the department's programs and prevent fraud through (among other enhancements) the deployment of tools to detect and mitigate cyberattacks, the integration of the department's event logging and management solution into EDDNext IT projects and systems, and the use of real-time identity proofing.
 - 2025-26 plan: Complete the implementation of the Identity Proofing solution for UI claimants. Continue the implementation of the Identity Proofing solution for DI claimants. Start Maintenance and Operations for the Identity Proofing solution for business entities. Continue incremental rollout of logging and data analytics integrations for new solutions.
 - 2026-27 plan: Complete the implementation of the Identity Proofing solution for DI claimants. Conduct Maintenance and Operations and continue licensing for Identity Proofing for claimants and business entities. Continue incremental rollout of logging and data analytics integrations for new solutions.

- **Integrated Contact Center.** This project seeks to modernize the department's contact center through (among other improvements) additional self-service options, enhanced voice recognition, and multi-language functionality. Some of the stated goals of the integrated contact center include improved customer experience, reduced wait times, and streamlined business processes to better serve program claimants.
 - 2025-26 plan: Complete implementation of Agent Live Chat for UI. Complete implementation of Chatbot for UI Self Service. Complete implementation of the UI features in the contact center. Conduct Maintenance and Operations for delivered features.
 - 2026-27 plan: Conduct Maintenance and Operations and continue licensing for delivered features. Implement Interactive Voice Response (IVR) system changes resulting from ICMS.

Summary of Funding Request

Workstream or Cost Category	Description of Vendor Services and Equipment	Costs (In Thousands)
Transformation Office	The Transformation Office costs specific to 2026-27 ensure the project stays on schedule and on budget: <ul style="list-style-type: none"> • Project Management Services • Quality Assurance and Quality Control Services • Transformation Office Services • Project Executive and Project Advisor Services • IV&V Services • Customer Experience Program Services 	\$19,709
	Transformation Office Tools: <ul style="list-style-type: none"> • Project Management Tool / Project Lifecycle Tool • Enterprise Architecture Tool • CX Program Voice of the Customer Tool and Social Media Tool 	\$4,966
CDT Services	CDT Oversight, Approval, and Procurement Services For reportable projects and procurements	\$848
Subtotal, Transformation Office/CDT Services		\$25,523
Integrated Claims Management System / Integrated Data Management (ICMS/IDM) (Project #7100-222)		
ICMS/IDM	Continue the multi-year replacement of the legacy claims systems.	\$1,841 ¹
Shared Customer Portal (Project #7100-236)		
SCP	Conduct Maintenance and Operations for previously delivered enhancements and provide licensing.	\$14,784 ¹
Document Management System (Project #7100-237)		
DMS	Complete Tax Form and Remittance System Replacement and Data Migration. Continue providing Maintenance and Operations, consolidated data services, and licenses for the system.	\$4,345
Non-IT Projects (Per SIMM-19)		
Integrated Contact Center	Conduct Maintenance and Operations and continue licensing for delivered features. Implement IVR system changes resulting from ICMS.	\$15,000
Fraud Prevention and Data Analytics	Complete implementation of DI solution. Conduct Maintenance and Operations and continue licensing for ID Proofing for claimants and business entities. Continue incremental rollout of logging and data analytics integrations for new solutions.	\$21,250

Continuation of Vendor Services and Support of UI/DI Benefit Payments	Maintain crucial services previously funded in 2022 Vendor Services BCP to reduce fraud, manage the workload backlog, and improve the claimant experience for Californians filing for benefit payments.	\$30,075
Subtotal, Workstreams		\$87,295
Workstream or Cost Category	Description of Vendor Services and Equipment	Costs (In Thousands)
Other OE&E:	Standard complement for office equipment, team software, subscriptions, training, and other state operations	\$4,732
Personal Services:	See table below	\$27,970
Total		\$145,520

¹Approximately \$39.2 million for ICMS, and \$18.7 million for SCP costs for 2026-27 will be paid with unutilized prior year EDDNext Modernization BCP funds.

Staff Recommendation. Hold Open.

7120 CALIFORNIA WORKFORCE DEVELOPMENT BOARD

The California Workforce Development Board (CWDB) was established in 1998 as the California Workforce Investment Board (CWIB) with the enactment of the federal Workforce Investment Act (WIA) requiring every state to have a workforce development board to assist the Governor with statewide workforce strategy and system alignment.

In 1999, the CWIB was established as a department under the California Health and Human Services Agency through Executive Order D-9-99 signed by Grey Davis. CWIB was moved to the Labor and Workforce Development Agency, and the volunteer Board of Directors structure was formalized in state law in 2006 with the Workforce Training Act, SB 293 (Ducheny), Chapter 630, Statutes of 2006.

In 2016, CWIB was renamed to the California Workforce Development Board and AB 1270 (Eduardo Garcia), Chapter 94, Statutes of 2015 aligned CWDB's role with WIOA requirements and clarified and expanded various state responsibilities for CWDB.

Issue 2: Additional Operational Resources & Spring Adjustment**Panelists.**

- Joelle Ball, Chief Deputy Director, CWDB
- Emily Sunahara, Deputy Director, Operations and Policy Implementation Branch, CWDB
- Cynthia Elmore, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Alex Bentz, Economist, Legislative Analyst's Office

Proposal. The Governor's budget requests additional resources to support the operations of the California Workforce Development Board. The requested resources are as follows: \$15.1 million (\$5.6 million General Fund and \$9.6 million other funds) in 2026-27, \$13.9 million (\$3.9 million General Fund and \$10 million other funds) in 2027-28, \$4.9 million (\$2.4 million General Fund and \$2.5 million other funds) in 2028-29, \$3.3 million (\$755,000 General Fund and \$2.6 million other funds) in 2029-30; and \$1.9 million other funds ongoing.

Spring Adjustment. The California Workforce Development Board (CWDB) requests various adjustments of the reimbursement authority included in this proposal, including an increase in reimbursement authority of \$7.5 million one-time in 2026-27 and a decrease in reimbursement authority of \$500,000 one-time in 2028-29 and \$1 million in 2029-30. This will align the amounts included in the BCP to the interagency agreement with the Department of Transportation (Caltrans) for the High Road Construction Career (HRCC) Program.

Background. CWDB's baseline budget in 2026-27 and out-years is approximately \$11 million, including \$612,000 General Fund, \$10.2 million in federal funds, and \$256,000 Greenhouse Gas Reduction Fund. CWDB anticipates that General Fund and federal fund carryover amounts from prior appropriations totaling \$1.1 million will be available to offset its operating costs in 2026-27,

2027-28, and 2028-29. This is shown by fiscal year and fund source in the CWDB Existing and Baseline Funding table below.

CWDB Existing and Baseline Funding*
(Dollars in thousands)

Fund Source	2026-27	2027-28	2028-29	2029-30	2030-31
General Fund**	\$762	\$762	\$612	\$612	\$612
Federal Trust Fund***	\$10,745	\$10,286	\$10,297	\$10,238	\$10,238
GGRF	\$256	\$256	\$256	\$256	\$256
Reimbursement****	-	-	-	-	-
Total	\$11,763	\$11,304	\$11,165	\$11,106	\$11,106

General Fund and Reimbursement Request

CWDB's baseline General Fund budget consists of \$612,000, which was added incrementally in prior fiscal years through annual budget adjustments.

Starting in 2021-22, CWDB's position authority was augmented to support CWDB with program and grant administration activities in recognition of the increase in General Fund resources that were added to CWDB's budget starting in 2020-21. As noted above, it was assumed that CWDB would fund these positions through the administrative allocations available through the various General Fund appropriations as well as a \$15 million one-time General Fund allocation specific for administrative support included in the 2021 Budget Act.

Based on CWDB's projections, only \$300,000 General Fund will remain through 2027-28 to support its administrative activities (\$150,000 in 2026-27 and \$150,000 in 2027-28, associated with the HIRE Program). There is no additional General Fund available from prior appropriations to offset its administrative costs beyond this amount.

CWDB's baseline budget assumes 52.3 positions are supported through General Fund and reimbursement resources. With the staffing reduction described below, CWDB will reduce its position authority tied to the General Fund and reimbursements by approximately 10.5 positions per year through 2029-30 and by 8.8 positions in 2030-31. In 2031-32 and ongoing, CWDB will support a total of 1.5 positions within its existing General Fund baseline. CWDB requests additional General Fund resources and reimbursements as shown in the table above to support its adjusted staffing levels through 2029-30.

CWDB relies on the CAL-E-Grants system operated by the Employment Training Panel (ETP) to support its grant administration activities and obtain required reporting from grantees, at an annual contract cost with ETP of \$750,000. CWDB has used its General Fund administrative allocations to support the cost of this contract given the majority of these functions are related to its General Fund grant program. However, CWDB will require this system to be available for the next several fiscal years to close out its remaining grant activities for prior grant programs. Accordingly,

CWDB's request includes funding to support this contract through 2029-30 and assumes that the contract will shift from 100 percent General Fund to 50 percent federal funds in 2030-31 given the projected ramp down of General Fund grant workload in the coming fiscal years, at which point CWDB will be able to absorb this cost within its existing General Fund baseline budget.

It is anticipated that through an interagency agreement with the California Department of Transportation, CWDB will administer a grant program on behalf of the department totaling \$30 million from state transportation funds. CWDB estimates that it will allocate \$11 million in the 2025-26 fiscal year for this purpose. CWDB requests a total of \$19 million in reimbursement authority in 2026-27 through 2029-30 to implement the new program, including \$8.5 million in 2026-27, \$8.5 million in 2027-28, and \$1 million in 2028-29 and 2029-30, respectively. CWDB will utilize a portion of these funds to support administrative costs for the duration of the program.

Federal Trust Fund Request

CWDB's baseline budget consists of \$10.2 million Federal Trust Fund in 2026-27 and ongoing. This level of Federal Trust Fund authority has been adjusted incrementally to align with the estimated level of annual funding that will be available to CWDB through WIOA. A portion of the discretionary funds available to the state through WIOA have been directed to support CWDB's operations to enable CWDB to fulfill its WIOA-specific responsibilities.

In recent fiscal years, CWDB has received other WIOA discretionary funds allocated through other discreet programs and initiatives, such as the Workforce Accelerator Fund and Regional Plan Implementation. Additionally, CWDB has been awarded other non-WIOA federal grants, such as the Building Pathways to Infrastructure (BPI) Grant and the Partners for Reentry Opportunities in Workforce Development (PROWD) Grant.

CWDB has identified that approximately \$836,000 will be available in 2026-27 through 2028-29 from prior federal grant allocations for the BPI and PROWD to support its operations, including \$598,000 in 2026-27, \$135,000 in 2027-28, and \$103,000 in 2028-29.

CWDB's budget assumes 39.7 positions are supported through WIOA resources at an estimated cost of approximately \$6.8 million annually. Additionally, CWDB estimates annual operating expenses and equipment costs of \$5.3 million that are supported through WIOA resources. These costs include rent, WIOA administration, interagency agreements, and contracts.

CWDB's request includes additional funding to align its baseline Federal Trust Fund budget with its estimated operating costs in 2026-27 and the out-years.

Position Authority Adjustment

CWDB requests the following adjustments to its position authority to help address the identified budgetary gap and in recognition of reductions in grant administration workload:

- CWDB requests a reduction of seven positions to align with its current vacant position count.

- CWDB requests a reduction of 10.5 positions annually starting in 2026-27 through 2029-30 and 8.8 positions in 2030-31 in recognition of grant-related workload ramping down in the coming fiscal years.

The position adjustments included in this request will adjust CWDB's ongoing baseline to 42.2 positions.

CWDB Projected Position Authority
(Dollars in thousands)

Fund Source	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total	100.0	82.5	72.0	61.5	51.0	42.2

Staff Recommendation. Hold Open.

Issue 3: Streamlining Reporting Requirements - Trailer Bill Language

Panelists.

- Joelle Ball, Chief Deputy Director, CWDB
- Emily Sunahara, Deputy Director, Operations and Policy Implementation Branch, CWDB
- Cynthia Elmore, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Alex Bentz, Economist, Legislative Analyst's Office

Proposal. The Governor's budget proposes trailer bill language that would align the reporting requirement timelines relating to various grant programs, including requiring the California Workforce Development Board to produce and submit a report to the Legislature evaluating those grant programs by October 1 of every odd-numbered year. The bill would also establish new reporting requirements for the Breaking Barriers to Employment Initiative and the Prison to Employment program if additional grant funds are appropriated for the purpose of those programs.

Background. The California Workforce Development Board (CWDB) is required by AB 1111 (Eduardo Garcia), Chapter 824, Statutes of 2017 to perform program evaluations on a number of grant programs. These evaluations have different timelines, which require the CWDB to perform separate evaluations for each individual program. According to the Administration, the cost of each evaluation includes contract costs between \$500,000 and \$750,000 for the third-party evaluation plus the cost for CWDB staff to provide administrative and technical support to the contractor. The proposed trailer bill language, according to the Administration, will result in efficiencies for CWDB by consolidating these multiple evaluation reporting requirements into one biennial report.

Staff Recommendation. Hold Open.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

The Department of Industrial Relations protects and improves the health, safety and economic well-being of workers in California. DIR is responsible for enforcing the sections of the Labor Code that protect the health and safety of workers; promulgating regulations and enforcing laws relating to wages, hours, and workers' compensation insurance laws; adjudicating workers' compensation claims, and working to prevent industrial injuries and deaths. The Department also promotes apprenticeship and other on-the-job training, as well as analyzes and disseminates statistics measuring the condition of labor in the state.

Issue 4: Subsequent Injury Benefits Trust Fund (SIBTF)– Trailer Bill Language (TBL) & SIBTF Workload – Budget Change Proposal (BCP)**Panelists.**

- Jennifer Osborn, Director, Department of Industrial Relations
- Jassy Grewal, Deputy Secretary of Legislation, LWDA
- Joshua Iverson, Chief Financial Officer, DIR
- Ken Lau, Chief Counsel, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Proposal.

Budget Change Proposal. The Governor's budget requests \$12.7 million and 57 positions in 2026-27, \$20.1 million and 96 positions in 2027-28, \$27.4 million and 133 positions in 2028-29, \$32.7 million and 159 positions in 2029-30, and \$36.5 million and 177 positions in 2030-31 and ongoing from the Workers' Compensation Administration Revolving Fund.

Trailer Bill Language. The Governor's budget requests trailer bill language that makes substantive changes to SIBTF (See below for summary of changes).

Background.**Workers' Compensation and the Subsequent Injuries Benefit Trust Fund**

Under the California workers' compensation system, if a worker is injured on a job, the employer must pay for the worker's medical treatment and provide monetary benefits if the injury is temporary or permanent. In most workers' compensation cases, this compensation is provided in the form of temporary (TD) and/or permanent disability (PD) benefits, which are typically paid out over time based on a formula derived from ratings of the severity of the worker's impairments. In return for receiving free medical treatment, the worker surrenders the right to sue the employer for monetary damages in civil court. This simple premise is sometimes referred to as the "grand bargain."

Workers in California who are injured on the job and whose disability is exacerbated by a pre-existing condition can additionally seek benefits beyond what they would be awarded by the state's workers' compensation system for only the workplace injury. The benefits for the subsequent injury (or SII) are paid by the SIBTF.

The SIBTF was established by the Legislature in the wake of World War II, after veterans who returned home from the war suffered from high rates of pre-existing permanent disabilities. The SIBTF was created in order to address the dilemma of providing disability compensation without accounting for a pre-existing disability that may leave workers without protection and make the employer responsible for the pre-existing disability that may discourage them from hiring workers without visible disabilities.

The SIBTF provides additional compensation to injured workers with a pre-existing disability which, in combination with a work injury, would lead to a higher PD rating than what would be assigned on the basis of their workplace injury (referred to as the SII) alone. Under the SIBTF, injured workers meeting the criteria receive additional PD benefits paid by the SIBTF (rather than by their employer). The benefits under the SIBTF are financed by an assessment on workers' compensation premiums (or on covered payroll for self-insured employers), so that the burden of the SIBTF payments are spread broadly across all employers covered by workers' compensation.

Below are the eligibility requirements for an injured worker to receive SIBTF benefits, as set forth in Labor Code Section 4751:

1. The applicant suffered a SII (subsequent compensable work injury).
2. The applicant had one or more pre-existing PPDs that were actually labor disabling¹ at the time the applicant suffers a SII.
3. The PD resulting from the combination of the pre-existing PPDs and the SII is greater than the PD resulting from the SII alone.
4. The PD resulting from the combined effect of the SII and PPDs together is rated at least 70 percent or higher.
5. The PD resulting from the SII alone, without adjustment for age or occupation, was either: (1) at least 35 percent, or (2) was at least 5 percent and affected a hand, an arm, a foot, a leg, or an eye that is "opposite and corresponding" to a body part that had prior PPD.

Workers who meet the requirements for SIBTF and receive SIBTF benefits get the difference between the combined PD benefits that would be provided based on the SII, and pre-existing disabilities and the amount owed to the worker for PD benefits on the SII alone.

Workers with combined disability ratings from 70 to 99 percent qualify for PPD benefits which end after a set number of weeks determined by the PD rating, and a life pension which begins after the PPD has been paid out and ends at death. If the combined rating equals 100 percent, the worker

¹ Case law has clarified that the pre-existing disability also needs to be "actually labor disabling." In general, this principle means that the pre-existing disability must have been such that it could have been the basis for workers' compensation permanent partial disability benefits if it had resulted from employment.

No other restrictions on the cause or nature of the pre-existing disability are imposed, however: health conditions that are asymptomatic, previously undiagnosed, developmental, congenital, or associated with aging can all be considered pre-existing disabilities that qualify the worker for SIBTF benefit.

is entitled to lifetime permanent total disability (PTD) benefits, which are paid out at the TD rate. PTD benefits are more generous payments than other disability benefits because the amount paid per week can be much higher and because PTD benefits are paid until death. In a regular workers' compensation case outside of the SIBTF program, lifelong disability benefit payments are infrequent because it is rare for cases to reach a PD rating of 70 percent or higher and PTD cases are even rarer. Additionally, other benefits paid in regular workers' compensation cases, such as medical treatment, are not provided by the SIBTF.

SIBTF Financial Instability and RAND Report Recommendations

In 2023, after a rapid increase of the number of applications and the amount of benefits paid out by the SIBTF, DIR contracted with RAND to conduct a comprehensive study of SIBTF cases filed and resolved in recent years. Their goal was to document basic facts about the SIBTF program to provide a foundation of informed deliberation over policy options in response to the SIBTF's recent growth.²

The RAND report found startling trends regarding the SIBTF and its financial instability. The report summarizes the following:

“A sharp increase in recent years in SIBTF claims and benefits and the potential for even greater liabilities poses a financial challenge for the SIBTF. Total annual payments from the SIBTF on the 12 years of cases considered in this report grew from \$13.6 million in 2010 to \$232 million in 2022. Looking to the future, this analysis estimates \$7.9 billion in SIBTF liabilities for cases filed or pending between 2010 and 2022, the midpoint of an estimated range of \$6.4–10.5 billion.

The recent surge in current and future liabilities can in part be attributed to interpretations of SIBTF's governing statutes, which are vague on key issues concerning eligibility and compensation, and which are decades old. More recently, the wide parameters of the governing statutes and SIBTF rules have motivated claimants, their representatives, and vendors to make more frequent claims for injuries which in past decades might have yielded smaller benefits or might not have led to any benefits at all. In the absence of policy changes to ensure the SIBTF is implemented in a sustainable and fair way, decision makers can reasonably expect that funding demands will exceed the currently available resources and assessments on workers' compensation premiums (or on covered payroll for self-insured employers) will have to continue to rise to cover the Fund's growing liabilities.”

The RAND report identified several reasons for increasing liabilities to the SIBTF, many that result from a 2020 WCAB decision in *Todd v. SIBTF* [85 Cal. Comp. Cases 576 (App. Bd. En banc)]. According to the report:

“Prior to the [*Todd*] decision, ratings from impairments to multiple body parts, and the [PD] ratings from the SII and SIBTF cases, were typically combined using a formula referred to as the Combined Values Chart (CVC). The CVC takes into account the theoretical overlapping nature of impairments and disability and produces a combined PD rating that is lower than

² California's Subsequent Injuries Benefits Trust Fund, Recent Trends and Policy Considerations. RAND. June 2024, <https://www.dir.ca.gov/dwc/SIBTF-Report.pdf>

what would be derived from simply adding together two or more values. For example, two impairments, each rated at 50 percent would yield a rating of 75 percent under the CVC. [...]

Instead, the *Todd* decision held that simple addition was the correct method to use for combining SII and PPD disability ratings in determining SIBTF eligibility and benefits. [...] This decision made it far more likely that an SIBTF case would reach a combined rating of 100 percent. In the examples above, the combined rating would increase from 75 percent pre-Todd to 100 percent post-*Todd*.”

The *Todd* decision increased both the number of applicants whose combined PD rating qualified them for SIBTF benefits, as well as the number of applicants whose combined PD rating now reached 100 percent. Because the likelihood of qualifying for generous lifetime benefits increased, the number of SIBTF cases that were resolved through “compromise and release” settlements for a lump sum dramatically decreased, as litigating the case to a final judgement more often resulted in a larger award. This was reflected in a significant increase in non-benefit costs to the SIBTF due to skyrocketing attorney fees, which grew from \$770,000 in 2010 to \$27 million in 2022.

Trailer Bill Language Proposal

The Administration has proposed key changes to the SIBTF Program in the form of trailer bill language. The proposal, according to the Administration, sets out to define terms of eligibility in statute, align the Subsequent Injuries Benefits Trust Fund (SIBTF) with the process and controls in the state’s workers’ compensation system, establish clear timelines for qualification, and provide technical clarity for operating the SIBTF.

With these changes, the Administration estimates that growth of the program will return to manageable levels, ensuring claims are timely processed for workers, and avoid increasing costs to public and private sector employers by billions of dollars over the long term. Updating the statutory language as proposed will conform to the original intent of the law while ensuring the long-term viability of this benefit to low-wage workers without disability pensions and will reduce costs associated with processing claims. In addition, the Department of Industrial Relations (DIR) will be able to resolve the existing backlog of pending applications, minimize impacts on the UEBTF, and manage the program with fewer resources than would be needed absent reforms.

Specifically, the trailer bill proposes to make these changes to the SIBTF program, per the Administration:

1. Define key terms to clarify definitions and add parameters to align benefits with the original intent of SIBTF (proposed Labor Code section 4750).
2. Align the SIBTF medical-legal process with the qualified medical evaluator (QME) program to prevent doctor shopping, utilize a certified physician experienced with the injured worker’s medical history, eliminate duplicative efforts, and dramatically cut costs (proposed Labor Code section 4754.1).
 - a. Currently, SIBTF applicants can hire any doctor and SIBTF must pay for all medical reporting.

7. Clarify that preexisting disabilities must be labor disabling at the time of the subsequent injury to eliminate applications based on asymptomatic conditions or treatable conditions that do not have demonstrable impact on the employee's ability to perform work activity (proposed Labor Code section 4750).
8. Clarify that an employee is responsible for establishing that they have not already received payment for preexisting disability to prevent double recoveries. (Amended Labor Code section 4753)
9. Additional changes for DIR operation of the program:
 - a. Establishes that the provisions added in the trailer bill will apply to all open SIBTF cases that have not yet become final either through settlement or court decision (proposed Labor Code section 4757).
 - b. Ensure SIBTF is not subject to penalties, aligning with the Uninsured Employers Benefits Trust Fund (see Labor Code section 3716.2). State payment processes occasionally result in delays and have resulted in penalties (proposed Labor Code section 4754.3).
 - c. Identifies the DIR Director, who currently oversees the program, for purposes of operations, rather than the State Compensation Insurance Fund identified in the 1959 statute (amended Labor Code section 4754 and 4755).
 - d. Details a discovery process for mandatory credits against SIBTF compensation where an applicant has already been compensated for a pre-existing disability (amended Labor Code section 4753).

Legislative Analyst's Office.

As part of the *2026-27 Governor's Budget*, the Administration has [proposed trailer bill language](#) (TBL) that would substantially reform the Subsequent Injuries Benefits Trust Fund (SIBTF) program within Workers' Compensation. As the LAO outlined in their [July 2025 report](#), the SIBTF program has expanded well beyond its original purpose, with rising employer costs, a growing backlog, and eligibility standards that no longer align with the benefit structure the Legislature intended. The administration has estimated that the updated tally of pending SIBTF cases, more than 30,000 as of 2026, represent a total benefit cost liability of roughly \$30 billion for the state's public and private sector employers.

Key Elements of Proposed SIBTF TBL. The TBL addresses several of the problematic issues we identified as central to the program's undue expansion.

- ***Pre-Existing Conditions Must Have Impacted a Worker's Ability to Do Their Job.*** Under current law, a condition can qualify a worker for lifetime SIBTF benefits even if it never affected the worker's employment. The current rationale is that pre-existing conditions need only be the type of condition that could theoretically support a workers' compensation award. The TBL would require that the condition actually limited the worker's earnings or work activity.

- ***Pre-Existing Conditions Must Have Been Medically Documented Before the Subsequent Injury.*** Currently, pre-existing disabilities can be established after the subsequent injury, often through evaluations conducted specifically to build an SIBTF claim. The TBL would limit eligibility to conditions supported by evidence that predates the injury.
- ***Reverses the Todd v. SIBTF Decision That Makes SIBTF Awards Without Adjustment for Pre-Existing Condition Overlap.*** Under standard Workers' Compensation, the disability rating for claims involving multiple injuries are calculated using a methodology that accounts for the overlap of those injuries. In contrast, due to a recent Workers' Compensation Appeals Board decision in *Todd v. SIBTF*, disability ratings in SIBTF claims do not account for overlap. As a result, most SIBTF claims achieve 100 percent disability ratings (and the larger lifetime benefit that comes with it), a rating typically reserved for only the most severe cases in standard Workers' Compensation. The TBL would instead require that conditions be combined using the standard Workers' Compensation methodology that accounts for overlap.
- ***Excludes the Adjustment Factor When Calculating Whether a Subsequent Injury Should Qualify for SIBTF Benefits.*** The 2011 Workers' Compensation reforms changes that automatically increased disability ratings by 40 percent had the indirect and unanticipated effect of lowering the disability threshold for claims to qualify for SIBTF. The bill would evaluate the injury at its base impairment value, without the upward adjustment, as originally intended.

Recommendations.

Overall, Proposed TBL Aligned With LAO's Recommended Reforms. The proposed TBL would make changes to the SIBTF program that largely align with recommendations their office put forth last year. The proposed TBL's tighter definition of "labor disabling" (described above) corresponds to their recommendation that pre-existing conditions be work-limiting to qualify for SIBTF benefits. The TBL's requirement that pre-existing conditions be medically documented prior to the subsequent injury aligns with their recommendation to limit eligibility to longstanding and documented pre-existing disabilities, rather than conditions identified retroactively to support a SIBTF claim. Finally, the proposed TBL also undoes the *Todd* decision, effectively addressing our concern about how multiple conditions are aggregated to obtain a 100 percent disability rating.

Staff Recommendation. Hold Open.

Issue 5: Elimination of Vacant Positions - DIR**Panelists.**

- Joshua Iverson, Chief Financial Officer, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Background.**General Background on the Elimination of Vacant Positions and Control Section 4.12 of the 2025 Budget Act**

The Governor's budget assumes on-going savings associated with the permanent elimination of vacant positions across all state agencies and departments. The authorization to eliminate vacant positions was included in [Control Section 4.12 of the 2025 Budget Act](#), which authorized the Department of Finance to adjust items of appropriation to achieve ongoing savings associated with the elimination of the positions. In total, [6,002.4 vacant positions were proposed for elimination](#) beginning in 2025-26, with savings totaling \$478.1 million (\$182.3 million General Fund) and \$487.1 million (\$191.3 million General Fund) in 2026-27, ongoing.

The 2025 Budget Act gave the Joint Legislative Budget Committee (JLBC) until January 1, 2026 to review and express nonconcurrency to the elimination of a subset of vacant positions. Specifically, JLBC had the authority to review and non-concur with the proposed elimination of positions authorized to implement legislation passed in 2022 and 2023 and positions at nine specified departments. The nine departments included the Office of Inspector General, Department of Fish and Wildlife, Department of Parks and Recreation, Department of Pesticide Regulation, State Water Resources Control Board, Department of Toxic Substances Control, Department of Industrial Relations, Department of Food and Agriculture, and the Department of Veteran Affairs.

In total, the JLBC was authorized to review the proposed elimination of 1,008.7 positions.

After reviewing responses from the various departments to questions posed by the JLBC, the committee identified 650.1 positions that merited additional review by the Legislature and issued a [response letter](#) on December 29, 2025 non-concurring with their elimination.

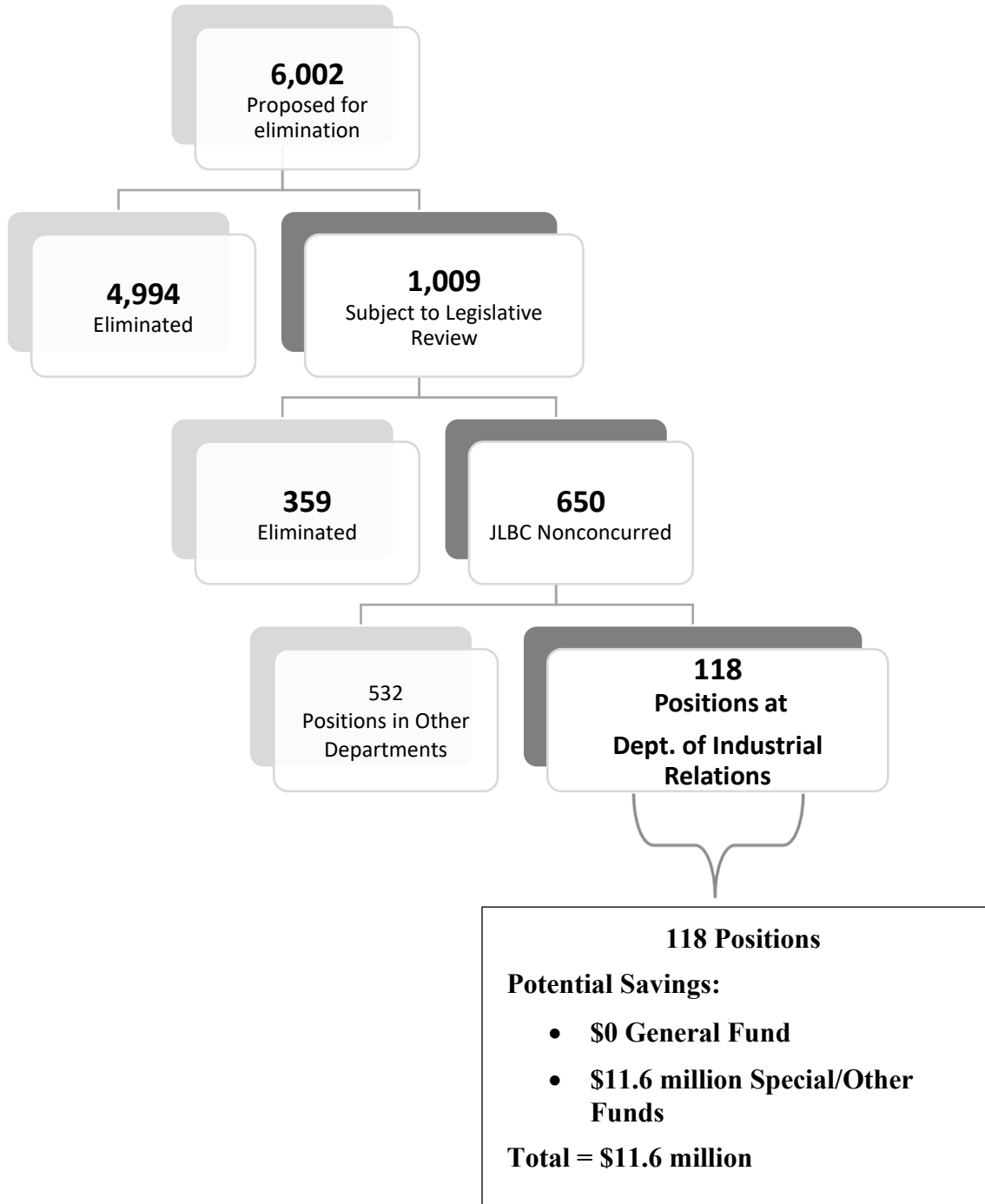
The Governor's budget continues to assume savings associated with the elimination of the 650.1 positions in fiscal year 2026-27.

A total of 5,352.3, were effectively eliminated on January 1, 2026.

(See chart on the following page for a breakdown of the positions)

Governor’s Proposed Elimination of Vacant Positions

JLBC Did Not Concur with the Elimination of 118 Positions within the Department of Industrial Relations



JLBC = Joint Legislative Budget Committee

Vacant Position Eliminations at Department of Industrial Relations (DIR)

Of the 6002.4 vacant positions proposed for permanent elimination, 202 positions are within the Department of Industrial Relations (DIR) – accounting for savings of \$21,113,000 special funds. There are no General Fund savings associated with the elimination of positions. According to the Governor’s January budget, DIR has a total of 3,837.8 authorized positions.

JLBC’s Review of Proposed Eliminations. Of the 202 positions proposed for elimination, JLBC non-concurred with the elimination of 118 positions. Maintaining the positions would result in a loss of savings totaling \$11,598,000 special funds.

The JLBC tried to identify positions that, if filled, could perform the following responsibilities:

- Provide support with the processing, investigating and adjudicating wage claims and/or retaliation complaints.
- Help address the backlog in wage claims.
- Investigate complaints of workplace safety and health violations.
- Assist with complaints filed by undocumented immigrant workers relating to lost wages or other workplace complaints.

In response to questions sent to the department, the JLBC identified 35 positions that could help address the backlog in outstanding wage claims or investigate retaliation complaints filed by workers.

Thirty-six positions, if filled, could be used to investigate complaints about workplace safety violations.

An additional 27 positions, could be directed to address complaints filed by undocumented immigrant workers or assist workers in recovering owed wages should they be unable to reach their employers directly because of federal immigration enforcement activities.

Twenty of the positions the JLBC objected to eliminating were approved as part of Budget Change Proposals for the purposes of implementing legislation that was chaptered in 2022 or 2023. The funding and the position authority was included in the 2023-24 or 2024-25 Budget Acts to implement eight recently signed pieces of legislation.

Concerns with the Elimination of Positions at DIR. Eliminating positions seems to run contrary to recommendations made by the California State Auditor after two recent audits.

In May 2024, the California State Auditor reviewed the backlog of wage claims submitted by workers from fiscal years 2017-18 through 2022-23 and determined that DIR's Labor Commissioner's Office was not providing timely adjudication of wage claims for workers primarily because of insufficient staffing to process those claims. The State Auditor found a backlog of 47,000 claims at the end of 2022-23. According to the Auditor, the Wage Claims Adjudications Unit lacked a sufficient number of staff to process new wage claims in a timely manner nor efficiently reduce the extensive backlog of wage claims and estimated that the department needed hundreds of additional positions under its existing process to resolve the backlog. The lack of adequate staffing is exacerbated by the fact that the department had a high vacancy rate, and an inefficient and lengthy recruitment process. Eighty of the positions the JLBC objected to eliminating are within the Division of Labor Standards Enforcement.

In July 2025, the State Auditor issued a second audit that reviewed DIR's Division of Occupational Safety and Health (Cal/OSHA) and its efforts to enforce workplace health and safety standards. The audit found deficiencies in Cal/OSHA's processes and staffing levels and concluded those deficiencies could undermine some of California's workplace protections. According to the audit, if Cal/OSHA's offices had been adequately staffed, those offices would be able to conduct more on-site inspections and perform more thorough investigations. In addition, Cal/OSHA did not consistently conduct ongoing audits of its case files to ensure that staff were implementing its policies and procedures correctly. Cal/OSHA's processes have been largely paper-based, which is inefficient and increases its risk of having poor case file documentation. To address these findings, the State Auditor recommended Cal/OSHA update its policies, modernize and document its procedures, and increase its staffing levels so that it can conduct more on-site inspections of workplaces and better protect workers. Thirty-five of the positions that JLBC objected to eliminating are within the Division of Occupational Safety and Health.

Staff Recommendation. Hold Open.

Issue 6: Bureau of Investigation Resources**Panelists.**

Danielle Lucido, Chief Counsel, Division of Occupational Safety and Health
Debra Lee, Chief, Division of Occupational Safety and Health
Joshua Iverson, Chief Financial Officer, DIR
Grace Henry, Finance Budget Analyst, Department of Finance
Allison Hewitt, Principal Program Budget Analyst, Department of Finance
Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Proposal. The Governor's budget proposes 14 positions and \$2.3 million in 2026-27 and \$2 million in 2027-28 and ongoing from the Occupational Safety and Health Fund, for DIR, to address case backlog and statutory compliance within the Division of Occupational Safety and Health, Bureau of Investigation (BOI).

Background. Within the Division of Occupational Safety and Health (DOSH, also known as Cal/OSHA), the Bureau of Investigation (BOI) is responsible for conducting thorough investigations into employee fatalities and serious injuries across the state of California. This includes identifying and addressing criminal violations outlined in Labor Code section 6315, as well as working with local District Attorney's Offices to pursue criminal prosecution. This criminal investigation unit is unique to California, a function not mandated by the Federal Occupational Safety and Health Administration. California standards often exceed Federal requirements, addressing the unique industries and working conditions found within the state.

In 2024, Cal/OSHA identified a total of 2,033 serious injuries and 274 workplace fatalities due to serious Title 8 violations. Recognizing the immediate need for additional resources, Cal/OSHA has prioritized hiring BOI Investigators, filling all authorized positions and adding five additional temporary help blanket positions to address the backlog of fatality cases. Even with these additional resources, additional staffing is needed to meet the current workload of the BOI unit. BOI is currently staffed with nine Special Investigators, two supervising Special Investigator Is, and one Supervising Special Investigator II. With current staffing, BOI can only investigate a portion of reported serious injury and fatality cases.

There are typically between 2,300 – 2,800 cases within the BOI's jurisdiction under Labor Code section 6315 each year. BOI has investigated an average of 387 cases annually, leaving over 2,000 cases unopened and uninvestigated each year. These cases often involve major injuries that have left employees unable to work.

Workload History

Workload Measure	2020/21	2021/22	2022/23	2023/24	2024/25
Fatality Cases	578	675	258	263	274
Serious Injury Cases that resulted in a Serious Violation	2,062	2,136	2,217	2,079	2,033
Fatality/Serious Injury Total	2,640	2,811	2,475	2,342	2,307
Cases Investigated	264	499	780	177	213

Source: Department of Finance

According to the Administration, the addition of permanent positions, including four Special Investigators, two Supervising Special Investigator I and two Special Investigator Assistants, will provide enhanced capacity to investigate more criminal cases, address case backlog, enable BOI to more effectively carry out its mission, and bring attention to the critical issue of workplace safety and health. Additionally, two Office Technicians and one Analyst I will provide the unit with necessary support staff, as there are currently no dedicated support staff for the unit. Finally, one permanent Supervising Special Investigator II will oversee investigations, engage in operational efficiency, and work on stakeholder engagement.

Adequate staffing is intended to result in the timely completion of civil cases and collection of citation penalty fees for Cal/OSHA and address the valid concerns of the public, supporting the mission of DIR in improving working conditions in California and providing a hazard-free workplace.

According to the Administration, the requested resources will enable BOI to more effectively fulfill the duties required under Labor Code section 6315, providing increased capacity in investigations of serious injury and fatality cases. In cases where sufficient evidence exists to show alleged criminal negligence and/or felony violations of Cal/OSHA standards, increased staffing will expand BOI's ability to file criminal cases with local District Attorney's Offices and continue to participate in the case through its adjudication by appearing in preliminary hearings and testifying in court. With an increase in BOI staffing, there will be increased demand on DIR's essential administrative support services, requiring two Analyst I positions.

Staff Recommendation. Hold Open.

Issue 7: Workers' Compensation Appeals Board (WCAB) – Remove Sunset for Appeal Timeline Provisions – TBL**Panelists.**

- Katherine Zalewski, Chair, Workers Compensation Appeals Board
- Joshua Iverson, Chief Financial Officer, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Proposal. The Governor's budget requests trailer bill language to repeal the sunset date and make permanent a change to Labor Code 5909 provisions governing how the WCAB's time to act on petitions for reconsideration is calculated.

Background. Existing law requires the Workers' Compensation Appeals Board (WCAB) to act on a petition for reconsideration within 60 days or it is deemed denied. Under the former Labor Code 5909, the 60-day clock began when a petition was filed at a district office. Labor Code 5909 was amended in 2024-25 to allow the 60-days to begin when a case was transmitted to WCAB, however the amendment sunsets on July 1, 2026. Since the amendment took effect, WCAB has been able to issue more final decisions within the statutory period, reduce its backlog and plan workflow more effectively. According to the Administration, if the sunset is not removed, the law will revert, leading to inefficiencies and a growing backlog of cases within WCAB.

Staff Recommendation. Hold Open.

Issue 8: Apprentice Training Grant Augmentation
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Panelists.

- Adele Burnes, Chief, Division of Apprenticeship Standards
- Joshua Iverson, Chief Financial Officer, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Proposal. The Governor's budget requests \$18.2 million in 2026-27, \$18.1 million in 2027-28, and \$17.8 million in 2028-29 and 2029-30 from the Apprenticeship Training Contribution Fund, for the Department of Industrial Relations, to increase grant distributions to approved apprenticeship programs in the building and construction trades by \$17 million annually from 2026-27 to 2029-30 and support related operational costs.

Background. Within DIR, the Division of Apprenticeship Standards (DAS) administers grants from the Apprentice Training Contribution Fund (ATCF) in accordance with California Labor Code section 1777.5, subdivision (m) and on behalf of the California Apprenticeship Council (CAC). Over several years, the amount collected by the ATCF has steadily increased while the annual training grant allocation has remained fixed at \$3 million, leading to an unutilized balance in the fund.

ATCF grant authority was previously increased from \$1.8 million to \$3 million annually as part of the Budget Act of 2007 (Ch. 171, Stats. 2007). During the most recent grant cycle in 2024-25, DAS distributed 105 grants and 70 out of 105 apprenticeship programs received less than \$10,000, which is typically insufficient in covering the documented costs of training apprentices for many programs. As part of the application process, programs must submit a detailed report of costs, and these documented costs typically exceed the amount of the grant funds allocated to that program.

In addition, the current workload and process to manage the ATCF includes the collection and classification of checks, prompt reconciliation of training contributions in the California Apprenticeship System database, and timely processing of grants. According to the Administration, DAS has seen a steady increase in the number of checks received and processed, going from 84,017 in calendar year 2022 to 105,405 in 2024. This has led to significant delays and increased operational demands.

Workload History

Workload Measure	2020-21	2021-22	2022-23	2023-24	2024-25
Number of Grant Applications	123	125	141	123	105
# of CAC Checks	81,849	84,778	84,017	94,796	105,405

Source: Department of Finance – Apprentice Training Grant Augmentation Budget Change Proposal (BCP)

DAS will increase grant funding distributions through the ATCF by \$17 million annually between 2026-27 and 2029-30. It is expected that, with the increased grant amount, there will be an increase

in applications leading to an increase in workload for the team reviewing and awarding the training grants. The number of grant applications received is expected to increase from 105 in calendar year 2024 to 126 in 2025 and then 145 in 2026.

In addition, it is anticipated that the increase in the number of checks will likely increase over time with more publicly funded projects through infrastructure investments, LA Fire rebuild, and other public works projects driving the need for a skilled and trained construction workforce. The number of checks is expected to increase from 105,405 in calendar year 2024 to 121,531 in 2026.

Projected Outcomes

Workload Measure	2025	2026	2027	2028	2029
Number of Checks	111,294	121,531	132,723	144,911	152,996
Number of Grant Applications	126	145	167	175	184

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 9: Pre-Apprenticeship Support

Panelists.

- Adele Burnes, Chief, Division of Apprenticeship Standards
- Joshua Iverson, Chief Financial Officer, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst’s Office

Proposal. The Governor’s budget proposes two positions and \$336,000 in 2026-27 and two positions and \$300,000 in 2027-28 and ongoing from the Apprenticeship Training Contribution Fund to support pre-apprenticeship programs for the building trades sectors.

Background. AB 235 (O’Donnell), Chapter 704, Statutes of 2018, established, for the first time, registered pre-apprenticeship. A pre-apprenticeship program registered with the Division of Apprenticeship Standards (DAS) prepares individuals to enter and succeed in DAS registered apprenticeship programs. A pre-apprenticeship program must be formally associated with at least one registered apprenticeship program sponsor. Together, they expand the participant’s career pathway opportunities with industry-based training coupled with classroom instruction.

Since 2018, DAS has registered 186 pre-apprenticeship programs, of which 49 are in the building trades, overseen by the California Apprenticeship Council (CAC), and 137 are in all the other sectors. During that time, DAS has had a very limited team to assist these programs. In addition, due to the funding provided through the California Opportunity Youth Apprenticeship (COYA), Equal Representation in Construction Apprenticeships (ERiCA), California Apprenticeship

Initiative (CAI) and High Road Training Partnerships (H RTP) grants¹, there has been an increased number of pre-apprenticeships across all sectors, including those overseen by the CAC. In particular, the ERiCA grant program has focused on improving representation in the building trades, including offering a childcare stipend to both pre-apprentices and apprentices. The H RTP grants have also funded the creation of a number of pre-apprenticeship programs to build out the pipeline of talent into the building trades. These combined efforts have catalyzed significant growth in pre-apprenticeship registration with DAS.

According to the Administration, these programs need support with advising, monitoring, and registering pre-apprentices. Additionally, based on current trends, DAS is projecting an additional 100 pre-apprenticeship programs will be registered in the coming two years. Additional staffing is required to continue supporting the growth of pre-apprenticeships as well as to ensure the sustainability of existing programs.

Workload History

Workload Measure	2021	2022	2023	2024
New CAC Pre-Apprenticeship Program Registrations	4	8	16	21
New CAC Pre-Apprentice Registrations	49	96	240	350

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 10: Increased Support for Judgment Enforcement

Panelists.

- Lilia Garcia-Brower, Labor Commissioner, Division of Labor Standards Enforcement
- Joshua Iverson, Chief Financial Officer, DIR
- Grace Henry, Finance Budget Analyst, Department of Finance
- Allison Hewitt, Principal Program Budget Analyst, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst’s Office

Proposal. The Governor’s budget proposes seven positions and \$1.3 million in 2026-27, 14 positions and \$2.3 million in 2027-28, and 14 positions and \$2.2 million in 2028-29 and ongoing from the Labor Enforcement and Compliance Fund to increase the number of judgment referrals enforced by the Labor Commissioner’s Office.

Background. The Division of Labor Standards Enforcement, also known as the Labor Commissioner’s Office (LCO), protects the California workforce by enforcing and educating the public on labor laws. LCO’s Judgment Enforcement Unit (JEU) aids workers in recovering unpaid wages by utilizing its various statutory authorities and enforcement mechanisms to enforce judgments from the Labor Commissioner’s orders and decisions for unpaid wages and penalties. Current staffing levels in JEU are not sufficient to meet work requirements given the complexity of the work and the volume of judgments referred each year. As a result, a large portion of referrals to JEU go unaddressed and uncollected and a significant backlog continues to grow. This proposal requests 14 positions for JEU, including supervisory and clerical support, to help address current unmet workload and backlog.

**Workload History
Judgment Enforcement Unit**

Workload Measure	Unmet Cumulative Backlog
Liens	28,112
Levies	30,226
Labor Code Section 238/240 Cease and Desist or Pay Letters	3,577
In-Depth Investigations	1,538

Source: Department of Finance

This proposal requests two Deputy Labor Commissioner (DLC) III, eight DLC I, one Analyst I, and two Office Technician (OT) positions to be phased-in over two years to conduct judgment enforcement tasks in order to advance JEU’s essential work and reduce backlogs. The proposed structure will support the unit in meeting the workload of essential activities, including executing levies, liens, sending demand letters, negotiating payment plans and settlements. This request will allow JEU to start clearing the existing backlog and working on strategic in-depth investigations

and civil litigation efforts that have proven highly effective in collecting significant wages owed to workers from judgment debtors. The requested OT positions will provide necessary clerical support for the investigative staff and management.

With an increase in positions in LCO, there will be increased demands on DIR's general administrative support services, including human resources, business services, and accounting functions. Currently, there is an approximately 1-to-9 ratio of administrative support staff to total department staff. With an increase of 13 programmatic positions, the Department requests an additional Analyst I position in 2027-28 and ongoing to provide essential administrative support.

Staff Recommendation. Hold Open.

NON-DISCUSSION ITEMS

These items will not be presented, but the Department of Finance and the Legislative Analyst's Office are available to answer questions from the subcommittee members. Public Comment may be provided on these items.

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 11: Jobs First Administrative Resources Reappropriation

Proposal. The Governor's budget proposes a reappropriation from previous Budget Acts to extend the encumbrance periods from two appropriations. The extended encumbrance period will allow the Governor's Office of Business & Economic Development (GO-Biz), Employment Development Department, and the Labor and Workforce Development Agency to expend administrative resources for Jobs First program aligning with the lifecycle of the program which is operable until June 30, 2030.

Background. The Budget Acts of 2024 and 2025 appropriated \$50 million in funding each year for California Jobs First (formerly known as the Community Economic Resilience Fund (CERF)), within the Employment Development Department's budget.

The Budget Acts include an encumbrance deadline of June 30, 2026, and June 30, 2027, and an additional two years for expensing funds. The Budget Acts also allow up to five percent of the funds to be used for administrative costs by GO-Biz, LWDA, and EDD. The extension would allow the three entities to have the resources necessary to administer the program through its full completion.

Staff Recommendation. Hold Open.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

Issue 12: Paid Family Leave (SB 590)

Proposal. The Governor's budget proposes \$532,000 Unemployment Compensation Disability (DI) Fund in 2026-27, \$1,483,000 DI Fund in 2027-28, and \$342,000 DI Fund in 2028-29 and ongoing, for EDD to implement the changes required by SB 590 (Durazo), Chapter 772, Statutes of 2025, that was recently chaptered. The requested amounts include costs for staffing and contract services.

Staff Recommendation. Hold Open.

7300 AGRICULTURAL LABOR RELATIONS BOARD (ALRB)**Issue 13: Operations Resources for Information Technology and Human Resources**

Proposal. The Governor’s budget proposes \$1.3 million and four positions in 2026-27 and \$1.2 million and four positions in 2027-28 and ongoing from the Labor and Workforce Development Fund for the Agricultural Labor Relations Board to dispense its Information Technology and Human Resource responsibilities, and create the essential level of service, oversight, and monitoring necessary for the organization.

Background. ALRB currently has 92 authorized employees across seven locations (six regional offices and 1 headquarter location in Sacramento). ALRB’s Administration division consists of three functional offices with a total of eight authorized positions to support all administrative and operational services for ALRB’s seven physical offices.

- The Administration Chief (CEA – B) is responsible for leading and setting policy direction for ALRB’s administrative and operational functions. This position also serves as the Equal Employment Officer and the Chief Information Officer currently.
- The Human Resources (HR) Office is composed of one Staff Services Manager Specialist II (SSM II), who is responsible for the full suite of Human Resource functions.
- The Information Technology (IT) Office is composed of one Information Technology Specialist I, who is responsible for desktop support and asset management, and an Information Technology Specialist II, who is responsible for the full suite of all IT functions including technology architecture and security oversight.
- The Fiscal and Business Services Office is composed of one Supervisor I and three analysts, who conduct all budgeting, accounting, purchasing, contracting, facility management, travel, records management, and fleet.

Staff Recommendation. Hold Open.

7320 PUBLIC EMPLOYMENT RELATIONS BOARD (PERB)

Issue 14: Attorney Classification Realignment and OE&E Cost Increases

Proposal. The Governor’s budget proposes \$378,000 General Fund in 2026-27 and ongoing to align operating expenditures with current costs.

Background. According to the Administration, PERB has traditionally used salary savings to fund overages in its operational costs. PERB has identified that it no longer has sufficient salary savings to continue to absorb these cost increases. Accordingly, PERB requests to “right-size” the OE&E portion of its budget as follows:

Rent: PERB maintains its headquarters in Sacramento with regional offices located in Oakland and Glendale. Each rental agreement (private space in Sacramento and Glendale, Elihu Harris State building in Oakland) includes rent adjustments of three to five percent per year over the course of 8 to 10 year leases. The total rent has increased from \$861,461 in FY 2019-20 to \$1,020,745 in FY 2025-26. PERB requests \$159,260 for rent to maintain its services to constituents at each office.

BUILDING	ANNUAL COST (FY 2019-20)
HQ (rent + SMUD)	\$385,975.50+ \$252.87
SFRO	\$143,964.51
LARO	\$331,292.12
TOTAL	\$861,485

BUILDING	ANNUAL COST (FY 2025-26)
HQ (rent + SMUD)	\$437,438.90+ \$312
SFRO (5,815 x \$2.55 = \$14,828.25)	\$177,939
LARO	\$405,055.56
TOTAL	\$1,020,745.46

Source: Department of Finance

Contracts: PERB utilizes the statewide contract through the California Department of Technology for Microsoft Office 365 services. The legal function of PERB requires the usage of WestLaw. PERB also maintains a contract for web-services to keep its website updated and compliant with mandated security protections. These three contracts combined costs \$193,914 in 2019-20, but the cost have risen to \$257,557 in 2025-26. PERB received an allocation of \$20,612 in 2022-23 to fund a portion of this difference, but requires additional funding to support the remaining increase of \$43,031.

Compliance/eCourt System: PERB maintains services for document remediation AB 434 (Baker), Chapter 780, Statutes of 2017 (CommonLook vendor) and for its eCourt system (Journal Technology vendor), which operates as both an external portal for document filing and an internal

case management system. The costs have risen from \$52,269 in 2019-20 to \$250,055 in 2025-26. PERB received an allocation of \$137,000 in 2022-23, but a deficit of \$60,786 still remains.

Office of the General Counsel: The Office of the General Counsel consists of 21 positions as follows: one General Counsel, one Assistant Chief Counsel, three Attorney Supervisors, eight Attorney IIIs, and eight Attorneys. The three Attorney Supervisors were reclassified from Supervising Attorneys as a result of an Attorney classification consolidation approved by the State Personnel Board effective June 1, 2023. This reclassification resulted in additional costs for PERB of \$115,000 associated with the new classifications for which PERB was not authorized additional funds.

Staff Recommendation. Hold Open.

Issue 15: Transportation Network Company Drivers Labor Relations Act (AB 1340)

Proposal. The Governor's budget proposes \$2.2 million General Fund and eight positions in 2026-27 and ongoing plus an additional \$800,000 in one-time funds for PERB to implement the requirements of AB 1340 (Wicks), Chapter 335, Statutes of 2025.

Background. AB 1340, signed October 3, 2025, grants collective bargaining rights to transportation network company (TNC) drivers, such as those working for rideshare companies like Uber and Lyft. The core purpose of AB 1340 is to allow TNC drivers to form, join, and participate in TNC driver organizations (unions) of their own choosing. This enables them to engage in collective bargaining with companies over their pay, working conditions, and other terms of employment. The bill requires the Public Employment Relations Board (PERB or Board) to oversee the certification, representation, and bargaining processes for these TNC driver organizations. Any agreement whether arrived at through negotiations or arbitration requires review and approval by the Board.

According to the Administration, the first-year impact includes the building of a database to receive and share TNC driver information, the cost of an electronic elections contract and public portal updates, and minimal staffing to implement the regulations. The requested resources are necessary for implementation, inclusive of staffing and administrative costs, as reflected in the current year and ongoing.

Staff Recommendation. Hold Open.

**0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY
7320 PUBLIC EMPLOYMENT RELATIONS BOARD (PERB)****Issue 16: Unfair Labor Practices (AB 288)**

Proposal. The Governor's budget proposes \$5.5 million General Fund and 22 permanent positions in 2026-27, \$7,041,000 General Fund and 31 permanent positions in 2027-28, and 31 permanent positions in 2028-29 and ongoing to implement AB 288 (Mckinnor), Chapter 139, Statutes of 2025. Additionally, the LWDA requests \$1 million one-time General Fund in 2026-27 associated with this legislation.

Background. AB 288 expands PERB's jurisdiction by authorizing workers to petition PERB to protect and enforce prescribed rights under specified circumstances, including if the worker is employed in a position subject to the National Labor Relations Act (NLRA) but the National Labor Relations Board (NLRB) has expressly or impliedly ceded jurisdiction. AB 288 authorizes PERB to, among other things, decide unfair labor practice cases pursuant to a specified timeline and order all appropriate relief for a violation, including civil penalties, as prescribed.

PERB requests \$5.5 million General Fund and 22 permanent positions in 2026-27, \$7 million General Fund and 31 permanent positions in 2027-28, and 31 permanent positions in 2028-29 and ongoing to implement AB 288.

Additionally, LWDA requests \$1 million General Fund in 2026-27 associated with this legislation.

According to the Administration, AB 288 is unlikely to result in PERB assuming the NLRB's entire caseload as identified in the Workload History chart, at least in the near term, and estimating the exact workload increase is challenging due to the substantial differences between the NLRB's and PERB's processes. For this reason, funding for AB 288 implementation is requested on a two-year limited-term basis. Given the exact level of workload is unknown but likely to be significant and to facilitate the hiring of new staff, permanent position authority is requested. It is anticipated that a request will be submitted in a future budget cycle once more data is available regarding the impact to PERB's workload resulting from this legislation given the current uncertainty regarding the level of workload that will materialize.

The Administration indicates this proposal may be adjusted as a part of the spring budget process or in future budget cycles to account for any changes identified for the staffing or resource levels needed to implement the legislation, including those that may result from current litigation.

Staff Recommendation. Hold Open.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)**Issue 17: Cal/OSHA Centralized Complaint and Report Intake Unit**

Proposal. The Governor’s budget proposes 35 positions and \$5.9 million in 2026-27 and 35 positions and \$5.3 million ongoing from the Occupational Safety and Health Fund for DIR to create a centralized complaint and report intake unit to help address the number of complaints, accidents, fatalities, and referrals the Division of Occupational Safety and Health receives.

Background. The Division of Occupational Safety and Health (DOSH, also known as Cal/OSHA) receives an average of over 19,000 complaints, accidents, fatalities, and referrals a year from workers, unions, employers or other members of the public. Each complaint, accident, fatality, and referral must be recorded onto a Cal/OSHA form by the field inspector and immediately evaluated by the District Manager for appropriate action. Cal/OSHA also receives and answers a significant number of inquiries from workers, unions, and the public regarding labor laws.

Cal/OSHA is proposing to redirect this complaint and report intake function from Enforcement district offices to a new Cal/OSHA Complaint and Report Intake (CRI) Unit. The establishment of the CRI Unit will allow district offices to focus on inspections and identifying safety and health hazards. Enforcement district office staff will be able to focus on and respond more promptly to state and federally mandated onsite inspection work, such as fatalities, serious accidents, complaints, and/or referrals of imminent and serious hazards and/or unsafe work conditions in places of work throughout the state. In addition, the Enforcement district office staff will conduct more proactive onsite inspections to comply with Federal OSHA National Emphasis Program (NEP) directives and Cal/OSHA Special Emphasis Program (SEP) directives to identify and reduce hazards that could result in serious injuries and fatalities.

Staff Recommendation. Hold Open.

Issue 18: Construction Trucking Employer Amnesty Program (SB 809)

Proposal. The Governor’s budget requests \$195,000 in 2026-27, \$177,000 in 2027-28 and 2028-29, and 0.5 position and \$98,000 in 2029-30 and ongoing from the Labor Enforcement and Compliance Fund for DIR to meet the statutory requirements of SB 809 (Durazo), Chapter 659, Statutes of 2025.

Background. SB 809 creates an amnesty program jointly administered by the Labor Commissioner’s Office (LCO) and the Employment Development Department for employers of drivers providing construction trucking services who continue to misclassify their employees as independent contractors. The amnesty program allows eligible employers to avoid penalties if they correctly reclassify their drivers as employees and pay back wages, interest, benefits, and taxes, as well as obtain workers’ compensation insurance, and execute a settlement agreement approved by the LCO prior to January 1, 2029. The bill requires LCO to set up an application for the amnesty program, evaluate any applications it receives, approve any settlement agreements consistent with the statute, and enforce settlement agreements when the employer does not abide by them.

To implement the amnesty program, LCO requests temporary help blanket funding associated with one Deputy Labor Commissioner I (DLC I) from 2026-27 through 2028-29 to meet the following obligations:

- LCO will audit the request for settlement for each driver employed by any company that applies to the program. On average, a small straightforward one-driver audit is anticipated to take four hours while a larger three-year audit is anticipated to take eight hours per driver. LCO calculated the average audit will take six hours per employee. LCO estimates 250 audits will be conducted per year, requiring 1,500 hours annually of DLC I time.
- A DLC I will prepare and finalize the settlement agreement with each employer, requiring approximately ten hours per agreement in consultation with an LCO attorney.
- In addition, LCO will need to enforce settlements through civil actions if an employer participates in the amnesty program but then fails to fulfill the obligations of the settlement agreement. One civil action will take 500 hours to prepare for the hearing in consultation with an LCO attorney. LCO estimates it will need to initiate a civil action once per year.
- Finally, the DLC I will need to answer questions from companies or workers regarding the amnesty program. LCO estimates 50 inquiries per year at 0.5 hour per inquiry.

Staff Recommendation. Hold Open.

Issue 19: Contracts in Restraint of Trade (AB 692)

Proposal. The Governor’s budget requests one position and \$335,000 in 2026-27 and one position and \$317,000 ongoing from the Labor Enforcement and Compliance Fund for DIR to meet the requirements of AB 692 (Kalra), Chapter 703, Statutes of 2025.

Background. AB 692 regulates debt repayment agreements in employment by prohibiting an employer from entering into a contract or contract terms that would require a debtor to pay for a debt if the debtor’s employment or work relationship with the employer is terminated, except if the worker is terminated for misconduct. The bill allows for LCO’s discretion in choosing when to pursue enforcement through the filing of civil actions pursuant to Labor Code section 98.3. According to the Administration, LCO has no direct knowledge of how widespread these types of agreements are; however, LCO conservatively estimates pursuing enforcement on six cases annually.

To enforce the new law, LCO’s Legal Unit requests one Attorney IV to:

- File civil actions for injunctive relief based on an illegal contract alone.
- File civil actions if an employer makes any attempt to collect on a debt, in contravention of the law, following separation of employment (debt collection, intimidation, etc.).
- File a civil action if the employer attempts to collect on a debt owed by an employee who was terminated for “misconduct” and the employee disputes the charge of misconduct.

Depending on the specifics of the case, work may include drafting and sending demand letters, investigation (includes depositions, subpoenas, motions to compel, etc.), settlement negotiations, and filing of the civil lawsuit. Additionally, anti-retaliation issues could form part of the civil action.

Staff Recommendation. Hold Open.

Issue 20: Division of Workers' Compensation Security Services

Proposal. The Governor's budget requests \$6.5 million in 2026-27 and ongoing from the Workers' Compensation Administration Revolving Fund for DIR to pay for increased costs for security services provided by the California Highway Patrol.

Background. DWC provides adjudication services to injured workers and employers with disputes over workers' compensation benefits. This often creates an adversarial situation in the offices that have resulted in direct threats to judges and staff members. In these situations, the CHP officer was crucial to protecting staff and judges in the offices. Their presence fosters calm court proceedings and helps to reduce disruptions.

DWC received \$300,000 in ongoing funding for CHP security services in the 2001-02 budget for the three most vulnerable locations at the time (Anaheim, Sacramento, and Santa Monica). DWC received an additional \$238,000 in ongoing funding in the 2006-07 budget to provide CHP coverage at two additional locations (Van Nuys and Los Angeles). DWC then received \$2.3 million in ongoing funding in the 2020-21 budget to provide CHP security services to seven additional DWC district offices. Although the cost of CHP's security services has increased over time as the officers' hourly rates have increased, DWC has not received additional funding and has had to absorb those cost increases. To date, DWC received a total of \$2,821,000 in funding for the CHP security services. However, the current CHP security contract cost is approximately \$9.3 million annually. This has resulted in an annual shortfall of \$6.5 million that DWC is not able to absorb.

The requested resources will fully fund the CHP contract for security services, which is critical to ensure the continuity of security coverage and to fulfill DIR's obligation to provide a safe and secure environment for employees and the public.

Staff Recommendation. Hold Open.

Issue 21: Extreme Heat and Agricultural Enforcement Task Force and Outreach

Proposal. The Governor’s budget requests 34 positions and \$7.7 million in 2026-27, and 34 positions and \$7.1 million in 2027-28 and ongoing, from the Occupational Safety and Health Fund to continue addressing extreme heat workload and agricultural enforcement and outreach efforts.

Background.**Extreme Heat**

In 2022-23, the Division of Occupational Safety and Health (Cal/OSHA) received \$16 million in one-time funding to implement its role in the Administration’s Extreme Heat Action Plan. Over four years through 2025-26, these funds were allocated to support 19 temporary help blanket positions to expand targeted outreach and education in multiple languages and strategic enforcement efforts to protect workers from heat-related illnesses and wildfire smoke hazards. Funding for these 19 temporary help, blanket positions expires at the end of 2025-26.

Agricultural Enforcement Task Force and Outreach (AETFO)

California is a global leader in agriculture with approximately 830,000 workers throughout the course of any given year. Climate change is exacerbating the challenges agricultural workers have to a safe and healthy workplace. According to the Administration, there is a continuing need for Cal/OSHA to conduct more proactive onsite inspections of agricultural worksites and community outreach events on workers’ rights, the risks of heat stress, and the benefits of hydration, shade, and rest breaks. In 2022, workers in the agriculture, forestry, fishing, and hunting industry had one of the highest fatal injury rates at 18.6 deaths per 100,000 full-time equivalents (FTE) workers for all U.S. industries according to the Centers for Disease Control and Prevention, compared to 3.7 deaths per 100,000 FTE for all U.S. industries. Also, there is a well-known underreporting of heat injuries, illnesses and deaths, particularly in the agricultural industry.

As a result, DIR created the AETFO Unit in 2024-25 with positions in the temporary help blanket to provide essential enforcement activities, health and safety compliance of agricultural sites, and outreach education to workers and employers.

According to the Administration, permanent and ongoing resources will enable Cal/OSHA to protect and educate workers on the dangers of working in extreme heat and prevent further increases in heat-related injuries, illnesses and deaths. These resources will support Cal/OSHA in providing essential enforcement activities, verifying health and safety compliance of agricultural sites, and conducting outreach and providing education to agricultural workers. Moreover, permanent staffing resources for vital agricultural investigative work will improve the ability of Cal/OSHA to meet its mission for agricultural workers.

Staff Recommendation. Hold Open.

Issue 22: Firefighter Personal Protective Equipment (AB 1181)

Proposal. The Governor’s budget requests \$530,000 in 2026-27, \$504,000 in 2027-28, and \$454,000 in 2028-29 from the Occupational Safety and Health Fund to conduct rulemaking related to AB 1181 (Haney), Chapter 392, Statutes of 2025, and one position and \$296,000 in 2029-30 and \$278,000 ongoing from the Occupational Safety and Health Fund for enforcement of the new standards.

Background. Within DIR, the Division of Occupational Safety and Health (also known as Cal/OSHA) is responsible for enforcing occupational safety and health laws in California. As part of its mission, Cal/OSHA oversees employer assessments of workplace hazards and workplace violence to protect workers from exposure to those hazards. The Occupational Safety and Health Standards Board (OSHSB) is the standards-setting agency within the Cal/OSHA program and is responsible for adopting and maintaining reasonable and enforceable standards to support safe and healthful workplaces for California workers. With Cal/OSHA’s assistance, it is responsible for the adoption of reasonable and enforceable standards at least as effective as federal standards.

The use of perfluoroalkyl and polyfluoroalkyl substances (PFAS), fluoropolymers, flame retardants, and other hazardous substances are utilized in the personal protective equipment (PPE) of firefighters. Labor Code section 147.4 requires OSHSB to complete a comprehensive review of the National Fire Protection Association (NFPA) standards pertaining to PPE and consider modifying safety orders to align with NFPA standards on a five-year cycle.

AB 1181 mandates that OSHSB must consider modifying its safety orders to eliminate PFAS by January 1, 2028, regardless of NFPA standards. Additionally, AB 1181 expands the jurisdictional authority of OSHSB, requiring OSHSB to create a standard mandating manufacturers of firefighter PPE to certify products are free of PFAS. This expands OSHSB’s typical jurisdiction, which historically focuses on the safety practices of employers, not the regulation of manufacturers. Additionally, OSHSB is required to provide a report to the Governor and the Legislature on the progress towards implementation of the modified PPE safety standard by July 1, 2026.

Rulemaking: In order to conduct the rulemaking required by AB 1181 and finalize a mandated report to the Governor and Legislature, OSHSB estimates the need for three-year limited-term funding associated with 0.5 Senior Safety Engineer and 1.0 Attorney IV. These resources are needed due to the bill's accelerated timeline and the technical and legal complexities of developing this new standard. OSHSB also requests resources split over the first two fiscal years to conduct a review of the potential economic impact of the new safety order, as needed, based on the anticipated magnitude.

Enforcement: Once the rulemaking process is completed, Cal/OSHA is responsible for the enforcement activities to effectively implement AB 1181. Ensuring that firefighter PPE within California meets these new safety standards will increase the time and resources required for Cal/OSHA to enforce compliance of the new requirements through the issuance of citations for noncompliance. In order to conduct enforcement and ensure the developed regulations are implemented and enforced properly, Cal/OSHA requests one Senior Industrial Hygienist ongoing to handle the increased workload, starting in 2029-30.

Staff Recommendation. Hold Open.

Issue 23: Foreign Labor Contractor Registration Expansion (AB 1362)
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Proposal. The Governor’s budget requests two positions and \$1.1 million in 2026-27, four positions and \$1.9 million in 2027-28, with a total of four positions and \$859,000 ongoing from the Labor Enforcement and Compliance Fund to meet the requirements of AB 1362 (Kalra), Chapter 190, Statutes of 2025.

Background. Chapter 711, Statutes of 2014 (SB 477) established the Foreign Labor Contractor Registration Program and requires a person acting as a foreign labor contractor to register with LCO2. The law establishes requirements and responsibilities for foreign labor contractors, including prohibitions against certain recruitment activities and against charging certain fees to recruited workers. The law also requires employers to hire registered foreign labor contractors and specifies documents and disclosures that must be provided to workers. The law was limited to “nonagricultural workers” as defined by the federal Immigration and Nationality Act (INA) (commonly referred to as H-2B visa holders because of the section of the INA in which this visa program is located). Business and Professions Code section 9998 specifically excluded the following entities from the registration requirement:

- Any person duly licensed as a farm labor contractor pursuant to Labor Code section 1682.
- Any person exempt from the licensing requirement pursuant to Labor Code section 1682.5.
- Any employer employing agricultural workers pursuant to the INA.

AB 1362 expands the foreign labor contractor registration requirements as of July 1, 2027, to contractors that recruit or solicit foreign workers for employment in California under the agricultural H-2A visa program. It also requires a study on the expansion of registration requirements to recruiters of all foreign workers on temporary visas by January 1, 2028.

Staff Recommendation. Hold Open.

Issue 24: Payment of Wages (SB 642)

Proposal. The Governor’s budget requests one position and \$195,000 in 2026-27 and \$177,000 in 2027-28 and ongoing from the Labor Enforcement and Compliance Fund for DIR to implement the requirements of SB 642 (Limón), Chapter 468, Statutes of 2025.

Background. Labor Code section 432.3 prohibits an employer from relying on or seeking salary-history information from an applicant as a factor in determining employment and requires, upon reasonable request, that an employer provide the pay scale for a position to an applicant. Employers with fifteen or more employees must include the pay scale for a position in any job posting. Under the Equal Pay Act (EPA), Labor Code section 1197.5 prohibits an employer from paying any employee wage rates less than those paid to employees of the opposite sex, or of another race or ethnicity, for substantially similar work, except under specified circumstances.

SB 642 amended Labor Code sections 432.3 and 1197.5 to revise and clarify enforcement under the EPA. It extends the statute of limitations for EPA cases from two years to three years after a cause of action occurs regardless of whether the violation was willful or not and allows recovery for up to six years of back wages. SB 642 also broadens the EPA’s protections to cover wage disparities based on sex generally, thereby including nonbinary employees, and adds definitions for “wages,” “wage rates,” and “sex” for enforcement purposes.

According to the Administration, SB 642 increases the complexity and investigative time required of EPA investigations within the RCI Unit, which is responsible for reviewing and resolving EPA complaints and ensuring compliance with the amended provisions.

Deputies must now look back further in time to assess whether older payments violated the EPA. Under the previous two-year limitation period, each EPA claim required approximately 30 to 40 hours of investigation. SB 642 extended the statute of limitations period to three years and provides for a six-year recovery window; these changes are estimated to increase investigation time by an estimated 50 percent, or about 18 additional hours per case

Over the past five calendar years (2020–2024), LCO accepted an average of 135 EPA cases annually. Adding an additional 18 hours per case yields approximately 2,430 hours annually, requiring one Deputy Labor Commissioner I (DLC I). This position is necessary to meet statutory enforcement timelines and maintain timely resolution of EPA complaints.

Staff Recommendation. Hold Open.

Issue 25: Public Works Information Technology System Enhancements

Proposal. The Governor’s budget requests \$8.9 million in 2026-27 from the Labor and Workforce Development Fund to provide system maintenance and operations to DIR’s public works data systems as well as to support and educate the public on new prevailing wage portal features and manage the increased volume of wage data.

Background. DIR’s public works systems serve the needs of employers and workers who work on public works projects in California. Prior to beginning the public works system enhancement project, many of these systems were nearing the end of life for the technology and had to be replaced to maintain functionality. DIR staff had to create workarounds and manual processes to support the business needs. The systems lacked the capability to create statistical reports to help with strategic planning, supervising caseload assignments, and making administrative and operational decisions. Further, the systems ran on outdated software, which created vulnerabilities for DIR and prevented the divisions from taking advantage of recent cloud-based technologies. Finally, with several recent public works-related regulatory and statutory changes requiring DIR to update the systems and collect data, the current systems had become unadaptable.

Pursuant to AB 175 (Committee on Budget), Chapter 255, Statutes of 2021, \$30 million was appropriated from the Labor and Workforce Development Fund for strategic enforcement focused on construction, alteration, and repair projects, subject to the provisions of section 1785 of the Labor Code (LC) through June 30, 2024. Of this, \$10 million was allocated to DIR’s Office of Information Services (OIS) to upgrade the current public works data systems and create a technical capability for analytics using this data. The California Department of Technology (CDT) approved the project on June 28, 2023, and phase 1 functionality went live on June 24, 2024. An additional \$10.7 million in funding was approved in 2024-25. On May 14, 2025, CDT approved a Special Project Report (SPR) to adjust the phase 2 timeline as a result of the delay in procuring System Integrator services. Approval for \$19.1 million in funding was also obtained via a 2025-26 BCP. Currently, the project is conducting Maintenance and Operations (M&O) activities for Phase 1 and working to procure a vendor to implement Phase 2 functionality. Following the completion of Phase 2, the project will begin the ongoing M&O phase.

This proposal requests one-year temporary help blanket resources for ten IT positions to provide system support, maintenance, and enhancements. Additionally, the proposal requests one-year temporary help blanket resources for three positions within the Prevailing Wage Determinations function of the Office of the Director – Research (OD-R) to support the increased amount of prevailing wage information that will be published and updated, as well as to provide technical support to the regulated public. Lastly, the proposal requests \$2 million for contractor support in data governance, data management and analytics, and professional services, \$4.2 million for other operational expenses (e.g. software licenses and professional services), and \$187,500 for CDT Oversight.

Staff Recommendation. Hold Open.

Issue 26: Silicosis Training Attestation and Case Report Intake (SB 20)

Proposal. The Governor’s budget requests three positions and \$470,000 in 2026-27 and three positions and \$416,000 in 2027-28 and ongoing from the Occupational Safety and Health Fund to provide resources for the Division of Occupational Safety and Health to implement requirements of SB 20 (Menjivar), Chapter 734, Statutes of 2025.

Background. Within DIR, the Division of Occupational Safety and Health (also known as Cal/OSHA) is responsible for enforcing occupational safety and health laws. Cal/OSHA enforces workplace health and safety regulations by conducting workplace inspections and issuing citations and penalties when applicable health and safety regulations are violated. In addition to enforcement, Cal/OSHA provides consultation to employers and their employees to help them comply with workplace safety and health standards. Federal law requires that state plans provide protections that are “at least as effective in providing safe and healthful employment” as the federal protections.

Under section 5204 of title 8 of the California Code of Regulations addressing occupational exposures to respirable crystalline silica (RCS), employers are required to take specific, delineated precautions to minimize the deleterious effects of exposure to RCS, which include silicosis, lung cancer, and other serious health effects.

SB 20 addresses occupational silicosis cases in multiple ways. First, the bill adds provisions to the Labor Code requiring employers to ensure that employees use wet methods to effectively suppress dust when performing specified tasks and prohibiting the use of dry methods to suppress dust when performing specified tasks, and empowers Cal/OSHA to issue an order prohibiting continued work where a violation of these requirements is found. Second, the bill requires that fabrication shop employers ensure that their employees who perform specified tasks receive training as required by section 5204 of title 8 of the California Code of Regulations and submit to Cal/OSHA an electronic attestation that each employee has received the required training. Third, the bill requires that the California Department of Public Health (CDPH) report cases of silicosis related to artificial stone to Cal/OSHA. Finally, the bill adds “silicosis or silica-related lung cancer” to the definition of “serious physical harm” found in Labor Code section 6432(e) and amends the Labor Code to clarify that serious injury or illness includes silicosis and silica-related lung cancer.

Cal/OSHA’s enforcement activities will be affected by SB 20, as Cal/OSHA will now be required to administer the attestation program associated with training required by section 5204.

The new attestation requirement necessitates two Analyst II to collect, review, and analyze the attestations, as well as field questions from employers seeking to submit attestations. The analysts requested will use the attestations to assess compliance with the training required by section 5204 of title 8 of the California Code of Regulations and identify noncompliant artificial stonework shops. The analysts will also receive reports from the California Department of Public Health and track the data, create reports that will inform enforcement and outreach efforts, and review and process paperwork and forms. Cal/OSHA also requires one Office Assistant (OA) to support the work of the analysts. The OA will track submissions, direct calls from employers and employees,

guide employers to resources, help employers attempting to file attestations, and answer questions from the Cal/OSHA Enforcement and Legal units.

Staff Recommendation. Hold Open.

Issue 27: Software Licensing and Support

Proposal. The Governor’s budget requests \$5 million in 2026-27 and ongoing from various special funds for DIR to support increased licensing and network upgrade costs related to automation and infrastructure.

Background. DIR’s Office of Information Services (OIS) supports the overall mission of DIR to protect the workforce in California, improve working conditions, and advancing opportunities for profitable employment. DIR is responsible for enforcing workers’ compensation insurance laws, adjudicating workers’ compensation claims, and working to prevent industrial injuries and deaths. DIR 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 that measure the condition of labor in the state. OIS provides and manages the technology infrastructure and software systems (e.g., case management) for all DIR divisions, programs, and employees.

DIR has used ServiceNow as its IT Service Desk ticketing software for over a decade. More recently, DIR has expanded use of ServiceNow beyond IT support functions to enable a broader array of business functions such as Facilities, Communications and Accounting request processes. The IT Operations team continuously refreshes devices, software, and infrastructure to ensure appropriate licensing levels, cost levels, and security, as well as manages changing needs such as increased videoconferencing requirements across conference rooms in DIR’s statewide physical offices and remote work support. All of that work is managed in ServiceNow, from simple Service Desk tickets to project tracking for various infrastructural items, service catalogs, reports, dashboards, project management, etc., and is increasingly growing as more use of ServiceNow happens. DIR is implementing new functions in ServiceNow including HR Service Delivery, Strategic Portfolio Management, and IT Asset Management. Implementation of these functions increases efficiency and transparency for these processes, reducing the need for manual, spreadsheet and email-based tracking processes.

DIR has also expanded its usage of GCP. GCP was initially implemented to support the reporting and analytics needs of DIR’s Public Works/Labor Enforcement Task Force (LETF) project and is a core component of all of DIR’s modernization initiatives. While the use of GCP for the Public Works/LETF, CalOSHA Data Management System, and Electronic Adjudication Management System is being funded through those projects, DIR is also leveraging the capabilities of the GCP to meet additional needs. DIR is incorporating data from systems currently in maintenance and operations into its GCP enterprise data lake for enterprise reporting and analytics augmenting data sourced from systems being modernized. The Workers Compensation Information System previously ran at the California Department of Technology datacenter and has been migrated to run on GCP. Data from the Labor Commissioner’s Office CalAtlas system has been incorporated into DIR’s GCP data lake for use in dashboards and analytics. DIR’s remaining legacy systems

are also being migrated to GCP. Additionally, DIR is implementing GCP functionality in support of other business needs. These include TranslateLive functionality that provides real time translation capabilities for DIR staff both in the field and in DIR office to aid in communicating with constituents in languages other than English, reCAPTCHA functionality to reduce the impact of bots on DIR's online services, and cloud-based storage and management of personnel files.

Additionally, as DIR continues expanding its cloud-based operations and implements the ongoing Windows 11 upgrade equipment refresh, OIS has identified several offices, including critical office locations for the Division of Workers' Compensation, Division of Occupational Safety and Health, Division of Labor Standards Enforcement, and Division of Apprenticeship Standards, that require increased network bandwidth. This need is expected to intensify as DIR is advancing migrating additional systems to cloud-based infrastructure.

The requested funding will be used to cover licensing costs associated with ServiceNow and GCP Platforms and to support DIR network bandwidth upgrades.

Staff Recommendation. Hold Open.

Issue 28: Support for Occupational Safety and Health Workload

Proposal. The Governor's budget requests eight positions and \$1.6 million for 2026-27 and eight positions and \$1.5 million ongoing from the Occupational Safety and Health Fund to address increased workload and mandated activities within the Division of Occupational Safety and Health (Cal/OSHA).

Background. According to the Administration, the need to address health hazards and meet the mandated expectations contained in California Labor Code section 6300 have grown beyond Cal/OSHA's current capacity to address and will continue to grow without immediate attention.

Cal/OSHA is requesting resources for the Research and Standards Unit, which will take over responsibility for reviewing projects and issuing permits in accordance with statute. Labor Code sections 6500 through 6510 require that certain activities, which by their nature involve substantial risk of injury (e.g. asbestos removal), may not be performed without a permit issued by Cal/OSHA. This function has historically been conducted by District Enforcement inspectors, preventing them from conducting onsite inspections or addressing complaints. By removing this task from field inspectors, they will have more time available to address complaints and conduct onsite inspections.

As such, Cal/OSHA is requesting three Senior Safety Engineers (SSE) within the Research and Standards Unit to verify that technical requirements are met in order to issue permits and to conduct onsite inspections of permit sites. Additionally, one Supervisor I and two Analyst I positions are requested to assist in research, project review, and permit issuance. Cal/OSHA also requests one Analyst II to support the division as its workload increases and staffing is enhanced.

With an increase in Cal/OSHA staffing, there will be increased demands on DIR's essential administrative support functions, such as Human Resources and Business Services, requiring one Analyst I.

Staff Recommendation. Hold Open.

Issue 29: The Workplace Know Your Rights Act (SB 294)
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Proposal. The Governor's budget requests two positions and \$390,000 in 2026-27 with \$354,000 in 2027-28 and ongoing from the Labor Enforcement and Compliance Fund for to meet the requirements of SB 294 (Reyes), Chapter 667, Statutes of 2025.

Background. SB 294 enacts the "Workplace Know Your Rights Act." The bill requires employers to provide their employees, upon hire and annually thereafter, with a written notice of workplace rights. The notice will include information on workers' compensation, immigration inspection and unfair immigration-related practices, union organization and concerted activity, constitutional rights when interacting with law enforcement in the workplace, recent legal developments deemed necessary and material by the Labor Commissioner, and agencies that can enforce the rights described in the notice. The bill also requires LCO to develop a template notice on or before January 1, 2026, in English, Spanish, Chinese, Tagalog, Vietnamese, Korean, Hindi, Urdu, and Punjabi, and post it to LCO's website. LCO is required to update the template notice annually. SB 294 also requires LCO to develop two videos on these topics by July 1, 2026, one for employees and another for employers.

Separate from the notice requirement, SB 294, requires an employer to notify an employee's designated emergency contact, if one has been provided, when the employee is arrested or detained at the employer's worksite, provided the employee has previously requested that their emergency contact be notified in such situations. The bill prevents an employer from discharging or taking adverse action against an employee for exercising their rights under the Act. SB 294 also requires LCO to enforce the Act, including collection of a penalty

DIR requests two Deputy Labor Commissioner Is to provide additional support in the Retaliation Complaint Investigation Unit and the Bureau of Field Enforcement.

Staff Recommendation. Hold Open.

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 30: Information Security Workload

Proposal. The Governor's budget requests one position and \$214,000 (\$86,000 General Fund, \$84,000 Reimbursements, \$28,000 Central Service Cost Recovery Fund, \$2,000 FlexElect Benefit Fund, and \$14,000 Deferred Compensation Fund) in 2026-27 and ongoing for CalHR to strengthen infrastructure and cloud information security monitoring and operations.

Background. The Department of Human Resources (CalHR) is facing significant operational and compliance challenges as it undergoes a critical digital transformation. The department must meet evolving regulatory requirements, manage a growing cybersecurity threat landscape, and support the secure delivery of digital services.

According to the Administration, the department's ability to respond to security incidents is severely constrained. With only one staff member managing nearly 10,000 security alerts annually, the average time to resolve incidents is over 12 hours, an unacceptable delay given the potential impact of modern cyber threats. CalHR can further improve its cloud security, as shown by its current compliance score based on the Center for Internet Security (CIS) and Azure Security Benchmark. These benchmarks align directly with NIST and FedRAMP standards, which are tied to the State's security requirements. Additionally, the department is experiencing a 300 percent increase in ad-hoc security requests due to expanded services and maturing risk management practices, further straining limited resources.

Compounding these issues is the growing complexity of managing emerging technologies such as generative AI (GenAI), which require ongoing security assessments and governance. The department also faces a high volume of legal and compliance-related requests, including Public Records Act (PRA) inquiries, litigation holds, and eDiscovery efforts, many of which are currently handled by the Chief Information Security Officer alone. These demands are diverting attention from strategic planning and long-term security initiatives, putting CalHR at continued risk of non-compliance and operational disruption.

According to the Administration, to address CalHR's growing cybersecurity workload, one Information Technology Specialist II (ITS II) position is essential. The position will focus on infrastructure security, directly supporting the Security Operations Center (SOC). The new position will significantly reduce response times, improve incident remediation, and enhance CalHR's overall security posture. It will also support the department's cloud migration efforts. This engineer will help implement secure configurations, manage secrets and APIs, and participate in enterprise architecture planning to ensure security is embedded in all infrastructure decisions.

Staff Recommendation. Hold Open.

7920 CALIFORNIA STATE TEACHERS’ RETIREMENT SYSTEM (CALSTRS)

The California State Teachers' Retirement System (CalSTRS) administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. As of June 30, 2025, there are approximately 1,054,000 members, retirees, and beneficiaries in the State Teachers’ Retirement Plan Defined Benefit Program. 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.

Issue 31: Enterprisewide Strategic Support

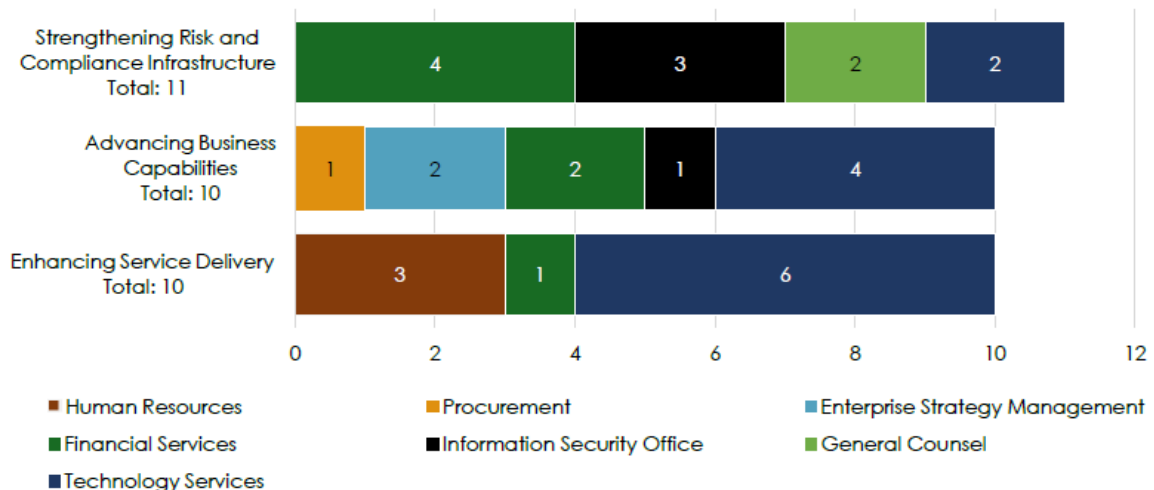
Proposal. The Governor’s budget requests \$15.3 million in permanent funding for Enterprisewide strategic support resources. This includes \$5.3 million to establish 31 permanently authorized positions and \$10 million for various information technology (IT) and innovation service contracts.

Background. According to the Administration, ensuring the system is adequately resourced is an essential component to successfully advance CalSTRS’ mission, vision and strategy. In alignment with these priorities, this proposal will provide budget and position authority for 31 authorized positions and funding for IT and innovation service contracts to strengthen business operations, enhance service delivery and ensure long-term organizational resilience.

Authorized positions – \$5.3 million, 31 positions

This proposal includes \$5.3 million to add 31 permanently authorized positions to CalSTRS’ workforce. Workload for these positions supports the CalSTRS 2025–28 Strategic Plan as well as ongoing operational needs, focusing on enhancing service delivery, strengthening risk and compliance infrastructure, and advancing business capabilities.

The following chart displays the total authorized positions by function and business area.



Strengthening Risk and Compliance Infrastructure – \$1.9 million, 11 Positions

Strengthening the CalSTRS Risk and Compliance Infrastructure is essential to safeguard operations, ensure regulatory alignment, and support proactive risk management and audit readiness. These resources will reinforce efforts to mature the enterprise compliance and cybersecurity programs, improve investment and financial accounting functions, strengthen third-party risk management frameworks, and advance data governance architectures. These 11 positions will perform the following key tasks:

- Mature the enterprise compliance program by implementing a risk-based monitoring approach and regularly reporting on program effectiveness and progress.
- Review and process powers of attorney, conservatorships, guardianships and court orders related to community property and member account administration.
- Perform investment accounting tasks including data management and various financial reporting activities in compliance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB).
- Manage a third-party risk management database to ensure accurate tracking, assessment and reporting of vendor risk.
- Support Zero Trust security governance by developing policies, frameworks and oversight processes to strengthen access controls, data protection and enterprise security posture.
- Implement and manage cloud security controls to protect enterprise data, ensure compliance and support secure cloud architecture across platforms.

Advancing Business Capabilities – \$1.8 million, 10 Positions

Advancing Business Capabilities focuses on expanding internal resources and infrastructure to ensure the organization has the tools, technology and innovative capabilities to enable the organization to run more efficiently. Proposed resources will advance efforts in innovation and artificial intelligence capabilities, foster a cost-conscious culture, enhance data analytics and reporting, and support ongoing standardization of enterprise technology architecture solutions. These 10 positions will perform the following key tasks:

- Research tools to enable secure use of artificial intelligence solutions and services, implement artificial intelligence governance and frameworks, and monitor deployment outcomes.
- Foster a cost-conscious culture by identifying efficiencies, optimizing resource use and encouraging fiscal responsibility across the organization.
- Perform complex research and data analytics for business process improvements, system modifications and procedure development for various financial services.
- Manage IT procurement processes, including vendor selection and contract negotiation, to support and improve business capabilities.
- Develop and maintain business intelligence reports and dashboards and leverage advanced data analytics to deliver actionable insights that support business decision-making.
- Support application development and system implementation for artificial intelligence capabilities.

Enhancing Service Delivery – \$1.6 million, 10 Positions

Enhancing Service Delivery prioritizes improving the quality of internal business services across the organization to ensure more efficient and effective operations. Proposed resources will assist with producing workforce training and learning opportunities; enhancing data collection, analysis and reporting; providing end-user technology support; and implementing a resource capacity management program. These 10 positions will perform the following key tasks:

- Enhance process improvement efforts as well as the collection, analysis and reporting of data.
- Develop and implement strategies to retain top talent in partnership with business areas by leveraging collaborative approaches for recruitment, employee development and career growth pathways.
- Implement a resource capacity management program to improve workload planning and enhance visibility into resource utilization.
- Analyze data trends and performance metrics to drive standardization and continuous improvement of IT service delivery across the enterprise.
- Provide comprehensive audio and video support for CalSTRS headquarters and Member Service Centers, ensuring reliable setup, operation and troubleshooting of AV systems for meetings, events and hybrid collaboration.

Service contracts – \$10.0 million

Continuing to build, support and modernize the organization’s technology foundation is an essential component of delivering quality services to CalSTRS’ members and their beneficiaries, employers and various stakeholder communities. Over the past few years, CalSTRS has experienced significant increases in technological requirements and costs, largely driven by the organization’s growing size and complexity and by inflation. Additionally, CalSTRS has made strategic investments in transformative technologies aimed at driving efficiency and effectiveness, improving overall value and fostering innovation throughout the organization.

This proposal for \$10.0 million is for critical investments in consulting services to support and advance CalSTRS’ business operations—including innovation consulting services to build prototypes and implement solutions to move the enterprise innovation program forward, enhance data governance efforts, implement cloud modernization, and integrate artificial intelligence across key business areas. It also includes maintenance and operations support for several new and updated technology applications, as well as costs associated with software licenses.

Staff Recommendation. Hold Open.

Issue 32: Investment Portfolio Management
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Proposal. The Governor’s budget requests \$5.7 million in permanent funding to establish 25 authorized positions for the Investments Branch to enhance CalSTRS’ ability to prudently manage our investment portfolio and create value through expanded internal expertise.

Background. This proposal includes \$5.7 million to establish 25 permanently authorized positions for the Investments Branch. According to the Administration, as the portfolio grows and evolves so does the need for a robust investment infrastructure to ensure sound fiduciary oversight and value creation. These resources will support four key investment priorities as outlined below.

- One Fund – \$2.1 million, 10 Positions
- Shared Vision – \$2.1 million, 8 Positions
- Technology Transformation – \$937 thousand, 4 Positions
- Path to Net Zero Strategy – \$548 thousand, 3 Positions

This proposal was presented to and approved by the Teachers’ Retirement Board (board) at the November 13, 2025, board meeting.

One Fund – \$2.1 million, 10 Positions

The One Fund approach represents a strategic shift in managing CalSTRS’ investment portfolio from historically separate, asset-class-specific processes to an integrated approach that aligns decision-making objectives toward a single portfolio. Moreover, as the portfolio grows in size and complexity, additional staffing is critical to ensure prudent asset management, risk oversight, compliance and operational efficiency. This proposal includes \$2.1 million to establish 10 permanently authorized positions for this strategic objective. These 10 positions will perform the following key tasks:

- Support portfolio growth through analysis and execution of long-term asset allocation strategies adopted by the board.
- Assist in the expansion and management of public and private market investments, including sourcing, evaluating and executing investment transactions.
- Conduct due diligence activities and monitor investment performance to ensure alignment with strategic objectives and risk tolerance.
- Strengthen investment-related risk management and compliance processes to uphold fiduciary and regulatory standards.
- Perform advanced data analysis and develop reporting tools to support investment decision-making and performance monitoring.

Shared Vision – \$2.1 million, 8 Positions 3

The Shared Vision aims to strengthen CalSTRS’ position as a top global allocator. Within the engagement and data collection stage, several investment division risk reviews have identified immediate staffing needs as the branch continues to assess and develop a holistic plan across the total fund.

Currently, this work is supported by existing branch resources. However, as risk assessments advance and development begins, anticipated business and operational changes will require additional resources in the coming years. In this early phase of the Shared Vision, these resources are essential to mitigate current risks and build the foundational infrastructure and internal capacity needed for successful execution. In support of the Shared Vision, this proposal includes \$2.1 million in permanent funding to establish eight authorized positions.

These eight positions will perform the following key tasks:

- Research emerging investment strategies and utilize insights to support long-term portfolio goals.
- Evaluate market trends and macroeconomic risks and apply advanced risk analytics to inform data-driven investment decisions, scenario planning and strategic allocation.
- Strengthen regulatory risk management through implementation of robust governance structures and internal controls.
- Enhance data governance practices to improve accuracy, transparency and consistency in investment data.
- Lead benchmarking activities to assess portfolio performance against peers and industry standards.
- Contribute to the development and evaluation of new investment strategies to support innovation and long-term value creation.

Technology Transformation – \$937 thousand, 4 Positions

According to the Administration, the investment industry is undergoing rapid technological disruption, with artificial intelligence, advanced analytics and integrated platforms reshaping how decisions are made and executed. As CalSTRS' investment portfolio expands in both size and complexity, it is critical to significantly upgrade the system's investment analytics tools, data infrastructure and technology capabilities to maintain a competitive edge in an increasingly sophisticated market. Modernizing this technology will deliver sustainable long-term value through enhanced decision-making capabilities while simultaneously strengthening the risk management framework with real-time insights and multi-dimensional analytics.

These positions will play a key role in enabling and utilizing advanced investment platforms, portfolio analytics tools and integrated data environments that enhance efficiency, accuracy and transparency. A skilled and forward-looking workforce is essential to ensure successful adoption, governance and optimization of these technologies across asset classes as CalSTRS modernizes its technology systems to align with the evolving complexity of global markets and internal management goals. Accordingly, this proposal includes \$937 thousand in permanent funding to establish four authorized positions. These four positions will perform the following key tasks:

- Support the transformation of investment technology by advancing data warehousing capabilities to ensure accurate, centralized and accessible investment data.
- Provide oversight of investment systems and tools to ensure they meet business needs and support operational efficiency.
- Enhance investment technology governance by developing standards, controls and processes that promote transparency, security and accountability.

- Collaborate with subject matter experts to align technology solutions with investment objectives and evolving data needs.
- Improve investment risk management by integrating technology-driven solutions that enhance data quality, analytics and decision-making.

Path to Net Zero Strategy – \$548 thousand, 3 Positions

In September 2021, the board pledged to achieve net zero greenhouse gas emissions across the investment portfolio by 2050, or sooner.

These resources will directly contribute to advancing CalSTRS’ Path to Net Zero strategy by integrating climate risk analysis, low-carbon investment opportunities and active stewardship across the portfolio. As CalSTRS works toward achieving a portfolio with significant reductions in greenhouse gas emissions by 2050 or sooner, dedicated staff are essential for conducting climate scenario analysis, engaging company boards and leadership, evaluating transition risks and sourcing resilient investments aligned with long-term value creation. These roles will help incorporate climate considerations within investment processes and ensure that CalSTRS’ commitment to sustainability is embedded in investment decision-making to minimize risks and maximize returns. As such, this proposal includes \$548 thousand in permanent funding to establish three authorized positions. These three positions will perform the following key tasks:

- Incorporate climate considerations across the investment process by integrating sustainability criteria into policies, procedures and decision-making frameworks to minimize risks and maximize returns.
- Support the organization’s commitment to reduce greenhouse gas emissions by 2050 or sooner by aligning investments with long-term portfolio goals to support stability and resilience.
- Conduct climate-related scenario analysis to assess potential impacts on portfolio risk, returns and resilience.
- Evaluate climate and transition risks at the transaction level to inform investment selection and risk mitigation strategies.
- Identify and source resilient investment opportunities that align with risk-return goals.
- Engage with portfolio companies to promote climate risk disclosure, emission reduction targets and proven business practices.

Staff Recommendation. Hold Open.