Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 5 Agenda

Senator Aisha Wahab, Chair
Senator María Elena Durazo
Senator Josh Newman
Senator Kelly Seyarto

Wednesday, May 15, 2024
9:30 a.m.
State Capitol - Room 112

Corrections, Public Safety, Judiciary, Labor and Transportation

Consultants: Christopher Francis, Ph.D., Nora Brackbill, Ph.D., and Eunice Roh

Items for Discussion

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.

0559 Labor and Workforce Development Agency
7100 Employment Development Department
7120 California Workforce Development Board
7300 Agricultural Labor Relations Board
7350 Department of Industrial Relations
Various Departments

Issue 1: Overview of Governor's May Revision Proposals

Panel

- Andrew March, Department of Finance
- Chas Alamo, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

The Governor's May Revision includes the following major ongoing and one-time solutions. These proposals are in addition to the Governor's January budget and detailed below:

VARIOUS DEPARTMENTS

- **Vacant Positions Permanent Reduction.** The April 2024 early action agreement AB 106 (Gabriel), Chapter 9, Statutes of 2024 included the Governor's January Budget proposal to reduce departmental budgets by $1.5 billion ($762.5 million General Fund) for savings associated with vacant positions. The May Revision proposes making the one-time reduction permanent and the Department of Finance indicates that it will work with agencies and departments in the Fall on appropriate reductions starting in 2024-25.

- **Ongoing Reductions to State Operations.** The May Revision includes an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. This reduction includes personnel, operating costs, and contracting. The Department of Finance indicates that it will work with agencies and departments in the Fall on these reductions.

- **Relocation to New Labor Agency Building.** The May Revision includes $5.66 million (all various special funds) and $491,000 reimbursement authority in 2024-25, and $1.06 million (all various special funds) and $148,000 reimbursement authority in 2025-26 split amongst multiple entities within the Labor and Workforce Development Agency to provide limited-term resources for the initial information technology set-up and configuration for the New Labor Agency Building.

  The Budget Act of 2023 previously included $5.78 million (Various Funds) and $378,000 (Reimbursements) in 2023-24 and $1.2 million (Various Funds) in 2024-25 to secure the goods and services required in the new LWDA building. The amounts include one-time equipment, maintenance, and contract services costs. In December 2025, LWDA will begin to move into the former Resources Building, along with the following departments and state entities: Agricultural Labor Relations Board (ALRB), California Workforce Development Board (CWDB), Department of Industrial Relations (DIR), Employment Development Department (EDD), and Employment Training Panel (ETP). The new LWDA building will consolidate multiple LWDA entities into a singular physical location while supporting a telework staffing plan. The building will first undergo an extensive retrofit and when completed, will incorporate the latest features in physical infrastructure and space planning in order to provide a modern workspace environment.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

- **California Jobs First.** The California Jobs First program is an inter-agency partnership, including the Labor Workforce Development Agency (LWDA), the Office of Planning and Research, and the Governor's Office of Business and Economic Development amongst others, to create high-quality, accessible jobs and help build resilience to the effects of climate change and other global disruptions impacting the state's diverse regional economies. The 2021 Budget Act included $600 million for workforce investments in 13 regions across California. This investment has supported the creation of Jobs First Collaboratives in each of the state's 13 economic regions, with representation from a wide variety of community partners including labor, business, local government, education, environmental justice, community organizations and more. The 13 Jobs First Collaboratives cover every region of the state: North State, Capitol, Redwood Region, Bay Area, North San Joaquin Valley, Eastern Sierra, Central San Joaquin Valley, Orange County, Los Angeles County, Kern County, Central Coast, Inland Southern California, and the Southern Border. The April 2024 early action agreement delayed $275 million from 2021-22 and instead included $91.7 million for each year between 2024-25 and 2026-27. The May Revision reduces funding for the program by $150 million over three years ($50 million General Fund reduction in each of 2024-25, 2025-26, and 2026-27) and reverts $25 million appropriated in the 2021 Budget Act.

- **2024-25 Unemployment Insurance (UI) Interest Revised Estimate.** The January budget initially proposed a total one-time payment of $331 million ($231 million General Fund and $100 million Employment Training Fund) to support the state's UI loan interest payment. The May Revision increased this estimated payment by $153 million General Fund one-time. This update increases the total proposed Unemployment Insurance loan interest payment to $484 million ($384 million General Fund and $100 million Employment Training Fund).

Staff Comment: The April 2024 early action agreement approved the Governor's proposal to support the state's Unemployment Insurance loan interest payment with $100 million Employment Training Fund.

- **2025-26 UI Interest Payment.** The May Revision proposes a one-time $50 million Employment Training Fund payment to support the state's UI loan interest payment. The 2024 early action agreement between the Governor, Assembly, and Governor included the Governor's January proposal to support the state's Unemployment Insurance loan interest payment with $100 million Employment Training Fund in 2024-25.

- **Adjustments to Program Benefits**
  - ***Unemployment Insurance Program Benefit.*** The May Revision requests that that budget bill Item 7100-101-0871, Budget Act of 2023, pursuant to Provision 3, is increased by $197,558,000 in 2023-24 to align with an estimated increase in unemployment insurance claims. This item is a local assistance item for the Unemployment Insurance Program, payable from the Unemployment Fund—Federal.

  - ***Disability Insurance Program Benefits.*** The May Revision requests that budget bill Item 7100-101-0588 be increased by $461,192,000 ongoing to align with updated State Disability Insurance program benefit payment estimates. Additionally, Item 7100-101-0588, Budget Act of 2023, pursuant to Provision 2, is increased by $935,332,000 in 2023-24 to align with an estimated increase in disability insurance claim payments. This item is a local assistance item for the Disability Insurance Program, payable from the Unemployment Compensation Disability Fund.

- **Workforce Innovation and Opportunity Act (WIOA) Allocations.** The Administration requests that Items 7100-001-0869 and 7100-021-0890 be increased by $28,642,000 one-time and Items 7120-101-0869 and 7100-101-0890 be increased by $28,972,000 one-time to align Workforce Innovation and Opportunity Act funding authority with estimated federal allocations.

CALIFORNIA WORKFORCE DEVELOPMENT BOARD (CWDB)

- **California Youth Leadership Corps (CYLC).** The 2022 Budget Act included $20 million General Fund in 2022-23 and $20 million General Fund in each of 2023-24 and 2024-25 as advance payment and support to the Emerald Cities Collaborative for CYLC for community change learn-and-earn career pathway programs at 20 selected community colleges over four-year period. The May Revision reduces funding for this program by $20 million in 2024-25.

  CYLC is a statewide partnership among the California Labor and Workforce Development Agency, selected California community colleges, the California Community Colleges Chancellor's Office, the Community Learning Partnership, local nonprofit organizations, the California Endowment, the Hilton Foundation, Haas Jr. Fund, and other community partners. This unique partnership was created to prepare a new generation of young people to become community organizers and change agents in their local communities. In Fall 2021 and Spring 2022, the CYLC launched learn-and-earn career pathway programs in the cities of Los Angeles, San Jose, Riverside, and Fresno.

This unique partnership grew out of Governor Newsom's economic recovery task force as a response to the staggering number of unemployed young people, particularly in communities of color and low-income communities across the state. To address this crisis, CYLC was created to prepare the next generation of young people to:

- Become community organizers and change agents in their local communities
- Increase civic engagement and power building among marginalized youth and their communities;
- Scale up community change learn-and-earn career pathways; and
- Strengthen the capacity of social justice organizations.

- **Reappropriation of Federal Funds**. The May Revision includes budget bill language to added to extend the encumbrance and expenditure period for $9 million in Item 7120-001-0890, Budget Act of 2023 to allow the California Workforce Development Board to fund appropriate staff costs throughout the life of federal grants. This item is related to the implementation and operation of the Workforce Innovation and Opportunity Act program. This budget bill language would extend the encumbrance and expenditure period from June 30, 2024, to June 30, 2028.

DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

- **Women in Construction Unit Elimination.** The Governor's January budget proposed to reduce funding for the unit by $5 million General Fund in 2024-25 and ongoing and maintain the program at $10 million General Fund ongoing. The May Revision eliminates the program by reducing funding for the Unit at DIR by $15 million on an ongoing basis.

- **Apprenticeship Innovation Fund.** The 2024 early action agreement between the Governor, Assembly, and Governor included the Governor's January proposal to delay $40 million General Fund in 2024-25 and spread this funding over 2025-26 and 2026-27 fiscal years. The May Revision proposes to turn this delay into a reduction of $40 million General Fund.

  The Division of Apprenticeship Standards (DAS) at DIR administers the program, which provides grants, reimbursements, or other funding for the expansion of non-traditional apprenticeship programs and supports additional apprentice activities such as training.

- **California Youth Apprenticeship Program.** The Governor's January budget proposed to delay $25 million for the program to 2025-26. The May Revision proposes to turn this delay into a reduction of $25 million General Fund.

  DAS administers the program, which provides grants for the purposes of providing funding for existing apprenticeship and preapprenticeship programs or to develop new apprenticeship and preapprenticeship programs to serve the target population and satisfy the goals and objectives of the grant program, as specified.

- **DIR Chaptered Legislation Proposals.** The May Revision includes various requests for resources from various special funds to implement statutory requirements associated with legislation chaptered in 2023 and 2024. The requests are as follows:

  1. $300,000 Workers Compensation Administration Revolving Fund in each of 2024-25 and 2025-26 to implement Workers' Compensation: Post-Traumatic Stress Disorder— SB 623 (Laird) Chapter 621, Statutes of 2023.
  2. $5.188 million special fund in 2024-25, $4.883 million special fund in 2025-26 and ongoing, and 21.5 permanent positions to implement Fast Food Council— AB 1228 (Holden) Chapter 262, Statutes of 2023 and AB 610 (Holden) Chapter 4, Statutes of 2024.
  3. $1.555 million Occupational Safety and Health Fund in 2024-25 and $1.465 million Occupational Safety and Health Fund in 2025-26 and ongoing and 6 permanent positions to implement Workplace Violence Prevention— SB 553 (Cortese), Chapter 289, Statutes of 2023
  4. $1.854 million State Public Works Enforcement Fund in 2024-25 and $1.702 million State Public Works Enforcement Fund in 2025-26 and ongoing and 10 permanent positions to implement Affordable Housing on Faith and Higher Education Lands Act of 2023— SB 4, (Wiener) Chapter 771, Statutes of 2023.
  5. $706,000 State Public Works Enforcement Fund in 2024-25 and $190,000 State Public Works Enforcement Fund in 2025-26 and ongoing and one permanent position to implement Public Works: Ineligibility List— AB 1121 (Haney), Chapter 465, Statutes of 2023.
  6. $605,000 Labor Enforcement and Compliance Fund in 2024-25 and $560,000 Labor Enforcement and Compliance Fund in 2025-26 and ongoing and three permanent positions to implement Paid Sick Days Accrual and Use— SB 616 (Gonzalez), Chapter 309, Statutes of 2023
  7. $648,000 Labor Enforcement and Compliance Fund in 2024-25 and $609,000 Labor Enforcement and Compliance Fund in 2025-26 and ongoing and 2.5 permanent positions to implement Grocery Workers— AB 647 (Holden), Chapter 452, Statutes of 2023
  8. $205,000 Labor Enforcement and Compliance Fund in 2024-25 and $189,000 Labor Enforcement and Compliance Fund in 2025-26 and ongoing and one permanent position to implement Food Safety: Food Handlers— SB 476 (Limón), Chapter 610, Statutes of 2023
  9. $833,000 Labor Enforcement and Compliance Fund in 2024-25 and $773,000 Labor Enforcement and Compliance Fund in 2025-26 and ongoing and four permanent positions to implement Labor Code Alternative Enforcement— AB 594 (Maienschein), Chapter 659, Statutes of 2023

<u>Suggested Questions</u>

- **<u>For DOF on the Reductions to State Operations:</u>**
  - Do you have additional information about how the ongoing reductions to state operations is going to be implemented? Is there accompanying budget bill language expected with this proposal?
  - Are there departments that will not be strictly subject to these reductions? If so, which departments and how were these departments determined as exempt?

- **<u>For EDD, CWDB, DIR, and CWDB on Ongoing Reductions to State Operations:</u>** Please describe the impact of the state operations reductions on EDD, CWDB, DIR, and Labor Agency. Has there been additional guidance passed along on implementing this reduction? Will this impact program or service delivery, administration of grants, and/or bill implementation activities?

- **<u>For DOF, on California Jobs First:</u>** Between the early action agreement and the May Revision, if adopted, how much funding remains for California Jobs First in each of 2024-25, 2025-26, and 2026-27? Are there funds that remain unexpended from 2021-22?

- **<u>For Labor Agency, on California Jobs First:</u>** If the May Revision is adopted, then how does Labor Agency prepare to adapt the program to this lower amount of support?

- **<u>For DOF on Women in Construction Unit Elimination:</u>**
  - What, aside from the budget deficit, informed your decision to eliminate this program?
  - Has all the funding been encumbered or spent for the currently available ERiCA grants?
  - The current ERiCA grant funding period is listed as April 2023 through June 2025. How does the proposed elimination of the program impact this timeline? Is the Administration concurrently withdrawing or modifying its Women in Construction Priority Unit Permanent Positions budget change proposal?

- **<u>For DOF on California Youth Leadership Corp. Reduction.</u>** What, aside from the budget deficit, informed your decision to eliminate this program?

- **<u>For CWDB on California Youth Leadership Corp. Reduction.</u>** What is the impact of cuts on potential partnerships established in 2022 and 2023?

- **<u>For DOF, on Using Employment Training Fund for UI Interest Payment:</u>**
  - Will using ETP funds for 2025-26 have any programmatic impact on ETP operations? How much reserve funding is projected to be left for ETP for 2025-26?
  - Will the Administration plan to use any other sources of special funds to pay for UI debt-related costs in 2025-26 and beyond?

Staff Recommendation. Hold open all May Revision proposals

7900 California Public Employees' Retirement System
7920 California State Teachers' Retirement System
Various Departments

Issue 2: Employee Compensation, Pensions, and Retirement Proposals

Panel

- Aston Tennefoss, Department of Finance
- Nick Schroeder, Legislative Analyst's Office, for CalPERS proposals
- Angela Short, Legislative Analyst's Office, for CalSTRS proposals

Governor's May Revision Proposals and Adjustments for 2023-24

The Governor's May Revision includes the following major ongoing and one-time proposals. These proposals reflect updates to estimates to the Governor's January budget and detailed below:

- **State Employees' Retirement Contributions**. The May Revise proposes $6.86 billion ($3.48 billion General Fund) as the statutorily required annual state contribution to California Public Employees' Retirement System (CalPERS) for state pension costs in 2024-25. This is $1.7 billion ($1.3 billion General Fund) lower than the Budget Act of 2023 due to the application of prior Proposition 2 debt repayment funding paid to CalPERS as adopted in the April 2024 early action agreement. Included in these costs are $608.5 million General Fund for California State University retirement costs.

- **Teachers' Retirement Contributions**. The May Revise proposes $4.26 billion General Fund as the statutorily required annual state contribution to California State Teachers' Retirement System (CalSTRS) in 2024-25. The roughly $320 million increase from the 2023 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2021-22 to 2022-23.

- **Proposition 2 Debt Payments**. Under the Administration's May Revise revenue forecast, the state has a roughly $1.6 billion Proposition 2 debt payment requirement in 2024-25. Of this total, the Governor proposes the state allocate: $360 million to prefunding retiree health benefits, $836 million to repay the CalPERS borrowing plan, and $420 million to pay down CalPERS' unfunded liabilities. In 2024-25, and similarly to 2022-23 and 2023-24, the Administration does not propose to direct any Proposition 2 debt payment funding to CalSTRS.

- **Employee Compensation (Item 9800)**. Compared to the Governor's Budget, the May Revision includes a net decrease of $92.8 million ongoing ($42.8 million General Fund) for augmentation of employee compensation to reflect updated expenditures for collectively bargained pay increases and health and dental premiums. In total, May Revise proposes $1.23 billion ($639 million General Fund). Additionally, while these figures include estimated health premium rates, the Administration notes that final health rates are not expected to be adopted by the CalPERS Board of Administration until Summer 2024.

- **Control Section 3.61**. The May Revision proposes amending Control Section 3.61 to authorize the Department of Finance to transfer Proposition 2 debt repayment funding to the California Employers' Retiree Benefit Trust Fund in the current or prior fiscal year to satisfy the Proposition 2 debt repayment allocation for the relevant fiscal year.

Background

Three Primary Types of Debts and Liabilities. California's debts and liabilities fit into three broad categories:

- ***Retirement Liabilities.*** As discussed below, California has unfunded liabilities associated with pension benefits for judges and state employees, retiree health benefits, and the state's share of pension benefits for the state's teachers and school administrators.
- ***Bond Debt.*** These liabilities include the principal and interest amount of outstanding general obligation and lease revenue bonds issued by the state to finance capital infrastructure.
- ***Budgetary Borrowing.*** For the purposes of this report, these are the debts the state has incurred in the past to address its budget problems. These include loans from other state funds to the General Fund and outstanding obligations to other entities, like cities, counties, and school and community college districts.

In recent years, the state has enacted reforms to public pension law under the Public Employees' Pension Reform Act of 2013, developed and implemented a funding strategy to pay down CalSTRS' unfunded liability, and made numerous supplemental pension payments to CalPERS and CalSTRS to further eliminate the state's share of unfunded liability. In addition to the state's required annual contributions, from 2017-18 through 2021-22, the state has made supplemental pension payments of $12.7 billion to CalPERS and CalSTRS, with the goal of improving the funded status of both systems and reducing the state's long-term retirement obligations.

Retirement Liabilities Overview

State Employee Pensions. The California Public Employees' Retirement System (CalPERS) administers pension benefits for state employees, state judges, certain elected state officials, and employees of local governments that contract with CalPERS (and their beneficiaries). CalPERS administers pension benefits for more than 900,000 active employees and nearly 700,000 retired members. As of January 2024, the system has $483 billion in assets. The state represents about 30 percent of active employees in the system and 35 percent of retired CalPERS members. (Local government employees represent the rest of the membership.)

Under the Constitution, CalPERS has "full rate setting authority," which means the board has authority to require employers to contribute an amount of money that the board determines is necessary to fund the system. With full rate setting authority, contribution requirements might change year over year in response to actuarial changes. This rate setting authority is important because it allows the system to (1) make up for losses that occur when actuaries determine that more funds are necessary to pay for benefits than what has already been set aside (that is, to address an unfunded liability over time) and (2) not charge employers more than is necessary for the system to become fully funded.

CalPERS Has Three Funding Sources. CalPERS pension benefits have three main funding sources, discussed below.

1. ***Investment Returns.*** Under the California Constitution, the CalPERS Board has plenary authority and fiduciary responsibility to invest the pension system's assets. The returns on these invested assets constitute the largest funding source for the system. Revenues from investment returns vary significantly year to year depending on market performance; however, CalPERS assumes an annual return of 6.8 percent.
2. ***Employee and Employer Contributions to "Normal Cost."*** The normal cost is the amount actuaries determine must be contributed to the system in a given year to fund the benefit earned by state employees in that year. The normal cost is developed using various actuarial assumptions including assumptions about investment returns on the assets and the life expectancy of members. Under the Public Employees' Pension Reform Act of 2013 (PEPRA), the state has a standard—implemented through collective bargaining—that the state and its employees each pay one-half of the normal cost.
3. ***Employer Contributions for "Unfunded Liabilities."*** An unfunded liability means that the projected value of pension benefits earned to date exceeds the projected assets of the pension system. While the state shares normal cost with employees, unfunded liabilities generally are the state's responsibility. One way unfunded liabilities come about is when actual experience differs from what was assumed by actuaries in order for the pension plan to be fully funded. Actuaries spread (or amortize) the effect of these actuarial losses (resulting in higher costs) over a time period specified by CalPERS Board policy. For example, if investment returns are lower than assumed, the actuarial loss creates a new unfunded liability that actuaries amortize over a 20-year period. The amortized cost of paying off the unfunded liability is larger than the actuarial loss itself. This is because the actuarial loss accrues "interest" over time that also must be paid. This interest reflects the gains that otherwise would have accrued had there been no actuarial loss in the first place.

Teacher's Pensions. The California State Teachers' Retirement System (CalSTRS) administers pension and other retirement programs for current, former, and retired K-12 and community college teachers and administrators, as well as their beneficiaries. CalSTRS is the world's largest educator-only pension system, administering the $315 billion Teachers' Retirement Fund for more than 1 million members and beneficiaries (as of June 2023). CalSTRS' 12-member Teachers' Retirement Board (CalSTRS Board) administers the fund and is constitutionally responsible for overseeing the system's investment policies and ensuring that benefit payments are made on time and according to law.

Prior to 2014, base contribution rates paid by districts, teachers, and the state were established in statute, and the CalSTRS board had limited authority to set a supplemental contribution rate for the state. Given its constraints, CalSTRS projected those losses would result in the system running out of assets in the mid-2040s. In 2014, the Legislature approved a plan AB 1469 (Bonta), Chapter 46, Statutes of 2014, to fully fund the CalSTRS defined benefit program by 2046..

State, School Districts, and Members Pay Base Rate… Under the funding plan, the state, employers, and members all pay annual base rates. The static base rates, which are calculated as percentages of annual creditable compensation, are set in statute and are approximately equivalent to the normal cost of benefits for the CalSTRS' Defined Benefit Program.

…And State and School Districts Share Responsibility for Unfunded Liabilities. In addition, the funding plan divides responsibility for unfunded liabilities between the state and employers, and increases CalSTRS' authority to adjust required annual contribution rates to meet the goal of eliminating unfunded liabilities by 2046. Specifically, the funding plan dictates that, as long as unfunded liabilities remain (during the time that the funding plan is in place), the state and employers pay annual "supplemental rates" to pay down the unfunded liabilities over time. The CalSTRS Board may increase the state's supplemental rate by no more than 0.5 percent of creditable compensation annually, and may increase or decrease employers' supplemental rate by no more than 1 percent of creditable compensation annually. As a result of how CalSTRS implements the division of responsibility for unfunded liabilities between the state and employers, the state's share—and consequently the state's supplemental rate—is particularly sensitive to investment return volatility.

State Retiree Health. The state provides health benefits to retired state employees. Prior to 2015, the state essentially put no money aside to pay for this benefit while the eventual retiree was still working. As a result, the state accrued a significant unfunded liability associated with retiree health. In 2015-16 the state began a policy to prefund this benefit by setting aside funds annually. Over the last few years, the state's General Fund costs of prefunding have been paid using Proposition 2. Under the new policy to prefund retiree health, the state and employees each pay a percent of pay intended to equal one-half of the normal cost so that the entire normal cost is paid each year. Normal cost is the amount that actuaries estimate is necessary to be invested today to pay for the benefit in the future.

Supplemental Payments

Employers May Contribute Any Amount of Money* Above *What Is Required. Pension boards determine—either according to actuarial standards or statutory requirements—how much money employers must contribute to the pension system each year to address any existing unfunded liabilities. These annual employer contributions are the net effect of actuarial gains and losses amortized over time in order to pay off the entire unfunded liability over time.

Two Common Motivations for Supplemental Pension Payments. There are two common motivations for an employer to pay down pension unfunded liabilities faster than required: (1) reducing future budgetary costs and (2) reducing reported liabilities in annual financial statements. A supplemental pension payment allows pension systems to invest more money sooner. This, in turn, allows for higher investment returns than otherwise would be the case. These higher investment returns reduce future required contributions from employers to the unfunded liability than would otherwise be the case. Accordingly, it is not uncommon for a governmental employer to apply budgetary surpluses towards pension unfunded liabilities in an effort to reduce *future* budgetary costs.

State Law Requires Regular State Supplemental Pension Payments. The state has made fully discretionary supplemental pension payments in the past with similar motivations as discussed above. However, state law also requires the state to make regular payments toward existing unfunded liabilities.

- ***PEPRA Requires Limited Payments Above CalPERS Requirements.*** PEPRA established a standard that state employees contribute one-half of the normal cost to fund their pension benefits. Under Section 20683.2 of the Government Code pertaining to CalPERS, any savings that otherwise would have been realized by the state employer as a result of employees contributing more towards their pensions is, instead, directed towards paying down the unfunded liabilities. As a result of this statute, the state regularly contributes a percentage of pay above what is actuarially required and established by the CalPERS Board. In 2024-25, the state's supplemental payment under this section ranges from 0.1 percent of pay for Miscellaneous employees to 1.65 percent of pay for employees in the Peace Officer and Firefighter pension and is expected to total less than $100 million General Fund.
- ***Constitutionally Required Debt Repayments.*** Proposition 2 in 2014 to establish a constitutional requirement that, among other requirements, requires the state to make specified levels of debt payments, including towards pension unfunded liabilities. Accordingly, the state annually makes supplemental pension payments from the General Fund towards the state's pension unfunded liabilities.

Proposition 2. Proposition 2 was added to the November 2014 ballot in a special legislative session under ACAX2 1 (Pérez) and subsequently was approved by voters. The measure made significant changes to the state constitution concerning budgeting practices. In particular, in addition to requiring annual deposits into the state's rainy day fund, it requires the state to make additional debt payments each year until 2030. The intent of Proposition 2 was to improve the state's fiscal situation—for example, by "repay[ing] state debts and protect[ing] the state from the negative effects of economic downturns." Among the requirements established by Proposition 2, the law requires that the state spend a minimum amount each year to pay down specified debts though 2029-30.

Annual Payments Required for Pension Unfunded Liabilities or Prefunding Retiree Health Benefits. When Proposition 2 was passed by the voters, there were two major categories of liabilities eligible for repayment using these monies: certain budgetary liabilities and retirement liabilities. Proposition 2 contains a formula that requires the state to spend a minimum amount each year to pay down specified debts. The formula has two parts. First, the state must set aside 1.5 percent of General Fund revenues. Second, the state must set aside a portion of capital gains revenues that exceed a specified threshold. The state combines these two amounts and then allocates half of the total to pay down eligible debts and the other half to increase the level of the rainy-day fund (the Budget Stabilization Account). Since Proposition 2 passed, the state has repaid all of the eligible budgetary debts in 2019-20, meaning the remaining eligible uses of Proposition 2 are related to unfunded liabilities for state-level pensions and prefunding retiree health benefits.

SB 84 (2017) and Repayment. As part of the 2017-18 budget package, SB 84 (Committee on Budget and Fiscal Review), Chapter 50, Statutes of 2017 approved the Governor's May Revision proposal to borrow $6 billion from the state's cash balances in the Pooled Money Investment Account (PMIA)—an account that is essentially the state's checking account—to make a one-time supplemental payment to CalPERS. The law stipulates that the principal and interest payments of the loan must be fully repaid on or before June 30, 2030 and that state funds must repay their respective shares of the loan in proportion to their pension costs. The law also gives the Department of Finance discretion to determine the timing of the repayments and the methodology for estimating the repayment costs across funds.

Staff Recommendation. Hold open all May Revision proposals.

0250 JUDICIAL BRANCH

Issue 3: Overview of Governor's May Revision Proposals

Panel

- Henry Ng, Department of Finance
- Anita Lee, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Trial Court Operations**. The May Revision includes an ongoing reduction of $97 million for trial court operations, consistent with the 7.95 percent statewide reduction to state operations.

- **Court Reporter Reductions.** The May Revision reverts $16 million in 2023-24 and reduces ongoing funding for Court Reporters from $30 million to $20 million.

- **Court Interpreter Reductions.** The May Revision reverts $20.4 million in 2023-24 remaining for Court Interpreter Grants.

- **CARE Act Implementation.** The May Revision reverts $17.5 million in 2023-24 savings from CARE Act implementation, and adjusts the ongoing funding for implementation of the program, resulting in savings of $59.1 million.

- **Special Fund Backfills**. The May Revision reduces the backfill available for the Trial Court Trust Fund by $45,834,000 ongoing to reflect updated revenue shortfalls based on the most current estimates of the Trial Court Trust Fund revenues for 2024-25. The May Revision reduces the backfill for the State Court Facilities Construction Fund by $40 million in 2024-25 and $30 million ongoing to reflect the updated revenue shortfalls based on the most current estimates of the State Court Facilities Construction Fund revenues for 2024-25.

- The May Revision also:
    - Transfers an additional $25 million from the Trial Court Trust Fund Unrestricted Fund Balance, in addition to $75 million that was approved in Early Action.
    - Reverts $5 million in operational savings from the Judicial Council in 2023-24.
    - Includes $1,114,000 and 4 positions ongoing for implementation of Piqui's Law: Keeping Children Safe from Family Violence Act: Chapter 865, Statutes of 2023 (SB 331).

Staff Recommendation. Hold open.

0820 DEPARTMENT OF JUSTICE

Issue 4: Overview of Governor's May Revision Proposals

Panel

- Anthony Franzoia, Department of Finance
- Anita Lee, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Department of Justice Reductions**. The May Revision includes ongoing reductions of $10 million for the Division of Law Enforcement and $5 million for the Division of Legal Services.

- **Unfair Competition Law Fund Loan.** The May Revision includes an additional loan from the Unfair Competition Law Fund of $30 million in 2024-25, to be repaid in 2026-27. This brings the total loan from this fund to $130 million.

- **Legal Resources and Federal Matching Fund Reductions.** The May Revision reduces funding of $3 million ongoing.

- **Legal Services Rate Increase**. The May Revision includes increases of $8,530,000 ongoing General Fund, and an increase of $2.3 million ongoing for the Department of Justice (DOJ) to update its departmental services allocation model. DOJ also proposes to increase the rates it charges to departments for the use of its legal services. The current hourly legal rates are $220 for attorney services, $205 for paralegal services, and $195 for auditor and research analyst services. The new rates will be $228, $213, and $202, respectively, which equates to an increase of approximately 3.75 percent. Although DOJ requires additional ongoing resources for the updated departmental services allocation model, the new model ultimately leads to a lower rate increase needed for legal services.

- **Climate Nuisance Litigation**. The May Revision includes $4,727,000 in 2024-25, and

$4,752,000 in 2025-26 and 2026-27 to allow the Department of Justice to continue the existing litigation efforts against several major oil companies.

- **License 2000 System Replacement Project**. The May Revision includes $3,073,000 one-time to allow DOJ to complete Stages 3 and 4 of the Project Approval Lifecycle Process for this project.

- **Firearms Information Technology Systems Modernization Project.** The budget includes $3,922,000 and 8 positions in fiscal year 2024-25, and $1,240,000 in 2025-26 and ongoing to allow DOJ to complete Stages 3 and 4 of the Project Approval Lifecycle Process for this project.

- **Chaptered Legislation.** The May Revision includes funding to implement the following legislation:

  - Firearms: Chapter 249, Statutes of 2023 (SB 2). $8,041,000 and 11 positions in 2024-25, $10,242,000 in 2025-26, $6,806,000 in 2026-27, and $5,024,000 in 2027-28 and ongoing, and $2,722,000 in 2026-27, $3,224,000 in 2027-28, and $3,156,000 in 2028-29 and ongoing.
  - Law Enforcement Hate Crimes Policies: Chapter 524, Statutes of 2023 (AB 449). by $1,911,000 and 9.0 positions in 2024-25, and $1,765,000 in 2025-26 and ongoing.
  - Reporting of Lost and Stolen Firearms: Chapter 239, Statutes of 2023 (AB 725). $1,905,000 and 4 positions in 2024-25, $3,382,000 in 2025-26, and $891,000 in 2026-27 and ongoing.
  - Tribal Police: Chapter 638, Statutes of 2023 (AB 44). $1,304,000 and 7 positions in 2024-25, and $1,242,000 in 2025-26 and ongoing.
  - Dealers Record of Sale: Chapter 237, Statutes of 2023 (AB 574). $973,000 one-time.
  - Noncompete Agreements: Chapter 828, Statutes of 2023 (AB 1076). $840,000 and 4 positions in 2024-25, 2025-26, and 2026-27, and $814,000 in 2027-28 and ongoing.
  - Dealer Requirements: Chapter 250, Statutes of 2023 (SB 241). $351,000 and 2 positions in 2024-25, $1,032,000 in 2025-26, and $968,000 in 2026-27 and ongoing.
  - Restorative Justice Program: Chapter 513, Statutes of 2023 (AB 60). $346,000 and 2 positions in 2024-25, and $271,000 in 2025-26 and ongoing.
  - Firearms Purchases: Chapter 246, Statutes of 2023 (AB 1483). $305,000 one-time.
  - Retail Drug Store and Retail Grocery Store Merger Enforcement: Chapter 457, Statutes of 2023 (AB 853). $1,090,000 and 5 positions in 2024-25, and $1,054,000 in 2025-26 and ongoing, and technical statutory changes.
  - Criminal Records Relief: Chapter 444, Statutes of 2023 (AB 567). $333,000 and 2 positions in 2024-25, and $313,000 in 2025-26 and ongoing.
  - Charitable Raffles: Chapter 406, Statutes of 2023 (SB 650). $241,000 and 1 position ongoing.
  - The California Delete Act: Chapter 709, Statutes of 2023 (SB 362). Decrease of

$189,000 ongoing.

Staff Recommendation. Hold open.

0690 OFFICE OF EMERGENCY SERVICES

Issue 5: Overview of Governor's May Revision Proposals

Panel

- Eric Swanson, Deputy Director, Finance & Administration, Office of Emergency Services
- Vy Nguyen, Principal Program Budget Analyst, Department of Finance
- Tess Scherkenback, Staff Finance Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Flexible Assistance for Survivors Reduction**. The May Revision eliminates $47.5 million for the Flexible Assistance for Survivors Program. The Governor's Budget had proposed to delay this funding until 2025-26.

- **Public Safety Radio Equipment Upgrades**. The May Revision includes $23,705,000 annually for four years to provide State Emergency Telephone Number Account fund authority to purchase equipment supporting state and local 9-1-1 public safety agencies. This increase reflects the spring update referenced in the Public Safety Radio Modernization to Support Equal Access to 911 Services Governor's Budget proposal, and these costs combined with that proposal will be funded by an estimated increase of 5 cents to the 9-1-1 surcharge.

- **State and Local Cybersecurity Grant Program Funding Authority**. The May Revision includes $15.8 million reimbursement authority one-time to reflect federal funding awarded for the State and Local Cybersecurity Grant Program.

- **Implementation of Legislation**. The May Revision includes the following resource to implement legislation:
    - California Firefighter Cancer Prevention and Research Program: Chapter 268, Statutes of 2023 (AB 700). $666,000 and 2 positions in 2024-25, and $619,000 and 2 positions ongoing.
    - California State Nonprofit Security Grant Program: Chapter 566, Statutes of 2023 (AB 1185). $234,000 and 1 position ongoing.

- The May Revision also:
    - Reverts $0.6 million for warehousing operations and $6.6 million for fire fleet

vehicle replacements from 2023-24.
- Reduces funding for Listos California Emergency Preparedness Campaign by $12.5 million ongoing. This proposal will reduce by half the $25 million annual funding authorized as part of the 2021-22 Strengthening California's Emergency Capacity and Capabilities proposal for the creation of a grant program focused on developing culturally competent messaging related to disaster preparedness.
- Reduces funding for warehousing by $9.5 million in 2024-25 through 2027-28. This is one-time funding that was authorized annually over a five-year period as part of the 2023-24 Statewide Disaster Warehousing Operations proposal for warehousing and personal protective equipment (PPE) procurement and storage costs. This solution will eliminate the amount provided for PPE replenishment.

Staff Recommendation. Hold open.

0552 OFFICE OF THE INSPECTOR GENERAL

Issue 6: Overview of Governor's May Revision Proposals

Panel

- Alyssa Cervantes, Staff Finance Budget Analyst, Department of Finance
- Orlando Sanchez-Zavala, Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Medical Inspection Unit.** The May Revision proposes to reduce funding for the Medical Inspection Unit at the Office of the Inspector General by $1.9 million in 2024-25 and $3.9 million ongoing. This reduction would return staffing levels for the Office of the Inspector General Medical Inspection Unit to the levels that existed prior to the recent augmentation included in the 2022 Budget Act. The intent of this reduction is to decrease the frequency of medical inspections for delegated institutions while maintaining a shortened period for non-delegation institutions. As of April 2024, 10 of the remaining 32 institutions have not been delegated back to the state by the Receiver.

Staff Recommendation. Hold open.

5225 Department of Corrections and Rehabilitation

Issue 7: Overview of Governor's May Revision Proposals

Panel

- Patrick Plant, Staff Finance Budget Analyst, Department of Finance
- Alyssa Cervantes, Staff Finance Budget Analyst, Department of Finance
- Amanda Garcia, Finance Budget Analyst, Department of Finance
- Orlando Sanchez-Zavala, Fiscal and Policy Analyst, Legislative Analyst's Office
- Caitlin O'Neil, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Adult Population Adjustment**. The May Revision reflects an estimated average daily adult incarcerated population of 90,860 in 2024-25, which is 825 fewer than projected in the Governor's Budget. The projected parolee average daily population is 41,287 in 2024-25, which is a decrease of 935 compared to the Governor's Budget projection. This results in a net decrease of $21,209,000 and an increase of 69.4 positions in 2024-25, with varying amounts in the subsequent years, resulting in a decrease of $13,523,000 and an increase of 49.8 positions ongoing, comprised of a decrease of $13,327,000 General Fund and $196,000 Inmate Welfare Fund ongoing.

- **Prison Housing Unit Deactivations**. The May Revision includes a proposed ongoing reduction of $80.6 million General Fund reflecting the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.

- **Peace Officer Training Reduction**. The May Revision includes proposed reductions of $8.5 million in 2023-24, $13.8 million in 2024-25, and $22.6 million ongoing reflecting a reduction in annual training hours for correctional officers from 48 hours to 40 hours, and a discontinuation of the California Reality Based Training Center.

- **Los Angeles County Fire Camp Contract**. The May Revision includes proposed reductions of $2.4 million in 2024-25 and $4.8 million in 2025-26 and ongoing reflecting a proposed cancellation of the fire suppression services contract with Los Angeles County.

- **Level IV Visiting Reduction**. The May Revision proposes to eliminate the third day of visitation at Level IV institutions, resulting in savings of $4.1 million.

- **Data Collection Analysis and Outcomes Funding Reversion**. The May Revision proposes to revert $6 million one-time that was added in the 2022 Budget Act to analyze parole data.

- **Sex Offender Management Program Contract Services**. The May Revision includes $25,997,000 ongoing for renegotiated contracts with various sex offender rehabilitation service providers. These contract services are provided to paroled sex offenders who participate in such programs for at least one year upon their release.

- **CDT and DGS Rate Increase**. The May Revision includes $5,804,000 ongoing to address California Department of Technology fee increases and Department of General Services vehicle insurance assessment rate increases.

- **Staff Misconduct Expansion**. The May Revision includes 33 positions and $7.5 million General Fund in 2024-25, growing to 63 positions and $14.4 million in 2025-26 and ongoing, to support the Department's staff misconduct investigation processes. These additional resources will add permanent capacity for the Department to complete local inquiries, maintain staffing levels for the Office of Legal Affairs Employment Advocacy and Prosecution Team, and increase staffing to support the processing of health care-related complaints.

- **Accelerated Closure of Chuckawalla Valley State Prison**. The May Revision includes a net reduction of $44,482,000 and 245.7 positions one-time, comprised of a reduction of $44,241,000 General Fund one-time and $241,000 Inmate Welfare Fund one-time, associated with accelerating the closure of Chuckawalla Valley State Prison from March 31, 2025, to November 30, 2024.

- **CDCR Headquarters Lease Reduction**. The May Revision reflects a decrease of $8.5 million in 2025-26 and ongoing.

- **California Advancing and Innovating Medi-Cal (CalAIM) Justice-Involved Initiative – Medi-Cal Billing System**. The May Revision includes 7 positions ongoing and $16.5 million in reimbursement authority one-time to continue the development of an information technology-based Medi-Cal billing system to support the implementation of CalAIM.

- **Modifications to Pre-Release Reentry Funding**. The May Revision proposes to shift $102.8 million in reentry expansion funding, originally provided in the 2022 Budget Act, from a separate budget item to the main budget item for reentry center. These adjustments make this consolidated funding available to support projected costs associated with both existing and expansion reentry beds. These changes will enable CDCR to utilize existing funding to offset increased costs associated with operating existing community correctional reentry programs while supporting the expansion of reentry programs based on projections of when new facilities will become operational. This proposal replaces the Governor's Budget proposal for community correctional reentry centers.

- **Hope and Redemption Program Continuation**. The May Revision includes $4 million in 2024-25 and $4 million in 2025-26 to support the continuation of the Hope and Redemption Team Program in 2024-25 and 2025-26. This funding would come from reverting $8 million General Fund from the San Quentin Rehabilitation Project. The remaining $12 million would be reappropriated for other San Quentin related projects. This statewide program, initially funded in the 2021 Budget Act, provides opportunities for formerly incarcerated individuals to serve as life coaches and mentors for the incarcerated population through weekly rehabilitative programming.

- The May Revision also:
    - Reverts $24.3 million 2023-24 in COVID-19 prevention and response savings.
    - Reduction of $4.1 million ongoing for COVID-19 testing protocols.
    - Reversions of $8.5 million in 2022-23 and $15.3 million in 2023-24 to cancel the Managed Assess System Expansion.

Staff Recommendation. Hold open.

5227 BOARD OF STATE AND COMMUNITY CORRECTIONS

Issue 8: Overview of Governor's May Revision Proposals

Panel

- Skyler-Myles Clinton-Cobb, Staff Services Analyst, Department of Finance
- Caitlin O'Neil, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

- **Medication Assisted Treatment Grants**. The May Revision proposes to revert $10.5 million in 2023-24 that was intended for competitive grants to counties to use for substance use disorder treatment.

- **Post Release Community Supervision Funding**. The May Revision eliminates $4.4 million one-time funding proposed in the Governor's Budget for county probation departments for the temporary increase in the number of offenders released from prison pursuant to Proposition 57.

- **Adult Reentry Grant**. The May Revision proposes to reduce the funding for the Adult Reentry Grant, including reverting $54.1 million in 2023-24 and converting a delay of $57 million proposed in the Governor's Budget to a reduction.

- **Transfer of Juvenile Justice Programs from the Board of State and Community Corrections to the Office of Youth and Community Restoration Trailer Bill Language**. The May Revision includes statutory changes to transfer administration of 2011 juvenile realignment grants from the Board of State and Community Corrections (BSCC) to the Office of Youth and Community Restoration (OYCR). Taken with the 2024-25

Governor's Budget proposal, this will effectuate the transfer of the administration of juvenile grants from BSCC to OYCR.

- **In-Custody Death Reviews**: Chapter 306, Statutes of 2023 (SB 519). The May Revision includes $3,279,000 and 15 positions in 2024-25 and $7,688,000 and 35 positions ongoing to implement in-custody death reviews.

- **State Criminal Alien Assistance Program (SCAAP): Baseline Adjustment**. The May Revision includes a net zero shift of $12,723,000 federal fund to the General Fund to reflect the anticipated receipt of funding from the federal program associated with the SCAAP, administered by the Federal Department of Justice, Bureau of Justice Assistance. The SCAAP provides federal assistance to states and localities that incur costs for incarcerating undocumented criminal aliens who are being held as a result of state and/or local convictions.

- The May Revision also includes:

  - Reduction of $3.6 million in 2024-25 for Organized Retail Theft Vertical Prosecution Grants.

  - Reduction of $9 million in 2024-25 for California Violence Intervention and Prevention (CalVIP) Grant, in addition to the Governor's Budget proposal to reduce funding for this program by $9 million in 2025-26 and ongoing.

  - Additional loan of $75 million in 2024-25 from the Allocation 3 Cannabis Tax Fund Special Fund Loan to the General Fund, to be repaid in 2025-26.

Staff Recommendation. Hold open.

0521 California Transportation Agency
2600 California Transportation Commission
2660 California Department of Transportation
2670 Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun
2740 California Department of Motor Vehicles

Issue 9: Overview of Governor's May Revision Proposals

Panel

- James Moore, Department of Finance
- Frank Jimenez, Legislative Analyst's Office

Representatives from departments are available for additional questions and details.

Governor's May Revision Proposals

CALIFORNIA STATE TRANSPORTATION AGENCY

- **Formula Transit and Intercity Rail Capital Program (TIRCP).** The May Revision shifts $555.1 million from General Fund to Greenhouse Gas Reduction Fund (GGRF), for a total of $1.3 billion in proposed fund shifts for the Formula TIRCP. In total, the May Revision maintains $4 billion for Formula TIRCP.

- **Competitive TIRCP.** The May Revision reduces $148 million General Fund for the Competitive TIRCP, maintaining $3.5 billion of the originally appropriated $3.65 billion.

- **Zero Emission Transit Capital Program.** The May Revision delays $220 million GGRF to 2024-25, $230 million GGRF to 2026-27, and $460 million to 2027-28.

- **Grade Separations.** The May Revision reduces $350 million General Fund from the Grade Separations program, which would eliminate the program.

- **California Office of Traffic Safety Federal Fund Workload.** The May Revision includes $452,000 ($444,300 in Federal Fund and $7,700 in various state funds) and three permanent positions for 2024-25 and ongoing to support federal workload increase.

CALIFORNIA TRANSPORTATION COMMISSION

- **Vehicle Weight Safety Study: Chapter 320, Statutes of 2023 (AB 251).** The May Revision includes $345,000 from the State Highway Account and $389,000 from the Public Transportation Account, and one position for three fiscal years, through fiscal year 2026-27 to implement AB 251 (Ward).

- **Data, Modeling, and Analytic Software Tools Procurement: Chapter 754, Statutes of 2023 (AB 744)**. The May Revision includes $92,000 from the State Highway Account and $98,000 from the Public Transportation Account, and one position for three fiscal years, through fiscal year 2026-27 to implement AB 744 (Carrillo).

DEPARTMENT OF TRANSPORTATION

- **Highways to Boulevards.** The May Revision reduces $149 million General Fund across three years for the Highways to Boulevards program. In its place, the May Revision provides $75 million GGRF ($25 million in 2025-26 and $50 million in 2026-27) for the program.

- **Active Transportation Program (ATP).** The May Revision reduces $399 million ($300 million in 2025-26 and $99 million in 2026-27) General Fund from the ATP. This is in addition to the $200 million reduction proposed in the Governor's Budget.

- **Renewable Energy Program Evaluation: Chapter 379, Statutes of 2023 (SB 49).** The May Revision includes $1,287,000 from the State Highway Account and 7 positions ongoing to implement SB 49 (Becker).

- **Asset Management State Highway System Data and Information: Chapter 629, Statutes of 2023 (SB 695).** The May Revision includes $442,000 from the State Highway Account and 2 positions ongoing to implement SB 695 (Gonzalez).

- **Chief Advisor on Active Transportation: Chapter 617, Statutes of 2023 (SB 538).** The May Revision includes $211,000 from the State Highway Account and 1 position ongoing to implement SB 538 (Portantino).

- **Southern California Native American Freeway Partner Coordination: Chapter 543, Statutes of 2023 (AB 776)**. The May Revision includes $474,000 from the State Highway Account and 2 positions ongoing.

- **Intercity Passenger Rail Program.** The May Revision includes a three-year increase of $66,055,000 in 2024-25, $72,119,000 in 2025-26, and 72,508,000 in 2026-27 in Operating Expenses from the Public Transportation Account for the operation of the Intercity Passenger Rail Program.

- **Technical Adjustments.** The May Revision includes $18,290,000 in 2024-25 for technical adjustments, including:

    - Item 2660-001-0042 be amended to add provisional language to allow adjustments for insurance costs for the Department of General Services Office of Risk and Insurance Management self-insurance program for the California Department of Transportation (Caltrans) fleet.

- o Item 2660-001-0042 be increased by $3,815,000 to fund the increase in insurance costs for the Department of General Services Office of Risk and Insurance Management self-insurance program for Caltrans mobile fleet equipment.
- o Item 2660-001-0042 be amended by increasing reimbursements by $5 million ongoing for administrative cost recoveries and $2.8 million one-time for workload related to the Port and Freight Infrastructure Program.
- o Item 2660-001-0042 be amended by transferring 6 positions and $2,143,000 from Schedule (12) Administration Program to Schedule (10) Statewide Planning Program.
- o Item 2660-001-0890 be increased by $6,675,000 for federal grant funding and a technical correction to funding for the Transportation Infrastructure Workforce Development Program pursuant to Chapter 61, Statutes of 2023 (SB 150).
- o Item 2660-101-0042 be amended to add provisional language to increase the encumbrance and liquidation period for the Equipment Service Program (see Attachment 3).

BOARD OF PILOT COMMISSIONERS

- **Board of Pilot Commissioners' Business Modernization.** The May Revision includes $139,000 in 2024-25, and $288,000 in 2025-26 from the Board of Pilot Commissioners' Special Fund to complete evaluation and planning efforts for business modernization to support program operation.

DEPARTMENT OF MOTOR VEHICLES

- **California Drive Test Centers.** The May Revision reduces $30.6 million General Fund ($9.8 million in 2023-24, $10.3 million in 2024-25, and $10.5 million in 2025-26) for California Drive Test Centers. This was a part of the Supply Chain Package included in the 2022-23 budget, and originally budgeted at $40 million.

- **Budget Augmentation for California Department of Technology Fee Increases.** The May Revision includes $17,628,000 ongoing from the Motor Vehicle Account to offset costs associated with the rate increases to provide DMV budget authority to meet costs associated with the California Department of Technology rate increases for information technology data center services, project oversight, planning, and procurement.

- **Chapter 314, Statutes of 2021 (AB 796) - Voter Registration: California New Motor Voter Program.** The May Revision includes $4,464,000 and one position in 2024-25 and $198,000 and one position in 2025-26 and ongoing to continue an Information Technology project that will capture voter registration information from incomplete DMV transactions and transmit it to the Secretary of State.

- **Commercial Driver License Information System (CDLIS) Compliance.** The May Revision includes $2,428,000 to provide resources to continue the Information Technology project that will send and receive human trafficking and drug and alcohol-related data from a nationwide commercial driver license system.

- **Digital eXperience Platform (DXP) Project.** The May Revision includes $60,268,000 from the Motor Vehicle Account to continue the DXP project, which will comprehensively replace DMV's backend Information Technology software and hardware for most of its main functions. DMV plans on beginning the vehicle registration phase of the project in 2024-25.

- **San Francisco: Field Office Replacement.** The May Revision reverts $41,654,000 to the Public Buildings Construction Fund for the design-build phase of this project. In addition, the administration proposes statutory changes be added to allow the Department of Motor Vehicles to proceed with a build-to-suit lease for the San Francisco Field Office replacement project as part of a greater mixed-use project that will include affordable housing.

Staff Recommendation: Hold Open.