

May 9, 2019

Honorable Holly Mitchell, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Joe Stephenshaw, Staff Director (2)

Honorable Phil Ting, Chair
Assembly Budget Committee

Attention: Mr. Christian Griffith, Chief Consultant (2)

Amendment to Budget Bill Control Section 3.60

It is requested that Control Section 3.60 be amended to capture changes in state retirement contribution rates for state members of the California Public Employees' Retirement System (CalPERS) and the Judges' Retirement System II (JRS II), adopted by the CalPERS Board on April 16, 2019 and February 21, 2019, respectively (see Attachment 1). The increase in state employer contribution is a result of normal progression of the existing amortization and smoothing policy, a reduction in the discount rate to 7 percent, and increases in payroll.

The newly adopted state employer contribution rates result in additional state costs of \$525,049,000, an increase of \$3,520,000 from the \$521,529,000 included in the Governor's Budget. The \$3,520,000 increase consists of an increase of \$8,837,000 General Fund, a decrease of \$1,177,000 special funds, and a decrease of \$4,140,000 other nongovernmental cost funds.

The increase in the state employer contribution rate for JRS II members is attributed to the net effect of the most recent investment gain offset by a liability loss, as well as a change in actuarial method. The newly adopted rate results in General Fund costs of \$85,226,000, a total increase of \$6,435,000 from the \$78,791,000 General Fund included in the Governor's Budget.

The aggregate effect of these changes on the General Fund is an increase of \$15,272,000 in fiscal year 2019-20 compared to Governor's Budget.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Mary Halterman, Principal Program Budget Analyst, at (916) 445-3274.

KEELY MARTIN BOSLER

Director

By:

/s/ Vivek Viswanathan

VIVEK VISWANATHAN

Chief Deputy Director

Attachment

cc: Honorable Anthony Portantino, Chair, Senate Appropriations Committee
Attention: Mr. Mark McKenzie, Staff Director
Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Kirk Feely, Budget Fiscal Director
Honorable Lorena Gonzalez, Chair, Assembly Appropriations Committee
Attention: Mr. Jay Dickenson, Chief Consultant
Honorable Jay Obernolte, Vice Chair, Assembly Budget Committee
Attention: Ms. Cyndi Hillery, Staff Director
Honorable Maria Elena Durazo, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Jim Cooper, Chair, Assembly Budget Subcommittee No. 4
Mr. Gabriel Petek, Legislative Analyst (4)
Mr. Christopher W. Woods, Senate President pro Tempore's Office (2)
Mr. Jason Sisney, Assembly Speaker's Office (2)
Ms. Jayme Chick, Deputy Chief of Staff, Policy, Assembly Republican Leader's Office
Mr. Joe Shinstock, Policy and Fiscal Director, Assembly Republican Leader's Office
Mr. Michael Cohen, Chief Financial Officer, California Public Employees' Retirement System
Ms. Jennifer Harris, Chief, California Public Employees' Retirement System
Mr. Michael Siu, Budget Manager, California Public Employees' Retirement System
Mr. Justyn Howard, Deputy Secretary, Fiscal Operations, Government Operations Agency

“SEC. 3.60. (a) Notwithstanding any other law, the employers’ retirement contributions for the 2019–20 fiscal year that are chargeable to any item with respect to each state officer and employee who is a member of the Public Employees’ Retirement System (PERS) or the Judges’ Retirement System II and who is in that employment or office shall be the percentage of salaries and wages by state member category, as follows:

Miscellaneous, First Tier	31.298% <u>31.075%</u>
California State University, Miscellaneous, First Tier	31.298% <u>31.075%</u>
Miscellaneous, Second Tier	31.298% <u>31.075%</u>
State Industrial	21.881% <u>21.704%</u>
State Safety	22.682% <u>22.708%</u>
Peace Officer/Firefighter	48.247% <u>48.845%</u>
California State University, Peace Officer/Firefighter	48.247% <u>48.845%</u>
Highway Patrol	58.319% <u>59.130%</u>
Judges’ Retirement System II	24.660% <u>24.964%</u>

The Director of Finance may adjust amounts in any appropriation item, or in any category thereof, as a result of changes from amounts budgeted for employer contributions for 2019–20 fiscal year retirement benefits to achieve the percentages specified in this subdivision. Beginning in the 2013–14 fiscal year, adjustments to the California State University (CSU) rates are applied to the actual pensionable 2013–14 fiscal year payroll, which is \$2,307,876,000, as identified by the Controller. This process establishes pension funding adjustments through this section for CSU. This results in pension funding for CSU of \$683,295,000 General Fund for the 2018–19 fiscal year. These amounts also will be part of the total appropriation in Item 6610-001-0001 of the Budget Act of 2019.

(b) Notwithstanding any other law, the Director of Finance shall require retirement contributions computed pursuant to subdivision (a) to be offset by the Controller with surplus funds in the Public Employees’ Retirement Fund, employer surplus asset accounts.

(c) Notwithstanding any other law, for purposes of calculating the “appropriations subject to limitation” as defined in Section 8 of Article XIII B of the California Constitution, the appropriations shall be deemed to be the amounts remaining after the adjustments required by subdivisions (a) and (b) are made.

(d) Of the percentage of salaries and wages by state member categories identified in subdivision (a), the following percentages are estimated to be the result of the increased employee contributions pursuant to Chapter 296 of the Statutes of 2012 (AB 340), known as the California Public Employees’ Pension Reform Act of 2013, and will be directed toward the state’s unfunded pension liability:

Miscellaneous, First Tier	0.098%
California State University, Miscellaneous, First Tier	0.098%
Miscellaneous, Second Tier	0.098%

State Industrial	0.881%
State Safety	1.182%
Peace Officer/Firefighter	1.647%
California State University, Peace Officer/Firefighter	1.647%
Highway Patrol	1.319%

The contributions to the unfunded liability, as a result of the percentages of salaries and wages in this subdivision, are estimated to be \$116,737,000 (\$81,319,000 General Fund) for the 2019–20 fiscal year.

(e) The Director of Finance may adjust the percentage levels of the employers' retirement contributions listed in subdivisions (a) and (d) as a result of rates provided by the Board of Administration of the Public Employees' Retirement System. The Director of Finance shall notify the Controller by executive order of adjustments made pursuant to this subdivision. Within 30 days of making an adjustment pursuant to this subdivision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations.

(f) (1) In addition to the employers' retirement contributions listed in subdivisions (a) and (d), the Department of Finance may direct the Controller to transfer up to the amount identified for appropriation pursuant to subclause (IV) of clause (ii) of subparagraph (B) of paragraph (1) of subdivision (c) of Section 20 of Article XVI of the California Constitution equivalent to the amount described in paragraph (3) of subdivision (d) of Section 35.50 to supplement the state's retirement contributions for the 2019–20 fiscal year.

(2) The Department of Finance shall direct the Controller to transfer the amount specified in paragraph (1) to either of the following:

(A) The Public Employees' Retirement Fund.

(B) The Surplus Money Investment Fund and other funds in the Pooled Money Investment Account that accrue interest to the General Fund, for repayment of principal and interest of a cash loan that was made to supplement the state's retirement contributions.

(3) The supplemental payment described in this subdivision is for unfunded liabilities for state-level pension plans in excess of current base amounts for the 2019–20 fiscal year. Therefore, any amount transferred to a fund identified in paragraph (2) constitutes an obligation pursuant to subclause (IV) of clause (ii) of subparagraph (B) of paragraph (1) of subdivision (c) of Section 20 of Article XVI of the California Constitution.

(4) The Department of Finance shall provide the Controller a schedule of the timing and amounts to be used for purposes of this subdivision."



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Attention: Mr. Joe Stephenshaw, Staff Director (2)

Honorable Phil Ting, Chair
Assembly Budget Committee

Attention: Mr. Christian Griffith, Chief Consultant (2)

Amendment to Budget Bill Control Section 8.88

It is requested that Control Section 8.88 be amended to read \$2,116,000 to align the Financial Information System for California's funding for design, development, and implementation costs with its funding formula, as approved in Special Project Report 4 (see Attachment 1).

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Evelyn Suess, Principal Program Budget Analyst, at (916) 445-3274.

KEELY MARTIN BOSLER
Director
By:

/s/ Vivek Viswanathan

VIVEK VISWANATHAN
Chief Deputy Director

Attachment

cc: On following page

cc: Honorable Anthony Portantino, Chair, Senate Appropriations Committee
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Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
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Mr. Gabriel Petek, Legislative Analyst (4)
Mr. Christopher W. Woods, Senate President pro Tempore's Office (2)
Mr. Jason Sisney, Assembly Speaker's Office (2)
Ms. Jayme Chick, Deputy Chief of Staff, Policy, Assembly Republican Leader's Office
Mr. Joe Shinstock, Policy and Fiscal Director, Assembly Republican Leader's Office
Ms. Miriam Ingenito, Director, Department of Financial Information System for California
Ms. Jennifer Maguire, Deputy Director, Department of Financial Information System for California

"SEC. 8.88. A sum of ~~\$4,510,000~~ \$2,116,000 is appropriated from the General Fund for transfer to various special and nongovernmental cost funds in amounts to be determined by the Department of Finance for the purpose of aligning the Financial Information System for California's funding for design, development, and implementation costs with its funding formula, as approved in Special Project Report 4. These appropriated funds shall be transferred to various special and nongovernmental cost funds upon order of the Department of Finance."



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Amendment to Budget Bill Control Section 12.00

It is requested that Control Section 12.00 to be amended to revise the State Appropriations Limit (SAL). Pursuant to Article XIII B of the California Constitution, the fiscal year 2019-20 SAL is estimated to be \$112,102,000,000 at May Revision. The revised limit is the result of applying the growth factor of 4.18 percent. The revised 2019-20 limit is \$1.46 billion below the \$113,562,000,000 estimated in January. Control Section 12.00 is proposed to be amended as follows:

“SEC. 12.00. For the purposes of Article XIII B of the California Constitution, there is hereby established a state “appropriations limit” of ~~\$113,562,000,000~~ \$112,102,000,000 for the 2019-20 fiscal year.

Any judicial action or proceeding to attack, review, set aside, void, or annul the “appropriations limit” for the 2019-20 fiscal year shall be commenced within 45 days of the effective date of this act.”

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Susan Wekanda, Principal Program Budget Analyst, at (916) 445-5332.

KEELY MARTIN BOSLER

Director

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/s/ Vivek Viswanathan

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Chief Deputy Director

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Amendment to Budget Bill Control Section 35.50

It is requested that Control Section 35.50 be amended as follows to reflect updated calculations at May Revision.

"SEC. 35.50. (a) For purposes of paragraph (1) of subdivision (f) of Section 10, and subdivision (g) of Section 12, of Article IV of the California Constitution, "General Fund revenues" means the total resources available to the General Fund for a fiscal year before any transfer to the Budget Stabilization Account and the Budget Deficit Savings Account.

(b) For purposes of subdivision (g) of Section 12 of Article IV of the California Constitution, the estimate of General Fund revenues for the 2019-20 fiscal year pursuant to this act, as passed by the Legislature, is ~~\$149,625,000,000~~ \$152,220,000,000.

(c) For purposes of paragraph (2) of subdivision (a) of Section 20 of Article XVI of the California Constitution, "General Fund revenues" shall be defined as revenues and transfers before any transfer to the Budget Stabilization Account and the Budget Deficit Savings Account.

(d) Pursuant to subdivision (h) of Section 20 of Article XVI of the California Constitution, the following estimates are provided:

(1) For purposes of paragraph (2) of subdivision (a) of Section 20 of Article XVI of the California Constitution, the sum equal to 1.5 percent of General Fund revenues for the 2019-20 fiscal year is ~~\$2,166,000,000~~ \$2,190,000,000.

(2) For purposes of clause (ii) of subparagraph (B) of paragraph (1) of subdivision (b) of Section 20 of Article XVI of the California Constitution, capital gain revenues that exceed 8 percent of General Fund proceeds of taxes for the 2019-20 fiscal year is ~~\$2,242,000,000~~ \$3,438,000,000.

(3) For purposes of subparagraph (F) of paragraph (1) of subdivision (b) of Section 20 of Article XVI of the California Constitution, the amount of transfer to the Budget Stabilization Account in the 2019-20 fiscal year is ~~\$1,767,000,000~~ \$2,157,000,000.

(4) For purposes of clause (ii) of subparagraph (B) of paragraph (2) of subdivision (b) of Section 20 of Article XVI of the California Constitution, the updated estimate of capital gain revenues that exceeds 8 percent of General Fund proceeds of taxes for the 2018-19 fiscal year is ~~\$3,970,000,000~~ \$4,326,000,000.

(5) For purposes of subparagraph (G) of paragraph (2) of subdivision (b) of Section 20 of Article XVI of the California Constitution, the amount (first true up) of transfer to the Budget Stabilization Account for the 2018-19 fiscal year is ~~\$554,000,000~~ \$1,804,000,000.

(6) For purposes of clause (ii) of subparagraph (B) of paragraph (2) of subdivision (b) of Section 20 of Article XVI of the California Constitution, the updated capital gain revenues that exceed 8 percent of General Fund proceeds of taxes for the 2017-18 fiscal year is ~~\$4,004,000,000~~ \$3,951,000,000.

(7) For purposes of subparagraph (G) of paragraph (2) of subdivision (b) of Section 20 of Article XVI of the California Constitution, the amount (second true up) of transfer to the Budget Stabilization Account for the 2017-18 fiscal year is ~~\$1,388,000,000~~ \$1,397,000,000."

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Susan Wekanda, Principal Program Budget Analyst, at (916) 445-5332.

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