



May 14, 2020

Honorable Holly Mitchell, Chair
Senate Budget and Fiscal Review Committee

Attention: Joe Stephenshaw, Staff Director (2)

Honorable Phil Ting, Chair
Assembly Budget Committee

Attention: Christian Griffith, Chief Consultant (2)

Amendments to Various Budget Bill Items, Support and Local Assistance, Retirement

On March 4, 2020, the Governor declared a state of emergency to help the state prepare and respond to COVID-19. The impact on the state has resulted in a severe drop in economic activity, with corresponding negative effects on anticipated revenues. As a result of these conditions, all budget change proposals were reevaluated within the context of a workload budget based on the merits of each proposal and ultimately subject to the availability of funding.

As a result, the Administration is withdrawing, without prejudice, specified requests within the Retirement area that were included in the 2020-21 Governor's Budget. The Administration is also modifying specified requests in this area that were included in the 2020-21 Governor's Budget. Modifications could include either reductions or increases to specific items or programs, or delaying substantial implementation of a new program or activity. Withdrawn requests are included on **Attachment 1 (see row 1)**. Additional details on modified requests are listed below and on **Attachment 1 (see row 2 through 4)**. To the extent there are corresponding Budget Bill language or statutory changes to a modified proposal, these changes are detailed in **Section 1 of Attachment 2**. Although these proposals have substantial merit and may be resubmitted for future consideration, we must pivot to prioritize immediate COVID-19 related needs.

As noted above, pursuant to Budget Letter 20-08, the Department of Finance conducted a thorough assessment of the most critical funding needs within the general framework of workload budget, as defined in Government Code Section 13308.05, and based upon revised expected revenues. This assessment not only resulted in the changes described in the preceding paragraph, but also requires a number of new adjustments and requests that are respectfully submitted and detailed below. Funding

detail for these adjustments can be found in **Attachment 1 (see row 5 through 7)**. If necessary, additional information may be included in a Budget Change Proposal or other back-up documentation submitted to the Legislature.

Finally, after conducting a review of all 2020-21 Governor's Budget Proposals, a number of requests are being sustained. Funding detail for these adjustments can be found on **Attachment 1 (see row 8)**.

Modified Governor's Budget Proposals:

Control Section 3.60 Employer Contributions to the California Public Employees' Retirement System (CalPERS) Retirement: Updated Retirement Adjustments and No Payroll Growth—It is requested that Control Section 3.60 be amended to capture changes in the state retirement contribution rates for state members of the CalPERS as adopted by the CalPERS Board of Administration on April 21, 2020. The increase in state employer contribution rates is the result of the normal progression of the existing amortization bases, increases to payroll, and the impact of a supplemental pension payment in 2019. Although the state's rates increased, the May Revision reflects a decrease in contributions due to higher projected contribution rates at Governor's Budget and a change to the payroll growth assumption. The net effect is a decrease of \$96,212,000 General Fund and a decrease of \$97,597,000 Other Funds as compared to the Governor's Budget. **(See rows 2 through 3 of Attachment 1 and Section 1 of Attachment 2)**

Control Section 3.60 Employer Contributions to Judges' Retirement System: Revised Estimates— It is requested that Control Section 3.60 be amended to capture changes in the state retirement contribution rate for the Judges' Retirement System II (JRS II), as adopted by the CalPERS Board on February 18, 2020. The CalPERS Board approved a decrease in the JRS II contribution rate from 24.964 percent to 24.4 percent. This decrease in the state retirement contribution to JRS II is mainly due to investment gains realized in fiscal year 2018-19. The change resulted in a decrease to General Fund expenditures for JRS II contributions to \$84,986,000, from the \$86,951,000 General Fund included in the Governor's Budget. These changes comply with the statutory requirement per Government Code section 75600.5, that the state retirement contribution to JRS II be based on a review of actuarial necessity by the CalPERS Board. **(See row 4 of Attachment 1 and Section 1 of Attachment 2)**

New Requests for May Revision:

Public Employees' Retirement System: Current Year and Budget Year Adjustments—It is requested that various Budget Bill items be amended to reflect the changes to CalPERS' 2020-21 operational budget approved by the CalPERS Board on April 21, 2020. The request is comprised of the following changes:

- Item 7900-003-0830 be decreased by \$209,465,000
- Item 7900-015-0815 be decreased by \$36,000
- Item 7900-015-0820 be increased by \$1,000
- Item 7900-015-0830 be increased by \$10,090,000
- Item 7900-015-0833 be increased by \$867,000
- Item 7900-015-0849 be increased by \$121,000
- Item 7900-015-0884 be decreased by \$14,000

The budget proposed by CalPERS reflects a net decrease of \$198,436,000 primarily attributed to external investment management fees, salaries and benefits, and third party administrator fees. The Budget Bill items noted above are display items for informational purposes to reflect the corresponding changes in CalPERS' continuous appropriation authority. **(See row 5 of Attachment 1)**

State Teachers' Retirement System: Revised Creditable Compensation—It is requested that Item 7920-011-0001 be increased by \$5,203,000 to reflect an increase in the state's contributions to the California State Teachers' Retirement System's Defined Benefit (DB) Program and Supplemental Benefit Maintenance Account (SBMA), as required in statute. The state's contributions to the DB program and SBMA are calculated using creditable compensation provided by the Teachers' Retirement Board for the fiscal year immediately preceding June 30; the report is published annually by the Board by October 25, and a subsequent report is due by April 15 that displays necessary revisions to creditable compensation. Based on the Board's April 9, 2020 creditable compensation report, the DB contribution will be increased by \$4,002,000 and the SBMA contribution will be increased by \$1,201,000, as compared to the Governor's Budget. **(See row 6 of Attachment 1)**

Supplemental Pension Payments: SB 84 Loan Repayment Adjustments for Other Funds—Adjustments will be made for specific funds' assessments for the repayment of the pension loan authorized by Chapter 50, Statutes of 2017 (SB 84). SB 84 approved an internal cash loan from the Surplus Money Investment Fund to make a one-time \$6 billion supplemental pension payment in 2017-18 to CalPERS. Under SB 84, all funds that make contributions to CalPERS are responsible for repaying the loan by June 30, 2030. As SB 84 authorizes the Department of Finance to determine responsible funds' repayment amounts, the following adjustments are for informational purposes only:

- Adjustments in 2019-20:
 - Decrease Fund 0014 by \$1,893,000
 - Decrease Fund 0044 by \$123,770,000
 - Decrease Fund 0106 by \$500,000
 - Decrease Fund 0217 by 1,922,000
 - Decrease Fund 0263 by \$5,815,000
 - Decrease Fund 0392 by \$5,685,000

- Decrease Fund 0449 by \$13,000
 - Decrease Fund 0465 by \$2,095,000
 - Decrease Fund 0516 by \$491,000
 - Decrease Fund 0557 by \$1,967,000
 - Decrease Fund 0623 by \$215,000
 - Increase Fund 0638 by \$215,000
 - Increase Fund 0829 by \$6,000
 - Decrease Fund 3064 by \$3,000
 - Decrease Fund 3068 by \$3,000
 - Decrease Fund 3084 by \$54,000
 - Decrease Fund 3153 by \$203,000
 - Decrease Fund 8076 by \$23,000
 - Decrease Fund 8101 by \$12,000
 - Decrease Fund 9734 by \$21,000
- Adjustments in 2020-21:
 - Increase Fund 0014 by \$300,000
 - Increase Fund 0044 by \$114,448,000
 - Increase Fund 0263 by \$6,014,000
 - Increase Fund 0392 by \$1,000
 - Increase Fund 0449 by \$14,000
 - Decrease Fund 0465 by \$2,095,000
 - Increase Fund 0557 by \$320,000
 - Decrease Fund 0623 by \$215,000
 - Increase Fund 0638 by \$215,000
 - Increase Fund 3084 by \$12,000
 - Increase Fund 3153 by \$103,000
 - Increase Fund 8076 by \$5,000
 - Decrease Fund 9734 by \$21,000

The net effect of these adjustments is a \$144,464,000 decrease in 2019-20, and a \$119,101,000 increase in 2020-21. The majority of the adjustments are attributed to the Motor Vehicle Account, State Transportation Fund (Fund 0044); repayment by this fund is being delayed until 2020-21. The changes to the SB 84 loan repayment schedule do not have a material impact on the overall cost of the SB 84 loan. **(See row 7 of Attachment 1)**

If you have any questions or need additional information regarding this matter, please contact the appropriate Principal Program Budget Analyst for that subject matter area.

KEELY MARTIN BOSLER
Director
By:

/s/ Vivek Viswanathan

VIVEK VISWANATHAN
Chief Deputy Director

Attachment

cc: Honorable Anthony Portantino, Chair, Senate Appropriations Committee
Attention: Mark McKenzie, Staff Director
Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Kirk Feely, Budget Fiscal Director
Honorable Lorena Gonzalez, Chair, Assembly Appropriations Committee
Attention: Jay Dickenson, Chief Consultant
Honorable Jay Obernolte, Vice Chair, Assembly Budget Committee
Attention: Cyndi Hillery, Budget Director
Honorable Anna M. Caballero, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Jim Cooper, Chair, Assembly Budget Subcommittee No. 4
Honorable Nancy Skinner, Chair, Senate Budget and Fiscal Review Subcommittee No. 5
Honorable Shirley Webber, Chair, Assembly Budget Subcommittee No. 5
Gabriel Petek, Legislative Analyst (4)
Christopher W. Woods, Senate President pro Tempore's Office (2)
Jason Sisney, Assembly Speaker's Office (2)
Jayme Chick, Deputy Chief of Staff, Policy, Assembly Republican Leader's Office
Alex Khan, Chief Consultant, Assembly Republican Leader's Office
Justyn Howard, Deputy Secretary, Fiscal and Policy Administration, Government Operations Agency
Michael Cohen, Chief Financial Officer, California Public Employees' Retirement System
Jennifer Harris, Chief, Financial Planning, Policy and Budgeting, California Public Employees' Retirement System
Michael Siu, Budget Manager, California Public Employees' Retirement System
Julie Underwood, Chief Financial Officer, California State Teachers' Retirement System
Art Martinez, Director of Financial Planning and Reporting, California State Teachers' Retirement System
David Muñoz, Senior Investment Accounting Manager, California State Teachers' Retirement System

GB WITHDRAWN ISSUES

Row	Entity	Department	BR Title	General Fund	Other Funds	Positions	BBL	TBL	Assembly Consultant	Senate Consultant	LAO Consultant
1	BU 7920	State Teachers' Retirement System	Organizational Growth	0	-8,696,000	-27.0	—	—	GM	AL	GBN
Totals, GB Withdrawn Issues				0	-8,696,000	-27.0					

GB MODIFIED ISSUES

Row	Entity	Department	BR Title	General Fund	Other Funds	Positions	BBL	TBL	Assembly Consultant	Senate Consultant	LAO Consultant
2	BU 9897	Section 3.60 Rate Adjustments to Employer Contributions to CalPERS Retirement	Updated Control Section 3.60 Retirement Rate Adjustments	-18,692,000	-28,517,000	0.0	Yes	—	GM	AL	CC
3	BU 9897	Section 3.60 Rate Adjustments to Employer Contributions to CalPERS Retirement	No Payroll Growth Adjustment	-77,520,000	-69,080,000	0.0	—	—	GM	AL	CC
4	BU 0390	Section 3.60 Rate Adjustments to Employer Contributions to JRS	Revised Estimates	-1,965,000	0	0.0	—	—	JK	CF	GBN
Totals, GB Modified Issues				-98,177,000	-97,597,000	0.0					

NEW MR BCP ISSUES

Row	Entity	Department	BR Title	General Fund	Other Funds	Positions	BBL	TBL	Assembly Consultant	Senate Consultant	LAO Consultant
5	BU 7900	Public Employees' Retirement System	Current Year and Budget Year Adjustments	0	-198,436,000	0.0	—	—	GM	AL	CC
6	BU 7920	State Teachers' Retirement System	Revised Creditable Compensation	5,203,000	0	0.0	—	—	GM	AL	GBN
7	BU 9892	Supplemental Pension Payments	SB 84 Loan Repayment Adjustments for Other Funds	0	119,101,000	0.0	—	—	GM	AL	CC
Totals, New MR BCP Issues				5,203,000	-79,335,000	0.0					

GB SUSTAIN ISSUES

Row	Entity	Department	BR Title	General Fund	Other Funds	Positions	BBL	TBL	Assembly Consultant	Senate Consultant	LAO Consultant
8	BU 7920	State Teachers' Retirement System	Pension Solution Project Augmentation	0	53,000,000	0.0	—	—	GM	AL	GBN
Totals, GB Sustain Issues				0	53,000,000	0.0					

Section 1

Provisional changes for withdrawn and modified Governor's Budget proposals:

1. *Control Section 3.60: Employer Contributions to CalPERS Retirement (see Row 3 of Attachment 1).* To effectuate the reduction of this proposal, the following Budget Bill language changes are necessary:

“SEC. 3.60. (a) Notwithstanding any other law, the employers' retirement contributions for the 2020–21 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	31.798%	<u>31.528%</u>
California State University, Miscellaneous, First Tier	31.798%	<u>31.528%</u>
Miscellaneous, Second Tier	31.798%	<u>31.528%</u>
State Industrial	21.981%	<u>21.921%</u>
State Safety	22.782%	<u>22.462%</u>
Peace Officer/Firefighter	48.647%	<u>48.647%</u>
California State University, Peace Officer/Firefighter	48.647%	<u>48.647%</u>
Highway Patrol	61.019%	<u>60.159%</u>
Judges' Retirement System II	24.964%	<u>24.400%</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 2020–21 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 \$716,270,000 General Fund for the 2019–20 fiscal year. These amounts also will be part of the total appropriation in Item 6610-001-0001 of the Budget Act of 2020.

(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 \$119,587,000 (\$83,284,000 General Fund) for the 2020–21 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 2020–21 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 2020–21 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."