AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 7, 2017
1:30 P.M. - STATE CAPITOL ROOM 447

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ITEMS TO BE HEARD

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

ISSUE 1: IMPLEMENTATION OF THE CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS PROGRAM

The Governor's budget includes a General Fund loan of $170 million over four fiscal years to provide resources for the California Secure Choice Retirement Savings Board (Board) and the California Secure Choice Retirement Savings Program for the program's startup and administrative costs.

BACKGROUND

In 2012, two Senate Bills, SB 1234 (Chapter 734, Statutes of 2012) and SB 923 (Chapter 737, Statutes of 2012) established the Board for the purpose of evaluating the financial and legal feasibility of the Program. SB 1234 gives the Board the authority to develop and implement the Program to provide a retirement savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. SB 1234 gives the Board authority to adopt regulations necessary to implement the Program and to disseminate educational reports to participating employers and eligible employees, among other things.

In 2016, follow up legislation, SB 1234 (Chapter 804, Statutes of 2016) provides legislative approval to develop and implement the Program. SB 1234 (2016) requires the Board, prior to opening the Program for enrollment, to report to the Governor and Legislature affirming certain requirements have been met. Pursuant to the bill, funding for startup and administrative costs may be appropriated from the General Fund in the annual Budget Act.

BCP Request. The Board requests a General Fund Loan of $170,000,000 over four fiscal years for staffing costs, consulting costs, and third-party administrator costs necessary for the design, implementation, and administration of the Program. The Board is proposing $15 million in 2017-18, $35 million in 2018-19, $50 million in 2019-20, and $70 million in 2020-21.

Federal Action. On February 15, 2017, the House of Representative passed House Joint Resolutions 66 and 67, which disapprove the rule submitted by the Department of Labor relating to savings arrangements established by States for non-governmental employees; and to savings arrangements established by qualified State political subdivisions for nongovernmental employees by votes of 231 to 193 and 234 to 191. The House used a rare and sweeping law called the Congressional Review Act (CRA) to do this. The CRA allows Congress to overturn regulations issued by government agencies. The Senate has yet to take action.

STAFF COMMENTS

The recent developments at the federal level bring a level of uncertainty to this program.

The issue that staff is trying to understand is if Congress approves the Joint Resolutions and disapproves the Department of Labor "safe harbor" rule. Does the Secure Choice plan comply with the federal Employee Retirement Income Security Act of 1974 (ERISA)? The Secure Choice program has moved forward based on meeting the Department of Labor rules of "safe harbor" from ERISA. The safe harbor rule shifts the fiduciary responsibility contained in ERISA from the employer to the Secure Choice Plan, which allow States to provide safe, popular, and low-cost individual accounts outside of the ERISA framework.

The State Treasurer's Office argues that if Congress approves the Joint Resolutions and disapproves the Department of Labor "safe harbor" rule adopted in October 2016, the prior Department of Labor safe harbor rule adopted in 1975 relating to the Federal ERISA would still allow the program to move forward.

Staff Recommendation:

Staff recommends holding this item open. More information is needed on how the federal action, if any, will affect this program.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 2: BUDGET OVERVIEW

The Governor's budget includes $15.1 billion for the State Teacher's Retirement System (CalSTRS) in 2017-18, an increase of $1.1 billion or 7.7 percent from the current year. CalSTRS is funded through the Teachers Retirement Fund and other special funds.

CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS provides pension benefits, including disability and survivor benefits, to California fulltime and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system.

BACKGROUND

Discount Rate: At its February 2017, meeting, the CalSTRS Board of Administration approved changes to its actuarial assumptions, including a reduction in its discount rate. The discount rate will be reduced from 7.5 to 7 percent, phased in over the next two years. Other changes to actuarial assumptions include the adoption of a generational mortality assumption and increases to rates of service retirement for members. The changes to CalSTRS' actuarial assumptions will result in an increase in state contributions to the system.

The Governor's Budget includes $2.8 billion General Fund for 2017-18 state contributions to teachers' pensions. The Governor's Budget reflects the anticipated adjustments in the actuarial assumptions and resulted in a $153 million General Fund increase in contributions, which represents the statutorily allowed 0.5 percent annual increase in state contributions. This 0.5 percent annual increase is expected to recur for at least the next five years. The proposed funding is consistent with the funding strategy signed into law in 2014, and positions CalSTRS on a path forward, eliminating the unfunded liability in about 30 years.

Headquarter Phase II Project. In a letter addressed to the Department of Finance, dated January 4, 2017, CalSTRS discussed its plan for the Headquarter (HQ) Phase II Project. CalSTRS moved to West Sacramento, its current headquarters in 2009, with the assumption that the facility would accommodate the organization's growth for approximately seven to ten years. Entitlements for construction of an additional tower adjacent to the headquarters were included in the initial real estate transaction for future growth.

In July 2016, the Board reviewed a variety of scenarios to accommodate CalSTRS growth long-term, which ranged from constructing a second tower to not constructing and leasing space to account for growth. The Board requested that additional information be brought to the Board at its November 2016, meeting to construct HQ

Phase II and lease available space to third party tenants until CalSTRS needs to occupy the building.

At its November meeting, the CalSTRS Board was provided an analysis of HQ II, which included projected staff growth, details of features included in costs projections, third party leasing market information and an initial estimated costs of $181 million. The Board appropriated $181 million from the continuous appropriation to a building account for the purposes of constructing the second tower but only authorized up to $8 million to hire a construction oversight manager, architect and general contractor to design the new tower.

STAFF COMMENTS

The Subcommittee may wish to ask CalSTRS to explain why it took action to change the discount rate, and whether or not they see additional reductions to the rate in the future.

The Subcommittee may wish to ask CalSTRS for their justification for the decision to appropriate funding for building a new tower considering the unfunded liability that all parties, including the State has been working to address. What funding source will be used to build the tower?

When will the board take action to make a final recommendation to build the new tower?

Can CalSTRS discuss future growth for positions at the agency? What does the current capacity at Tower I look like?

Staff Recommendation: Hold Open.

ISSUE 3: RISK, COMPLIANCE, AND SECURITY ENHANCEMENT

The Governor's budget includes $1.39 million to establish 11 positions to address an increasing need in enterprise wide risk management, security, and compliance.

BACKGROUND

Enterprise Risk. The Enterprise Risk area within the Financial Services Branch (FSB) currently performs the enterprise risk management (ERM) reporting process. FSB recently contracted with Deloitte Consulting to assist in enhancing the ERM function at CalSTRS by creating a more efficient and effective risk-reporting framework. While the project is not complete, the initial results have indicated that the ERM function will need three dedicated staff to support the framework. Currently, FSB performs this function with one full time equivalent provided by two staff members. Additionally, Enterprise Risk includes facility management to cover employee safety. Staff in this area only has increased by one person since moving to their new headquarters, which is larger than their former location.

Enterprise Compliance. In the June 2016 Teachers' Retirement Board meeting, the Board was presented the results of a compliance assessment and a recommendation for establishing an enterprise-wide compliance program. Recommendations included designating a Chief Compliance Officer and establishing position for a Compliance Director.

Cybersecurity and Information Management. The increased frequency and sophistication of cyber-attacks requires constant vigilance and forward thinking. CalSTRS provides retirement, disability and survivor benefits for more than 862,000 educators and their families. A major data breach at CalSTRS could cost an estimated $190 million and could impact the delivery of member benefits.

BCP request.

1. **Enterprise Risk.** Four positions to support organization wide risk management and enhance internal controls.
2. **Enterprise Compliance.** Two positions in the Office of General Counsel and Procurement Management to support organization wide compliance and management.
3. **Cybersecurity and Information Management.** Five positions for the Information Security Office in the Office of General Counsel to deploy enhanced cyber security and information management controls.

Program	Current Staffing Level	BCP Request
Enterprise Risk	(1) in Risk Management	(1) FA II (1) FA III
	(5) in Facilities Safety	(2) AGPA's
Enterprise Compliance	(3) in Office of Ethics and Compliance	(1) CEA B
	(1) in Procurement Compliance	(1) AGPA
Cybersecurity and Information Management	(11) in Information Security Office	(4) System Software Specialist I's (1) System Software Specialist II

STAFF COMMENTS

This proposal increases the staffing levels by almost half for every program identified. The subcommittee may wish to ask CalSTRS to provide the workload justification for the requested resources.

Staff Recommendation: Hold Open.

ISSUE 4: INVESTMENT PORTFOLIO COMPLEXITY

The Governor's budget includes $3.23 million for 16 positions to reduce risk and increase efficiencies in the management of the investment portfolio. Thirteen of these positions will address critical investments branch resource needs, as a result of increased size and complexity of the portfolio. Two positions will support Financial Services to provide investment accounting, operating cash management, program allocation, and financial reporting for the portfolio. The last position will provide software support to both Financial Services and Investment Branch users of CalSTRS' enterprise resource planning software.

BACKGROUND

The Investment Branch's workload is driven and authorized by the Investment Committee. The Investment Committee is composed of the full Teachers' Retirement Board and adopts strategic asset allocation targets that are implemented over the long term. The Branch is organized into asset classes and sub-units of those classes. These classes are currently working at full capacity, and will be facing challenges caused by bringing more of the fund under internal management. This move is designed to benefit the fund as a result of the reduced costs and increased control that it can provide. The requested positions are proposed to be allocated to the various classes and units.

As of July 1, 2016, CalSTRS has 155 full-time permanent investment positions. The additional staff will allow each unit within the Investment Branch to address the following objectives:

- Implementation of the Risk Mitigation Strategy
- Implementation of Asset Allocation
- Increasing Transparency

The CalSTRS Investment Branch 10 Year Comprehensive Financial Plan forecasts that the portfolio's total assets will grow by $49 billion from fiscal year 2016-17 to 2017-18 with external management costs increasing by $25.4 million. CalSTRS states that for each staff added to support the internal management of portfolios, CalSTRS saves about $1.2 million in external management fees per year.

The chart on the next page provides information on the resource history of CalSTRS' Investment program. The Investment Branch has recently experienced higher than normal vacancies, which are due to retirements, internal promotions, and the impact of strengthening employment market.

Resource History
(Dollars in thousands)

Program Budget	PY (11-12)	PY (12-13)	PY (13-14)	PY (14-15)	PY (15-16)
Authorized Expenditures	$11,671	$12,188	$12,961	$14,691	$17,544
Actual Expenditures	$11,674	$10,543	$12,161	$13,395	$15,812
Revenues	$6,998	$26,772	$36,496	$14,357	$10,778
Authorized Positions	114	124	122	133	144
Filled Positions	109	110	110	123	135
Vacancies	5	14	12	10	9

Workload History

Workload Measure	PY (10-11)	PY (11-12)	PY (12-13)	PY (13-14)	PY (14-15)	PY (15-16)
Assets Under Management	$154.2	$150.6	$165.8	$189.1	$193.1	$188.7
Complexity (TC Accounts)	176	196	224	228	233	248

STAFF COMMENTS

The Subcommittee may wish to ask about how CalSTRS plans to fill the nine current vacancies plus the additional 13 included in the BCP? Will there be challenges to filling those positions?

Staff Recommendation: Hold Open.

ISSUE 5: MEMBER SERVICE CENTER RESOURCES

The Governor's budget includes 13 positions and $1.296 million to support member benefit education efforts, communication regarding supplemental retirement savings, and other member and employer outreach activities requested by the Teachers' Retirement Board (TRB). The positions will address staffing needs in the Glendale, Riverside, and San Diego Member Service Centers (MSC).

- One Pension Program Manager and Five Associate Pension Program Analysts (Glendale)
- Three Associate Pension Program Analysts (San Diego)
- Three Associate Pension Program Analysts (Riverside)
- One Associate Governmental Program Analyst (HQ).

BACKGROUND

Previously, CalSTRS provided member education program service delivery using contracted resources. In an effort to achieve greater program quality, provide more accurate information, and enhance the effectiveness of the delivery resource, CalSTRS shifted its service delivery model to one that used state staff instead of contractors. At the time, the staffing model provided for one manager and five staff at each MSC. However, the member education program has evolved to include additional products and services.

Glendale Member Service Center. The Glendale MSC services approximately 180,000 members. They provide services out of the Walnut, Antelope Valley, Oxnard and Culver City satellite offices. An additional six full-time permanent positions are needed to provide on-site outreach to members and employers throughout Los Angeles County and surrounding areas.

The MSC staffing structure is comprised of both full time permanent and administratively established positions, which are funded by Civil Service temporary help.

Glendale MSC Workload Measure	PY – 1 14/15	PY 15/16	CY 16/17
Individual Sessions	2,487	2,224	3,165
Group Sessions	1,274	1,601	1,251
Workshops	295	928	1,346
Counter Contacts/Walk Ins	2,559	2,470	2,572
Members 44 & younger	210	347	280
TOTAL Members Served	7,887	8,128	9,311

Riverside Member Service Center. The Riverside MSC opened in FY 2014-15 with one manager, three benefits specialists, and one support staff. Riverside MSC staff serve about 86,000 members in a geographical area that covers thousands of square miles in the Riverside and San Bernardino counties. Three additional full-time permanent positions are needed to keep up with the demand of the member needs.

Riverside MSC Workload Measure	PY – 1 14/15	PY 15/16	CY 16/17
Individual Sessions	547	993	1,043
Group Sessions	1,322	882	926
Workshops	675	503	528
Counter Contacts/Walk Ins	281	1,451	1,524
Members 44 & younger	118	130	137
TOTAL Members Served	2,975	4,069	4,272

San Diego Member Service Center. The San Diego MSC, which opened in the fall of 2016, faces the challenge of Retirement readiness. The resources at the MSC are similar to Riverside with one manager, three benefits specialists, and one support staff. To mitigate the prolong delay of services to members, an additional three full-time permanent positions to serve the 52,000 members through the MSC, North County and Imperial offices as well as increasing member and employer outreach as mandated by the TRB.

San Diego MSC Workload Measure	PY – 1 14/15	PY 15/16	CY 16/17
Individual Sessions	1,676	1,312	2,030
Group Sessions	284	476	244
Workshops	475	502	626
Counter Contacts/Walk Ins	993	657	1,091
Members 44 & younger	52	81	92
TOTAL Members Served	3,480	3,075	4,113

Administrative Services. As the Retirement Readiness continues to grow, an additional administrative support analyst is needed to ensure effective management of budgetary, human resources and procurement needs. The unit is responsible for nine budget allotments including four additional MSCs and the Defined Contribution Solutions funded programs and associated revenue streams.

Administrative Services Workload Measure	PY – 1 14/15	PY 15/16	CY 16/17
# of Authorized Positions	4	5	4
# of Staff Supported (HR related activities i.e. recruitment, timesheets, etc.)	89	89	100

STAFF COMMENTS

The resources provided will help CalSTRS implement initiatives for Retirement Readiness to increase member education and outreach.

Staff Recommendation: Hold Open.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ISSUE 6: BUDGET OVERVIEW

The California Public Employee's Retirement System (CalPERS) administers retirement benefits for about 1,860,000 active employees and retirees of state and local agencies in California as of June 30, 2016. Benefits include retirement, disability, and survivor retirement benefits.

CalPERS provides health benefits for approximately 1,425,000 active and retired state, local government, and school employees and their family members as of June 30, 2016. CalPERS develops, negotiates, and administers contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

The Governor's budget includes $28.9 billion for CalPERS in 2017-18, an increase of $1.9 billion or 6.9 percent from the current year. CalPERS is funded mainly through the Public Employees Retirement Fund and other special funds.

BACKGROUND

Discount Rate. At its December 2016 meeting, the CalPERS Board of Administration approved a reduction in the assumed investment rate of return (discount rate) from 7.5 to 7 percent, phased in over the next three years. The change in the discount rate will result in an increase in state contributions beginning in 2017-18. The 2017-18 Governor’s Budget includes $5.3 billion ($2.8 billion General Fund) for state contributions to CalPERS for state pension costs.

Additionally, the Budget includes $672 million General Fund for California State University retirement costs. The reduction in the discount rate results in an increase in 2017-18 state contributions of approximately $172 million ($105 million General Fund) and is expected to increase the total state contribution by $2 billion ($1.1 billion General Fund) by 2023-24, when the impact on contribution rates is fully phased-in. Total state contributions are expected to reach $9.7 billion ($5.6 billion General Fund) by 2023-24.

STAFF COMMENTS

The Subcommittee may wish to ask CalPERS to explain why the Board took action to change the discount rate, and whether or not they see additional reductions to the rate in the future.

Staff Recommendation: This item is for information only.

ISSUE 7: HEALTH CARE FUND ADMINISTRATIVE EXPENSES TRAILER AND BUDGET BILL LANGUAGE

The Administration has proposed trailer and budget bill language that would do the following:

- **Require All Administrative Costs Be Paid from Contingency Reserve Fund (CRF).** Under the proposed language, all administrative expenses currently being paid from the Health Care Fund (HCF) would be paid from the Contingency Reserve Fund (CRF). Any future administrative expenses - regardless of health plan - would be paid only from the CRF. The proposed language does not eliminate the HCF. Instead, the HCF would continue to be used to pay for specified non-administrative costs.

- **Changes Language Related to Local Government Contributions to CRF.** The proposed language makes a number of changes to Section 22901 of the Government Code related to local government's contributions to the CRF. The language would require local governments to pay (1) the same surcharge to the CRF that the state pays and (2) additional surcharges for any administrative services provided to the local government that is not provided to the state.

- **Budget Bill Reduces CRF Reserve.** In past budgets, Control Section 4.20 has specified that CalPERS would maintain a three-month reserve in the CRF. The proposed budget bill language for Control Section 4.20 directs CalPERS to maintain a one-month reserve in the CRF.

BACKGROUND

CalPERS administers the health plans offered to active and retired employees of the state and about 1,200 local governments in California. CalPERS incurs costs to administer the health plans provided to its members. These costs include personnel costs (CalPERS employees are state employees), costs to contract with consultants and professional services, and other operating expenses.

Current law allows these administrative expenses to be paid through two funds - the Public Employees' Contingency Reserve Fund (CRF) and the Public Employees' Health Care Fund (HCF) - so long as the costs are approved in the annual budget act.

The CRF was established in 1962 as a means to pay for administrative costs across the CalPERS healthcare program. Employers pay for administrative costs through a surcharge on health premiums. The HCF was established in 1988 to fund CalPERS "self-funded" plans. Contributions to the HCF are built into these plans' premiums.

Control Section 4.20. Control Section 4.20 of the annual budget act establishes the surcharge levied on the state to fund the CRF pursuant to Section 22885 of the Government Code. In 2016-17, this surcharge was established as 0.31 percent of gross health premiums paid by the employer. Section 22901 of the Government Code requires local governments that contract with CalPERS for health benefits to pay the same surcharge as the state to fund the CRF.

In addition, Section 22901 gives the CalPERS board the authority to require contracting local governments to pay an additional amount so that the local government pays an amount sufficient to bear all of the administrative costs incurred by the board in providing health benefits to the local government's active and retired employees. In most years, CalPERS indicates that it provides the state and contracting local governments the same administrative services. CalPERS typically charges state and local government employers the same surcharge to fund the CRF. In at least one instance, CalPERS has charged local governments an additional surcharge to pay for services not provided to the state.

- In 2006-07, CalPERS charged contracting local governments an additional surcharge of 0.17 percent of premiums to pay for services related to a new accounting reporting requirement (GASB 45). CalPERS did not provide this service for the state because the State Controller's Office was given this responsibility. Whereas CalPERS charged the state a surcharge of 0.27 percent of premiums in 2006-07, it charged contracting local agencies 0.44 percent of premiums.

Administrative Costs Have Grown. Administrative costs paid from the HCF and the CRF nearly doubled between 2006-07 and 2016-17. The 2017-18 budget assumes these costs will be about $70 million, less than 1 percent of the total cost of CalPERS' health benefits program. DOF states that the CalPERS health benefits program's administrative costs have grown over the past decade primarily due to an increase in the number of health benefit plans containing a self-funded component. The growing number of health plans with a self-funded component - and membership in those plans - resulted in administrative costs paid from the HCF to increase much faster than costs paid from the CRF.

2016-17 Budget Act Action. Although the CRF always has been included in the budget, increased costs from the HCF historically were not considered in the state budget. In light of the rapid growth in costs paid from the HCF in recent years, the Legislature approved statutory changes as part of the 2016-17 budget package to require administrative expenses from the HCF be approved by the Legislature in the annual budget. Additionally, the 2016-17 Budget Act included provisional language directing DOF to complete a zero-based budget exercise in developing the 2017-18 budget. DOF's zero-based review was specifically directed to include (but not be limited to) the evaluation of program objectives, workload metrics, cost allocation methodologies, reserve levels, personnel services, and operating expenses and equipment.

Zero Based Budget Results. DOF provided staff with a one-page summary that included four bullets identifying DOF's conclusions from its zero-based budget exercise. DOF found that the CalPERS health benefits program is resourced adequately to carry out its statutory workload and requirements. The administration did not identify a single function within the health benefits program that is not funded at an appropriate level. Out of five bullets listed in the administration's recommendations, two would require legislative action. The other bullets indicate that DOF will continue working with CalPERS on workload metrics, information technology project processes, and administrative efficiencies.

STAFF COMMENTS

Last year, the Legislature included additional transparency to the HCF by bringing the fund under the budget, thereby providing for Legislative review. This change only has been in place for seven months and was part of the budget package agreed to last year by the DOF and Legislature.

This year's trailer bill language returns to last year starting point with little evidence as to why it is needed. Staff has requested in every meeting that DOF provide justification for how the changes in the proposed trailer and budget bill are warranted. Each time, the response by DOF has pointed back to the four bullet points from the zero-based budgeting exercise. The problems identified in these bullet points were addressed by requiring both funds to be under the budget. The DOF has provided no justification for why any statutory change beyond the action taken last year is necessary.

The Subcommittee may wish to ask DOF the following questions:

- Please provide concrete examples of the problem this language addresses.
- How does the language improve legislative oversight?
- Moving the HCF under budget seven months ago provided additional oversight, why do the changes outlined above need to be adopted this year?
- What unintended consequences could this language have? Does DOF have an analysis of how these changes affect local governments?

Staff Recommendation: Hold Open.

7320 PUBLIC EMPLOYMENT RELATIONS BOARD

The Governor's budget includes $10.5 million for the Public Employment Relations Board (PERB) in 2017-18, a slight decrease of $67,000 from the current year. PERB is funded through the General Fund and reimbursements. The Board administers and enforces California public sector collective bargaining laws in an expert, fair, and consistent manner; promotes improved public sector employer-employee relations; and provides a timely and cost effective method through which employers, employee organizations, and employees can resolve their labor relations disputes.

ISSUE 8: 2016-17 BUDGET AUGMENTATION TO PERB BUDGET REVIEW

As part of the 2016-17 Budget Act, the Legislature approved General Fund appropriations to (1) $885,000 ongoing to pay for staff costs to reduce existing case backlogs, (2) $100,000 one-time funding to move the Glendale office to a new location, (3) $117,000 ongoing to pay for increased rental costs, and (4) three positions. The budget also included provisional language directing PERB to report to the Legislature on or before January 10, 2017, and May 14, 2017, on specific workload metrics. The goal of this reporting was to help the Legislature determine if PERB has sufficient resources to address the existing case backlog and resolve labor disputes in a timely manner.

The Governor's January budget does not include a BCP related to PERB.

BACKGROUND

Backlog. For the past two years, the Legislature has focused on providing resources to PERB to ensure that the Board effectively and efficiently resolves cases in a timely manner. In the January 2017 report, PERB has indicated that 60 days is a reasonable time for the Office of General Counsel to complete investigations and issue determinations in unfair practices cases or representation petitions. However, the average age of cases is well above the goal.

Glendale Office. DGS has not been able to secure a lease for PERB to relocate its Los Angeles regional office.

Vacancies. There are currently two out of five seats vacant on the board. In order to establish quorum, three board members must be present. Additionally, the January 2017 report indicates that three positions "are being held vacant in order for PERB to remain within its authorized budget."

LAO COMMENTS

In the 2016-17 Budget Act, the Legislature established a goal that PERB be able to resolve labor disputes brought before it in a timely manner. In its January 2017 report to the Legislature, PERB identifies that its Office of the General Counsel should resolve cases within 60 days. With the current age of cases at the Office of the General Counsel being more than three times this goal, it is clear that PERB is not meeting the Legislature's policy goals in this regard. What is not clear is whether the resources the Legislature provided as part of the 2016-17 budget are sufficient for PERB to achieve this goal. It is possible that there are additional efficiencies or other operational changes that could allow PERB to resolve labor disputes in a timely manner within its existing budgetary appropriation.

The LAO recommends the following questions:

- Why is PERB not processing cases in a timely manner?
- What actions are necessary for the department to meet legislative policy priorities?
- Do employer and employee representatives agree with the benchmark timeframes identified by PERB in its January 2017 report as reasonable timeframes to resolve labor disputes?
- Assuming all positions in the division are filled, how long will it take the Office of the General Counsel to reduce the average time it takes to process cases to the target period of 60 days?
- Does having vacancies on the board contribute to case backlogs?
- If all five seats of the board are filled, how will PERB support currently filled positions?
- In the event that PERB does not move its Los Angeles regional office in 2016-17, what will happen to the $217,000 appropriated in 2016-17 for costs related to relocating this office?
- Are any of the three positions being held vacant for budgetary purposes: either the three positions the Legislature authorized as part of the 2016-17 Budget Act or the positions associated with the two vacant board seats? If these three positions will not be filled, why should PERB retain this position authority?

STAFF COMMENTS

The growing backlog at the Office of General Counsel continues to be a concern. Last year, resources were provided to help alleviate the problem. However, it appears that these resources were not sufficient to bring the backlog down. The Subcommittee may wish to direct DOF to take a further look into the PERB budget and work with the Board, LAO and staff to come up with a real solution with metrics to bring the backlog down.

Staff Recommendation: Hold Open.

0511 GOVERNMENT OPERATIONS AGENCY

The Governor's budget includes $3.5 million for the Government Operations Agency (GovOps), in 2017-18, a decrease of $180,000 or 5.3 percent from the current year. GovOps funding sources include the General Fund and reimbursements.

GovOps is responsible for coordinating state operations, including procurement, information technology, and human resources. The mission is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operations decisions.

ISSUE 9: DATA-DRIVEN MANAGEMENT INITIATIVE

The Governor's budget includes $160,000 reimbursement authority in 2017-18 and 2018-19, and one position to develop and implement a Data-Driven Management Initiative (DDMI).

BACKGROUND

GovOps started with a "Lean" process re-engineering training program in late 2014 and ordered its first training in February 2015 to help departments identify, analyze, and modernize outdated business processes. "Lean" is a method of identifying process improvements to streamline operations for better results. GovOps partnered with CalHR Statewide Training to implement a California-specific curriculum for Lean orientation, and trained staff in departments who could train others. As of July 1, 2016, more than 600 state employees have received some form of Lean training through GovOps' effort. To date, 18 departments and agencies have participated in almost 60 Lean-Six Sigma efficiency projects.

Departments often focus on processes that emphasize compliance, rather than processes that emphasize outcomes. This leads to inefficiency, less results, and higher than necessary operating costs. GovOps proposes establishing a DDMI to develop a framework for improving department-level results that integrates the training tools it already offers and shares best practices used by other states and public agencies.

GovOps seeks to establish one Director (CEA A) position to research and establish the mission and organizational structure to implement a state-wide data-driven and performance management framework for measuring, reporting, and monitoring organizational results. The Director will also be responsible for developing a state-wide Lean program in partnership with CalHR and incorporate risk management reporting into the performance management framework.

STAFF COMMENTS

The resources included are for a two-year limited-term. Staff has no concerns.

Staff Recommendation: Hold Open.

ISSUE 10: CIVIL SERVICE IMPROVEMENT TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to continue advancing Civil Service Improvement efforts.

BACKGROUND

According to GovOps, the goal of the Civil Service Improvement initiative is to produce a modern human resource system that will allow state departments to find and quickly hire the best candidates through a fair and merit-based process. Departments will be able to determine their workforce needs and will be equipped to train and develop their employees to maximize their potential to serve the department's mission. An improved civil service system will produce a capable and engaged state workforce.

There have been a number of about 25 Civil Service Improvements that already have been achieved. These range from eliminating outdated examination rules, to changing Career Executive Assignment rules to eliminating the six-month vacant position rule, and others.

Trailer Bill Language. CalHR has provided the following TBL summary of changes:

1. **Probationary periods.** Extends the maximum probationary period from up to 6 months to up to 2 years. Provides department's sufficient opportunity to review the performance of probationary employees, particularly in classifications where certain key duties and functions are cyclical, like budgets.

2. **Employee Eligibility Lists.** Allows departments the flexibility to recruit qualified candidates to take civil service exams. Also removes outdated wording concerning when departments can fix clerical errors on an eligibility list.

3. **Employee Transfers.** To promote a qualified civil service working force, the requirement that the employee seeking transfer must meet the minimum qualifications of the "to" class has been added.

4. **Reemployment Lists / Top Three Rankings.** Allows departments to establish more or less than three rankings for eligibility lists. Removes certain procedures regarding eligibility lists as a result of the changes being made to GC Section 19054.

5. **Certifying Candidates.** Removes overly prescriptive rules concerning certifying eligible for an employee list. This process is cumbersome, costly, rigid, and often arbitrary. Instead, the employee list will be certified per SPB rules. Order of preference to apply to reemployment lists only.

6. **Job Announcements.** This change will promote uniformity in job announcements, making it easier for job seekers to review the announcements.

7. **Job Examinations.** The change will serve to promote larger and viable candidate pools.

8. **Promotional Exams.** This change promotes uniformity, fairness, and consistency for employees taking promotional exams.

9. **Exam Demonstration Projects.** This change adds “methods of examination”, which will allow the state to explore different exam methodologies through a demonstration project.

10. **Definition of an employee class.** Benefits the state by reducing costs associated with promotional examinations and encouraging retention of a qualified state workforce. Promotes upward mobility by creating better career ladders.

11. **SPB Authority and Duties.** Clarifies that SPB has authority over “appointments”, which is already outlined in the Constitution.

12. **Employee transfers.** This change promotes uniformity, fairness, and consistency in transfers. Deleting the second sentence, allowing a CalHR or an appointing power to determine when MQs should be met through exam, to avoid inconsistent outcomes with SPB rules.

13. **Appointments.** Stylistic/technical change for consistency with other statutes.

14. **Alternate Employee Lists.** Specifies that the statute is concerning “*alternate* employee lists” to avoid confusion with the employee lists as specified in GC Section 19054. Makes technical/stylistic changes.

15. **Gender Equity.** Replaces the outdated phrase “female dominated jobs” with “jobs that employ a higher proportion of females than males“.

16. **Various topics.** Technical changes, such as replacing a reference to “Department of Personnel Administration” with “Department of Human Resources” to reflect departmental duties pursuant to GRP 1.

17. **State Personnel Board Authority.** Specifies that references to the word “rules” is equivalent to “board rules” and “rules of the board”, as used in this part of the Government Code. This is consistent with the Civil Service Act and allows SPB “to make rules concerning the subject matter” in the statute.

STAFF COMMENT

This trailer bill is 45 pages. The Subcommittee may wish to ask why this language is moving through the budget process and not moving through the policy process? How are the changes in the language technical and budget related? What savings will be achieved?

The Subcommittee may wish to ask how the proposed changes to the trailer bill address the issues that are important to the Legislature. For example, on February 22, 2017, a joint hearing was convened on Gender Pay in State Civil Service. The proposed trailer bill language amends the definition of gender equity but how does this change make progress in the Gender Pay issues?

Further, the Subcommittee may wish to ask the Department of Finance and CalHR how they have engaged stakeholders?

Staff Recommendation: Hold Open.

ISSUE 11: JUDGES SALARIES TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to clarify the statutory methodology used to calculate annual salary adjustment for state judges and justices, which is based on the average salary growth of civil service state employees.

BACKGROUND

The following background was provided by DOF. Currently, CalHR captures the scheduled salary increases to be provided to state employees during the next fiscal year, and applies those raises to judges on July 1 of the same fiscal year.

This trailer bill changes the methodology in cases where the state reaches a labor agreement after July 1 that includes salary increases during that fiscal year. Specifically, the trailer bill requires that salary increases made after July 1 that have been provided retroactively to state workers on July 1 will be included in the judges' calculation during that same fiscal period to ensure they receive the same level of salary increase.

As a result of this new methodology, judges will receive a one-time retroactive payment equivalent to a 0.16 percent salary increase. Item 9800 includes $1 million General Fund to cover the cost of this retroactive payment.

On July 1, 2016, only four bargaining units had ratified agreements (BUs 5, 6, 9, and 10) with scheduled salary increases that are effective July 1, 2016. These were used to calculate the judicial salary increase of 1.36 percent for 2016-17. The next judicial salary calculation will be made on July 1, 2017, and will include any general salary increases (GSIs) for employees in the remaining bargaining units that are ratified and become effective during the 2016–2017 fiscal year.

Under the current methodology, if there are bargaining units that reach a ratified agreement after July 1, 2016, on or before July 1, 2017, 2016-17 salary increases will be included in the calculation for the judicial salary increase effective July 1, 2017, not retroactively. While most new contracts include GSIs that are effective midway through 2016-17 or July 1, 2017, recently negotiated contracts with BUs 7 and 18 included GSIs retroactive to July 1, 2016. Absent this trailer bill language, these increases for BUs 7 and 18 would not be included as part of the judges calculation until July 1, 2017, nor would they be retroactive.

STAFF COMMENT

Staff has not heard from supporters or opponents to this proposed trailer bill language. The Subcommittee may wish to ask DOF why they are proposing this language this year as part of the budget.

Staff Recommendation: Hold Open.

ISSUE 12: STATEWIDE TRAINING CENTER

The Governor's budget includes $2.820 million in reimbursement authority and three positions in 2017-18, and $2.793 million in 2018-19, and ongoing, to continue expanding the Statewide Training Center (STC) to accommodate increasing enrollment.

BACKGROUND

The STC re-opened in 2012 after being closed for six years. During that time, training functions became decentralized as departments built their own training programs and established vendor contracts for outsourcing employee development services. The decentralized model resulted in system-wide inefficiencies, redundancy and inconsistencies in how the state develops the competencies of California's civil service workforce.

The STC's mission is to provide California's civil service workforce with low cost, relevant and appropriate soft skills, leadership and human resource technical training. The new business model proposed by CSI will provide CalHR with greater leadership over statewide training curriculum in order to supply training.

The supervisory training program developed through Civil Service Improvement (CSI) team that partnered with a team from Google's HR Division, People Operations. The team worked with CalHR to develop learning objectives that led CalHR vendors to develop new, CalHR approved curriculum. CalHR is now extending this leadership training track to include a management module, with a module for employees in Career Executive Assignments to follow.

Under this proposal, the STC will develop training models and content to address state-wide needs as determined by CalHR statewide workforce planning data and training needs assessments. The STC will continue to partner with vendors to deliver requested training beyond CalHR's capacity, but the content will be owned by CalHR leadership and oversight.

CalHR has developed the following multi-year phased approach to successfully perform its statewide mission:

Phase I - 2012-2017. Offer state employees a wide variety of vendor supported STC training classes.

The STC has been successful during Phase I. A 2016 CSI training initiative has helped expand STC training to four new regions across the state, creating greater demand for vendor supported STC classes.

Phase II – 2016-17. Create statewide leadership, staff training and development programs in order to analyze civil service training needs, oversee training curriculum design and evaluation, and facilitate sharing and collaboration on employee development solutions.

Phase III – 2017-18. Offer a variety of leadership and staff development training classes through the STC taught by state employees.

BCP request. CalHR is requesting three Training Officer II position to provide leadership and staff training through STC. Currently, the STC has no dedicated trainers to deliver revenue-producing state-taught classes

STAFF COMMENT

This BCP will provide CalHR with the resources that it needs to develop a centralized training model. Additionally, the model will bring cost savings to the state, as more agencies begin to utilize the training developed by CalHR.

The resources provided for this BCP are ongoing. Staff would suggest that there is some sort of check in on this program, as we move forward to better understand how departments are using the training and what the actual training costs savings are.

Staff Recommendation: Hold Open.

ISSUE 13: OTHER PROPOSALS

CalHR has three proposals that request additional reimbursement authority and converting limited-term positions to permanent positions.

BACKGROUND

1. **Blanket Position Conversion for CalCareer Services. This proposal requests the conversion of three positions from limited-term to permanent to address recruitment and retention issues within CalCareer Services unit.**

   The CalCareer Services unit is responsible for providing the public with assistance with walk-in career search inquiries in the Job Center and providing proctoring services and administrative support to the in Testing Center. Additionally, CalCareer Services is responsible for answering and responding to state-wide incoming call sand emails regarding general questions on civil service examinations.

   The CalCareer Services unit has had recruitment and retention challenges. Many applicants accept permanent intermittent or limited-term employment within CalCareer Services as a means to gain initial state employment and experience, but continue to seek full-time employment. Since January 2014, 11 staff has left CalCareer Services for full-time employment. Turnover is costly due to the onboarding process, and the resources it takes to train and develop staff that ultimately leave for full-time employment elsewhere.

2. **Dependent Re-Verification Process. The Governor's budget includes one position and $175,000 in reimbursement authority for 2017-18, $118,000 and in 2018-19, and ongoing, to perform the new workload to develop, implement and administer the dependent re-verification process.**

   In January 2011, CalPERS Board of Administration endorsed the Health Benefits Purchasing Review (HBPR) project to develop strategies and initiatives to ensure the continuation and sustainability of the CalPERS Health Benefits Program. The HBPR resulted in the development of 21 initiatives, including dependent eligibility verification designed to influence health care delivery, improve health outcomes, and delivery sustainable programs. The 2013-15 CalPERS Dependent Eligibility Verification project disenrolled 8,379 ineligible state employee dependents from the CalPERS health plans for a savings of over $60 million.

   SB 98 (Chapter 28, Statutes of 2015) designates CalHR to establish standards for the employing office of the state employee to conduct health dependent eligibility at least once every three years for spouses, domestic partners, children, stepchildren, and domestic partner children; and at lease once annually for other children enrolled as dependents under parent-child relationship. Eligibility is the same for dental benefits as it is for health benefits.

3. Employee Outreach. The 2017-18 budget requests $135,000 in reimbursement authority for 2017-18 and ongoing, to continue implementing a Statewide Employee Engagement Survey program that began in 2015.

To be an “employer of choice,” the state must do what most best-in-class organizations in the public and private sector are already doing, which is adopt a data-driven and action-focused approach to employee engagement.

In 2015, the state hired a consultant to implement the first-ever state-wide employee engagement survey. This survey provided a broad perspective on the level of engagement in California’s workforce. The state must build on this first engagement effort by greatly expanding on the survey’s ability to deliver more agency and department specific results on a reoccurring basis. The state does not currently provide department with their own workforce employee engagement data, or the tools and guidance needed to improve engagement, departments either expend resources to create their own surveys or don’t seek to improve performance through engagement.

The primary short-term outcome of the requested resources is to develop a consistent state-wide survey for measuring employee engagement, along with a repeatable process for administering the survey in all state organizations. The long-term expected outcome includes improvement of employees and organizational performance as a result of organizations having and acting on employee engagement.

STAFF COMMENT

1. The conversion of the limited-term positions to permanent will help CalHR recruit and retain staff for their CalCareer Services unit. Staff has no concerns with this proposal.

2. The resources requested to develop, implement, and administer a dependent re-verification process for active state employees are reasonable. The subcommittee may wish to ask CalHR how this re-verification process differs from the one performed by CalPERS and how frequently CalPERS will perform its DEV process?

3. The resources for the employee engagement survey are reasonable. The Subcommittee may wish to consider a reporting requirement by CalHR to the Legislature on the effect of the employee surveys and how CalHR is responding to any concerns raised.

Staff Recommendation: Hold Open.