

# California State Assembly



## Agenda

### Assembly Budget Subcommittee No. 5 on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Tuesday, April 2, 2024  
1:30 P.M. – State Capitol, Room 447

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**Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the Subcommittee.**

## Items To Be Heard

### 0890 Secretary of State

The Secretary of State (SOS) is the constitutional office responsible for elections, business filings, political campaigning, and historical records. Responsibilities of the Secretary of State include serving as California's Chief Elections Officer; implementing electronic filing and internet disclosure of campaign and lobbyist financial information; maintaining business filings; commissioning notaries public; operating the Safe at Home confidential address program; maintaining the Domestic Partners and Advance Health Care Directive Registries; safeguarding the State Archives; and serving as a trustee of the California Museum.

#### Issue 1: Budget Change Proposals

The Governor's budget includes four budget change proposals related to the SOS. Two of these proposals are related to information technology (IT) projects, and two are related to the federal Help America Vote Act (HAVA).

##### *Budget Change Proposal: CAL-ACCESS Replacement (CARS) Project*

The Secretary of State requests \$16,774,000 one-time General Fund in 2024-25 to continue supporting the CARS Project, which aims to replace the current CAL-ACCESS system.

CAL-ACCESS serves as California's political finance database and filing system, by providing online and electronic filing processes for use by candidates, political committees, lobbyists, lobbying firms, and lobbyist employers subject to disclosure and transparency laws. CAL-ACCESS also enables the public to access information on lobbying and campaign finance activity at no cost to users. CAL-ACCESS is also used by the Fair Political Practices Commission (FPPC) for investigation, enforcement, and oversight activities.

The current CAL-ACCESS system is aging and facing significant technical challenges. It is currently powered by a variety of computer hardware, firmware, and software, some no longer supported by their vendor or past their operational lifespan. As a result, CALACCESS has over the years suffered frequent outages and technical failures, both putting strain on SOS staff resources and denying public access to information.

In 2016, Senate Bill 1349 (Hertzberg—Ch. 845, Statutes of 2016) was enacted into law and required the SOS in consultation with the FPPC to develop and certify for public use a new online filing and disclosure system for campaign statements and develop reports that provide public disclosure of campaign finance and lobbying information with specified, user-friendly, easily

understandable format. The legislation created legislative oversight and reporting requirements for the project, including a mandated quarterly project report sent directly to the Joint Legislative Budget Committee.

The project to redevelop a new system is referred to as the CAL-ACCESS Replacement System (CARS) Project. Past efforts to rebuild CAL-ACCESS have been unsuccessful. During a previous project development effort scheduled for public release in summer of 2021, internal and external stakeholders raised functionality, security, and usability concerns based on testing efforts and interactions with the project team. Subsequently, the SOS partnered with the Department of Technology to conduct an independent assessment of CAL-ACCESS, which resulted in the recommendation to restart the project. Based on the information contained in the independent assessment report and input received from CDT and internal stakeholders, the Secretary of State accepted the recommendations identified in the report and moved forward with restarting the project.

The Budget Act of 2022 provided \$11.3 million to support the costs of the project restart including pre-planning and planning phases of the new CARS project. Subsequently, the Budget Act of 2023 provided \$6.9 million one-time in 2023-24 from the General Fund to support the CalACCESS Replacement System Project and replace the outdated CAL-ACCESS system for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act.

According to the Secretary of State, requested resources for FY 2024-25 will go towards onboarding of the prime vendor, development of prime vendor project plans and schedule, requirements reconfirmation, technical architecture development, joint application design sessions, and start of the program increments in which the application modules are developed and tested. Design and development activities include external stakeholder data retrieval interfaces and application programming interfaces for the campaign finance and lobbying software vendor stakeholders to electronically file disclosure information with the SOS.

The SOS reports that bids have been received as of January 2024 for the prime vendor and are currently in the evaluation process. Based on prior estimates of a 27-month implementation, the anticipated project completion is around December 2026. However, the timeframe may be refined based on the awarded prime vendor contract.

*Budget Change Proposal: Notary Automation Program Replacement Project (NAP 2.0)*

The SOS requests \$4,019,000 one-time funding from the Business Fees Fund to continue implementation of its Notary Automation Program (NAP) Replacement Project.

The SOS is responsible for the appointment of California notaries public. Prior to appointment, a notary public applicant must complete an education course and pass both a notary public examination and a background investigation from both the California Department of Justice and the Federal Bureau of Investigation. The SOS currently utilizes a legacy NAP system to store and maintain notary public commission data. According to the SOS, the NAP system is approximately 30 years old and needs replacing, and current technology has evolved significantly since the NAP system was created. Creating a new system, nicknamed NAP 2.0, would allow the SOS to update the system and allow for easier amendments in the future should the Notary laws change.

The Budget Act of 2023 provided \$3,607,000 in one-time funding in 2023-24 from the Business Fees Fund for planning resources. Requested resources for 2024-25 will be used to complete project initiation and planning activities required for the onboarding of a Systems Integration vendor to implement NAP 2.0, as well as any other ancillary legacy systems that store Notary data.

*Budget Change Proposal: Help America Vote Act – VoteCal*

The Secretary of State requests \$11,292,000 one-time in Federal Trust Fund authority in 2024-25 to cover the maintenance and operations vendor, data analysis consultant, Election Management Systems support and verification, data lines, and off-premises cloud costs for the VoteCal statewide voter registration system.

The federal Help America Vote Act mandates that each state implements, maintains and administers at the state level, a uniform, centralized, interactive, computerized voter registration database. VoteCal serves as the single system for storing and managing the official list of registered voters in the state. Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the Department of Motor Vehicles, the California Department of Public Health, and the California Department of Corrections and Rehabilitation for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department to validate and correct address information against the U.S. Postal Service's National Change of Address system as required by state and federal law. VoteCal is financed through federal funds.

*Budget Change Proposal: Help America Vote Act Spending Plan*

The Secretary of State requests \$15,009,000 one-time in Federal Trust Fund Authority in 2024-25 to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Requested federal funds will be used to continue implementation of federal statewide mandates, including modernization or replacement of voting equipment, education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting systems testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections. Of note, this request does not include funding for maintenance and operating costs for VoteCal, the statewide voter registration database, which is requested in the budget change proposal listed above.

### Panel

- Kristin Dagsher, Budget Officer, Office of the Secretary of State
- Jessie Romine, Principal Program Budget Analyst, Department of Finance
- Charles Lassalle, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

### Staff Comments

Launched in June 2000, CAL-ACCESS systems are now nearly 23 years old. Its system applications are currently written in 14 different programming languages, only some of which are still supported by their original vendors. Aging hardware and outdated software have created significant challenges in maintaining and operating CAL-ACCESS: for example, the system suffered a month-long outage in 2011, and there is continued difficulty in converting filed statements into a user-friendly database.

Despite its problems, CAL-ACCESS remains a critical tool for the public to freely access political campaign and lobbying financial disclosures. Over the years, the committee has received constant feedback from stakeholders – including interest groups, filers, and state departments relying on CAL-ACCESS – about the worsening technical inadequacies of the system, and the need for improvements.

The Subcommittee may wish to ask for additional details on the implementation timeline for the CARS project, including when the prime vendor is anticipated to be selected and onboarded. In addition, the Subcommittee may wish to ask for an update on the SOS stakeholder outreach efforts, and how feedback is being incorporated into the final design of the CARS Project.

### Staff Recommendation: Hold Open

## 8260 Fair Political Practice Commission

The Fair Political Practices Commission is a five-member independent, nonpartisan commission that has primary responsibility for the impartial and effective administration of the Political Reform Act. The Act regulates campaign financing, conflicts of interest, lobbying, and governmental ethics.

### Issue 2: Budget Change Proposal

The Fair Political Practice Commission (FPPC) requests \$234,000 in 2024-25, and \$227,000 in 2025-26 and ongoing from the General Fund and 1 staff position continue to support the local agency ethics training.

Existing law requires state officials to receive training in ethics within six months of their office assumed date and once every two-year period while in office. To help state officials meet this requirement, the Attorney General's Office and the Fair Political Practices Commission developed an online training course. This system is hosted by the Attorney General's Office. The FPPC provides guidance on training requirements.

In addition to these state requirements, cities, counties and special districts in California are required by law to provide ethics training to their local officials. To help local officials meet this essential ethics training requirement, the Attorney General's Office, the Institute for Local Government, and the FPPC developed an online training course to satisfy the local officials ethics training requirement.

Recently enacted legislation has extended the mandatory local ethics training requirements by adding all members of the governing board of a school district, a county board of education, or the governing body of a charter school, whether or not the member receives any type of compensation, salary, or stipend or reimbursement for actual and necessary expenses incurred in the performance of official duties beginning January 1, 2025, and at least once every 2 years thereafter.

According to the FPPC, this is a significant expansion of who will be required to complete the training by not only expanding the number of agencies but also by removing the condition that the officials who have to comply have to receive some form of compensation. The FPPC notes this will result in an increase of approximately 2,000 new agency officials who are required to receive ethics training.

Requested resources would add one permanent Information Technology Specialist position in the information technology unit to perform all functions necessary to develop and implement a new training platform since the number of users will increase and to maintain the obligations

under this new state mandate. Resources will also be used for an annual subscription to procure a Learning Management System to support the local ethics training program.

**Panel**

- Jue Wang, Acting Chief of Administration, Fair Political Practice Commission
- Jessie Romine, Principal Program Budget Analyst, Department of Finance
- Charles Lassalle, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

**Staff Comments**

Staff does not have concerns with this proposal.

The Subcommittee may wish to ask if with these new resources, the FPPC will be able to provide the necessary ethics training to all parties within existing statutory deadlines.

**Staff Recommendation: Hold Open**

## 8955 Department of Veterans Affairs

The California Department of Veterans Affairs (CalVet) is the state entity responsible for ensuring that California veterans are connected and have access to a broad range of state and federal benefits. This includes providing the state's aged or disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment through California Veterans Homes; facilitating homeownership through direct low-cost loans; and representing veterans and families with their claims and appeals for benefits before the U.S. Department of Veterans Affairs.

### Issue 3: Budget Change Proposals

#### *Budget Change Proposal: California State Approving Agency for Veterans Education Funding Increase*

CalVet requests \$265,000 in 2024-25 and ongoing in Federal Trust Fund Authority to address increased workload within the California State Approving Agency for Veterans Education (CSAAVE)/Title 38 program.

CSAAVE is responsible for the review, evaluation, approval, and oversight of schools and training facilities to ensure state and federal quality criteria are met for veterans using their G.I. Bill funds. CSAAVEE is a program under contract with the United States Department of Veterans Affairs (USDVA) but operates as part of the government of the State of California to approve or disapprove veterans' education and training programs, prevent abuses, and monitor quality in veterans' education.

According to CalVet, current staffing levels are not sufficient to meet the workload demands of CSAAVE. The increase in workload and requirements along with additional federal statutory requirements recently enacted, found in the cooperative agreement with the USDVA, necessitates the reclassification of the existing positions.

Specifically, along with the downgrading of a vacant Private Postsecondary Education Senior Specialist to a Private Postsecondary Education Specialist, CSAAVE plans to allow a vacant Office Technician (Typing) position to be upgraded to a Private Postsecondary Education Specialist which will provide the staffing levels to meet the existing workload demands of the CSAAVE program. The additional funds will also provide sufficient funding for the travel costs associated with this program.



*Budget Change Proposal: CalVet Electronic Health Record Project*

CalVet requests \$902,000 in 2024-25, and \$415,000 in 2025-26 and ongoing from the General Fund for the final year of implementation of the Electronic Health Record (EHR) Project in the Veterans Homes of California.

CalVet's long term care Homes are transitioning to updated EHR technology, as most long-term care facilities today use EHRs to complete and transmit required data to federally required repositories. The Department began its effort to modernize its EHR in 2016. Most recently, the Budget Act of 2023 provided \$2,548,000 for the fourth-year implementation of the project. The requested funding would cover costs for the final year of implementation of the project and transition to full Maintenance & Operations costs.

*Budget Change Proposal: Strategic Realignment for the Barstow Veterans Home*

CalVet requests a reduction of 30 budgeted Domiciliary (Dom) beds, 2 positions, and \$265,000 General Fund beginning in 2024-25 as part of the census milestone reductions at the Veterans Home of California-Barstow (Barstow Home) as outlined in its 2021-22 Strategic Realignment of the Barstow Home.

CalVet conducted a full-scale appraisal of every Veterans Home of California, including levels of care offered, regional demand for services, hiring capabilities, infrastructure, and other characteristics necessary for strategic planning. The recommendations for the Barstow Home included aligning the levels of care offered to more accurately reflect demand in the area. The proposed changes in levels of care included, through attrition over many years, closing the Dom program, converting the dual-occupancy 60-bed intermediate care facility to a single room 31-bed Residential Care Facility for the Elderly, and reactivating 20 suspended skilled nursing facility beds.

CalVet notes that no residents have been or will be discharged as a result of these level of care changes.

*Yountville Skilled Nursing Facility Support*

CalVet requests \$5,389,000 in 2024-25 and \$12,129,000 in 2025-26 and ongoing from the General Fund for staffing of the new Skilled Nursing Facility (SNF) at the Veterans Home of California – Yountville.

The Yountville Home currently provides four levels of care: Domiciliary, Residential Care Facility for the Elderly (RCFE), Intermediate Care Facility, and SNF. The SNF level of care provides around-the-clock nursing support to residents with significant care needs. Residents in the SNF

unit require assistance with all activities of daily living, may be bedridden, or suffer from other significant physical or mental health limitations. SNF residents often receive physical, occupational, and/or speech therapy, as well as other clinically intensive services.

The current SNF at Yountville is located in the Holderman Building on the southern end of the campus. Constructed in 1932, the Holderman Building also houses most of the medical support staff, as well as the various ancillary units, including the pharmacy, medical records center, and ambulatory care clinic, where residents receive outpatient care. According to CalVet, the aging infrastructure of the Holderman Building has resulted in significant costs over the years to meet health and safety and licensing standards.

In 2013, the Yountville Facilities Master Plan Evaluation called for construction of a new SNF as a top priority for the Yountville Home. Since then, CalVet has taken steps toward construction, recommending it again as a top departmental priority in the 2020 Veterans Homes Master Plan. In fiscal year 2020-21, the Governor and the Legislature approved construction funding for the replacement building. In June of 2020, the United States Department of Veterans Affairs approved a construction grant to build a new SNF facility on the Yountville Campus. Construction is underway for the new SNF and is expected to be completed in 2024-25, after which the building will need to be certified for occupancy and licensed by the California Department of Public Health and certified by the Center for Medicare and Medicaid Services (CMS) and the USDVA. Once the building is licensed, CalVet will relocate the residents from the existing Holderman and FDR Buildings into the new SNF.

Requested resources would provide 40 positions in 2024-25 and 108 positions annually thereafter to support the operations of the new SNF building. The positions consist of a mix of direct care staff (e.g. certified nursing assistants, licensed vocational nurses, registered nurses), indirect patient care staff (e.g. rehabilitation therapists, activity coordinators), food and nutrition staff (e.g. supervising cooks, food service supervisors and technicians), custodial services, and more.

#### Panel

- Cheryl Iannello, Assistant Deputy Secretary, Chief of Postsecondary Education, California Department of Veterans Affairs
- Carlos Chavez, Chief Agency Information Officer, California Department of Veterans Affairs
- Tracy Barbosa, IT Manager, California Department of Veterans Affairs
- Beth Muszynski, Assistant Deputy Secretary Veterans Homes, California Department of Veterans Affairs
- Bret Lapp, Staff Services Manager, California Department of Veterans Affairs
- Jessie Romine, Principal Program Budget Analyst, Department of Finance

- Charles Lassalle, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

**Staff Comments**

The Skilled Nursing Facility at Yountville is a CalVet priority and a major state investment with a design-build contract amount of approximately \$268M. The Subcommittee may wish to ask for a detailed timeline for the completion of the SNF facility and the anticipated timeline to transition residents from the Holderman building to the new facility. In addition, the Subcommittee may wish to ask if the Administration has developed a plan for the Holderman building once the transition is complete.

**Staff Recommendation: Hold Open**

## 7501 California Department of Human Resources

The California Department of Human Resources, or CalHR, is the state department responsible for issues related to California state employee salaries and benefits, job classifications, training, exams, recruitment and retention. CalHR is also the lead entity representing the Administration during the collective bargaining process for state employees.

### Issue 4: Budget change Proposals and Trailer Bill

The Governor's budget includes two budget change proposals and a trailer bill under the jurisdiction of CalHR.

#### *Budget Change Proposal: Department Workload of Psychological Screening Program*

CalHR requests \$433,000 in reimbursement authority for 2 staff positions to address staffing issues in the Psychological Screening Program (PSP). The PSP is the only entity authorized to conduct pre-employment psychological assessments for law enforcement candidates for state agencies. These assessments allow the state to meet statutory requirements that a peace officer candidate must be found free from any physical, emotional, or mental condition, including bias against race or gender, ethnicity, nationality, religion, disability, or sexual orientation that might adversely affect the exercise of powers of a peace officer.

According to CalHR, the demand for pre-employment psychological assessments for law enforcement candidates has increased. As an example, the California Highway Patrol (CHP) conducted a recruitment campaign to lower its vacancy rates and recruit new officers. CalHR notes that CHP's recruitment campaign has already resulted in increased caseload expected to continue to bring higher volume of work sustained into the foreseeable future: CHP plans to send PSP at least 1,030 cadet candidates to evaluate each year through at least the end of their recruitment surge, representing 500 more cadets yearly than PSP was staffed to accommodate prior to the CHP recruitment campaign.

Currently, the PSP has four permanent full time Psychologist positions and two additional 12-month limited-term Psychologist positions. Under this request, CalHR would transition the limited-term positions into permanent positions.

Of note, the Budget Act of 2023 transitioned 1 limited-term position to a permanent position within the PSP program.

*Budget Change Proposal: Technology Modernization and Security*

CalHR requests \$350,000 in 2024-25 and ongoing, \$290,000 of which is General Fund to improve cybersecurity operations at the Department.

Specifically, the resources will be used to implement two-factor authentication on the various CalHR online platforms (CalCareers and ECOS). Two-factor authentication is the process by which two different forms of verification are required to be submitted before granting access to a system or portal.

Resources will also be used to implement a Security Incident and Event Management System (SIEM). SIEM is used by the California Department of Technology (CDT) to track and archive security event logs. CDT has informed all departments that the costs associated with the services will no longer be funded by CDT. This request will fund CalHR's SIEM.

*Trailer Bill: California State Payroll System Bi-Weekly Pay*

In 2016, the state began to assess industry standards and information technology solutions to implement a new payroll system for California state employees. The initiative is named the California State Payroll system (CSPS) project, and aims to modernize core human resources functionalities, such as payroll, position control, benefits and personnel administration, and time management. One of the most significant operational changes under the CSPS Project will be the state's transition from a monthly payroll cycle to a biweekly payroll – a pay schedule that is more in line with current industry standards.

As CSPS is being implemented, CalHR is responsible for updating human resources laws, rules, policies, and bargaining agreements that specify how the state will operate under a biweekly payroll model. To that end, CalHR is requesting trailer bill language that would revise various statutory provisions to accommodate the implementation of a uniform payroll cycle that is not monthly. Additional non-substantive technical cleanups are included in the requested trailer bill.

**Panel**

- Monica Erickson, Chief Deputy Director, California Department of Human Resources
- Michele Villados, Division Chief, Medical and Psychological Screening Division, California Department of Human Resources
- Enrique Parker, Division Chief, Information Technology Division, California Department of Human Resources
- Natalie Griswold, Staff Finance Budget Analyst, Department of Finance
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

**Staff Comments**

Regarding CalHR's Psychological Screening Program, the Subcommittee may wish to ask about the Department's anticipated workload at the end of the California Highway Patrol's recruitment surge.

**Staff Recommendation: Hold Open.**

## **Employee Compensation, Pensions, and Retirement 7900 California Public Employees' Retirement System 7920 California State Teachers' Retirement System**

### **Issue 5: CalPERS Contributions, Proposition 2 Payments, Trailer Bill, and Vacancy Sweeps**

This panel will cover four different items from the Governor's budget: (1) a proposed trailer bill to restore a previously longstanding payroll deferral for one-time budget savings, (2) a budget proposal to reduce state costs on a one-time basis proportionately to departments' vacant positions, (3) an overview of CalPERS required contributions and supplemental payments under Proposition 2; and (4) a budget-balancing proposal to apply Proposition 2 debt payments towards CalPERS.

#### *Trailer Bill: June 2025 to July 2025 Payroll Deferral*

The Administration proposes to reinstate a one-day accounting delay for state employee payroll costs that was instituted as a one-time budget balancer in 2009 and remained on the books for a decade. The one-day delay was "paid off" (repealed) in 2019 in part to restore it as a possible tool for balancing the budget in deficit years like this one.

The one-day delay does not affect state employee compensation in any way. Instead, the delay defers accounting for specified state employees' payroll costs from June 30, 2025, to July 1, 2025, thereby shifting one month of payroll costs from the 2024-25 fiscal year to the 2025-26 fiscal year for one-time savings. The estimated savings are \$3.2 billion (\$1.6 billion General Fund). The Governor proposed trailer bill to approve the one-day payroll accounting delay in January, and this proposal is included in the Senate's "Shrink the Shortfall" early action budget plan. As such, it may be proposed as part of the upcoming early action budget package.

#### *Budget Proposal: Budget Reductions Tied to Departments' Vacant Positions*

The Governor's budget proposes to identify one-time spending reductions related to savings for vacant positions across executive branch state departments. According to the Administration, the Department of Finance would work closely with departments to determine the appropriate reductions associated with vacant positions in 2024-25, which will not exceed half the total funding budgeted for vacant positions for each department. The Department of Finance notes that departments would see temporary reductions to the funding associated with those positions, but the proposal does not include reducing position authority or eliminating any existing positions. The Governor proposed budget bill language to achieve these reductions—estimated at \$1.5 billion (\$762.5 million General Fund) in 2024-25—in January, and these reductions are

included in the Senate’s early action budget plan. As such, it may be proposed as part of the upcoming early action budget package.

The Legislative Analyst’s Office notes that departmental savings of this type historically have been hard to achieve and suggests legislative options that would make achievement of the savings more likely. Assembly budget negotiators have advanced some of the LAO’s ideas in early action discussions. Further action in this regard may occur between now and adoption of the 2024-25 budget in June.

*CalPERS Required Contributions and Proposition 2 Supplemental Payments*

The California Public Employees’ Retirement System (CalPERS) administers retirement benefits for active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor retirement benefits. CalPERS also provides health benefits for active and retired state, local government, and school employees and their family members. 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 \$6,882,642,000 for the statutorily required annual state contribution to CalPERS for state pension costs in 2024-25. In addition, the budget includes \$2,096,000,000 in Proposition 2 supplemental payments to further address debts and liabilities. Out of this total figure, \$885,000,000 is proposed to pay down state employee pensions liabilities, and \$375,000,000 is proposed to fund future retiree health benefits. The full schedule breakdown of Proposition 2 supplemental payments is included below.

**Debts and Liabilities Eligible for Payments Under Proposition 2**

**2024-25 Governor’s Budget**

(Dollars in Millions)

	Outstanding Amount at Start of 2024-25 <sup>2/</sup>	Proposed Use of 2024-25 Pay Down	Proposed Use of 2025-26 Pay Down	Proposed Use of 2026-27 Pay Down	Proposed Use of 2027-28 Pay Down
<b>State Retirement Liabilities</b>					
1 State Retiree Health	82,413	375	385	395	395
2a State Employee Pensions—SB 84 Loan from SMIF		836	590	556	556
2b State Employee Pensions	70,818	885	1,272	1,134	1,253
3 Teachers’ Pensions <sup>1/</sup>	85,803	0	0	0	0
4 Judges’ Pensions	2,771	0	0	0	0
<b>Total</b>	<b>\$241,805</b>	<b>\$2,096</b>	<b>\$2,247</b>	<b>\$2,085</b>	<b>\$2,204</b>

<sup>1/</sup> The state portion of the unfunded liability for teachers’ pensions is \$10.265 billion.

<sup>2/</sup> For retiree health and pensions, the amounts reflect latest actuarial report available.



Proposition 2, adopted by California voters in 2014, created new rules regarding deposits into the state's rainy-day fund and accelerating payments toward certain eligible debts. A formula dictates these requirements on an annual basis. In general, the requirements tend to increase when revenues are growing more quickly and decline when revenue growth is lower.

*Budget Proposal: Application of Proposition 2 Debt Payments*

The Governor proposes applying a prior-year supplemental pension payment towards the required annual state contribution to CalPERS for state pension costs. According to the Administration, this proposal would achieve approximately \$1.3 billion in General Fund savings.

The Budget Act of 2023 provided a \$1.7 billion transfer to CalPERS to fulfill its Proposition 2 requirements. Although the state has already transferred the \$1.7 billion payment to CalPERS, how the funds would be applied to the state's unfunded liability has not yet been determined. The Governor's budget proposes applying the state's 2023-24 CalPERS payment to reduce the state's payment toward unfunded liabilities in 2024-25.

The Legislative Analyst's Office notes that this proposal may not be a clean fit with Proposition 2's requirements concerning supplanting required pension payments that would otherwise be made available in the "fiscal year or the subsequent fiscal year." The Administration disagrees. Assembly staff note that the LAO provides alternatives that could allow the state to achieve the vast majority of these savings in 2024-25.

The Governor released this \$1.3 billion savings proposal in January, and it is included in the Senate's early action budget plan. As such, it may be proposed as part of the upcoming early action budget package.

**Panel**

- Aston Tennefoss, Principal Program Budget Analyst, Department of Finance
- Ryan Weinberg, Staff Finance Budget Analyst, Department of Finance
- Noelle Fa-Kaji, Finance Budget Analyst, Department of Finance
- Ann Hollingshead, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

**Staff Comments**

Regarding the vacant position budget reductions proposed by the Administration, the Subcommittee may wish to ask:

- 1) The Governor's budget anticipates yielding \$762.5 million in General Fund savings from this proposal. Given that the Administration intends to work with each department in the future to identify vacant position reductions, how certain are the projected savings?
- 2) What is the Administration's timeline to work with departments and agencies and identify savings related to vacant positions?
- 3) Will the administration make reductions under this proposal if such cuts negatively affect departmental operations or services? If so, what criteria will be used to determine if a reduction will be made?
- 4) How will the administration notify the Legislature what reductions are made related to vacant positions?

Regarding the Proposition 2-related budget-balancing proposal, the Subcommittee may wish to ask if the Administration has considered using Proposition 2 debt payment funding to pay for a portion of its required contribution to CalSTRS in 2024-25.

**Issue 6: CalSTRS Contributions and Budget Change Proposals**

The California State Teachers' Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. 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 Required Contributions*

The Governor's budget provides \$4,239,518,245 for the statutorily required annual state contribution to CalSTRS. This figure is approximately an \$302 million increase from the 2023 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2021-22 to 2022-23.

*Budget Change Proposal: Operational Support and Compliance Risk Management*

CalSTRS requests \$1,899,000 in 2024-25 and ongoing from the Teachers' Retirement Fund for 12 positions for operational support and compliance and risk management functions. Specifically, the positions will support CalSTRS various business areas, including the Executive Office, Financial Services, Human Resources, Technology Services, and Legal. In addition to general operational support, the positions will work on compliance and risk management, which includes information security, regulatory compliance, and Public Records Act request response.

*Budget Change Proposal: Pension Solution Project*

CalSTRS requests \$205,837,000 one-time funding in 2024-25 from the Teachers' Retirement Fund to complete its Pension Solution Project. The Pension Solution Project is CalSTRS pension administration modernization effort.

In 2007, CalSTRS recognized the need to address operational risk associated with CalSTRS' existing legacy systems, including its pension administration system, START. In October 2007, the Teachers' Retirement Board directed CalSTRS to begin the process of replacing its aging technology infrastructure. The Pension Solution Project was then initiated in order to address significant technology and cost concerns with operating the legacy START system, all of which continue to exist today. According to CalSTRS, as START's underlying technology has aged, expertise has become increasingly scarce and expensive to recruit and retain. CalSTRS notes that it continues to rely on a shrinking pool of external contractors for critical maintenance and development. CalSTRS is obligated to make ongoing changes to pension administration technologies and processes in order to conform to continuously evolving state and federal law

and to meet critical employer and member needs. Given the scarce expertise and the reliance on external contractors, any updates to CalSTRS' complex, custom solution have become very costly and difficult to maintain.

The planned new system, BenefitConnect, aims to offer enhanced services to members, beneficiaries, employers and staff in a more modern platform. CalSTRS contracted with an original system integrator (OSI) to configure and implement the new pension administration system. Despite meeting several project milestones, CalSTRS noted significant challenges and delays with the project, including decreasing pass rates of contractor acceptance testing of the OSI software code, greater than expected defects and low pass rates of functionality passed to user acceptance testing. As a result of the project challenges, in July 2022, the OSI and CalSTRS mutually agreed that the OSI would transition the remaining portion of the project to another technology vendor at the conclusion of their contract term on June 30, 2023. To ensure progress continued on the project during the transition, CalSTRS notes that it has executed a formal agreement with the original system integrator's subcontractor as the provisional technology vendor to provide services during the interim services period, from July 1, 2022, through June 30, 2023.

The Budget Act of 2023 provided \$87,173,000 one-time funding from the Teachers' Retirement Fund to continue implementation activities of the Pension Solution Project, bringing the total project budget to \$422 million.

This budget proposal would bring the total project budget to approximately \$627.8 million. Of this figure, \$523.1 million is to complete the system implementation, which is scheduled for Fall 2025. The remaining \$104.7 million is for twelve months of maintenance and operations and nine months of stabilization activities through June 30, 2027.

**Panel**

- Julie Underwood, Chief Financial Officer, California State Teachers' Retirement System
- Ryan Weinberg, Staff Finance Budget Analyst, Department of Finance
- Angela Short, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

**Staff Comments**

Staff does not have concerns with the proposals.

The 2024-25 Pension Solution Project budget request includes funding to sustain a portion project team and vendor support for maintenance and operations and stabilization activities. The Subcommittee may wish to ask CalSTRS about the anticipated ongoing costs for maintenance and operations in future years.

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