

SUBCOMMITTEE NO. 5

Agenda

Senator Nancy Skinner, Chair
Senator Joel Anderson
Senator Jim Beall



Thursday, May 17, 2018
9:30 a.m. or upon adjournment of Session
State Capitol - Room 113

Consultant: Anita Lee

AGENDA PART A

Items Proposed for Vote Only

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Items Proposed for Vote-Only

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 1: Adjustments for Benefit Programs

Disability Insurance Program. For 2017-18, benefit payments are projected to decrease by \$66.46 million from the level previously estimated in the October 2017 Revise. The proposed change includes a decrease of \$95.49 million in benefit payments for the Disability Insurance (DI) program and an increase of \$29 million in benefit payments for the Paid Family Leave (PFL) program. Total benefit payments are estimated to be \$6.73 million, which includes \$882.51 million for the PFL program. The DI program's Average Weekly Benefit Amount (AWBA) decreased from \$565 to \$560 and the PFL program's AWBA increased from \$615 to \$624.

For 2018-19, benefit payments are projected to increase by \$172.07 million from the level previously estimated in the October 2017 Revise. The proposed change includes an increase of \$75.76 million in benefit payments for the DI program and an increase of \$96.28 million in benefit payments for the PFL program. Total benefit payments are estimated to be \$7.51 million which includes \$1.02 billion for the PFL program. The DI program's AWBA decreased from \$609 to \$600 and the PFL program's AWBA increased from \$655 to \$663.

Unemployment Insurance Program. For 2017-18, benefit payments are projected to decrease by \$249.6 million from the level previously estimated in the October 2017 Revise. Total benefit payments are estimated to be \$5.56 billion. Decreases are being driven by the slight decline in the unemployment level; despite an increase to the Average Weekly Benefit Amount (AWBA) from \$321 to \$323.

For 2018-19, benefit payments are projected to increase by \$6.12 million from the level previously estimated in the October 2017 Revise. Total benefit payments are estimated to be \$5.76 billion. The increase is driven by the AWBA increasing from \$324 to \$329, while the unemployment rate remains steady. The 2017-18 and SFY 2018-19 projected benefit amounts include a buffer of three percent for economic uncertainties. Without this buffer, benefits would decrease by \$337.29 million in 2017-18 and decrease by \$161.51 million in 2018-19.

School Employees Fund. The SEF is a joint pooled risk fund administered by EDD, which collects contributions based upon a percentage of total wages paid by public schools and community college districts. The contribution rate is calculated annually based upon the formula established per Section 823 of the California Unemployment Insurance Code. Money deposited in the SEF is used to reimburse the Unemployment Fund for the cost of Unemployment Insurance benefits paid to former employees of those school employers who have elected this option in lieu of paying the tax-rated method, as is required of private sector employers.

Local Assistance (disbursements) includes benefit charges and claims management fees. The estimated Local Assistance for 2017-18 is \$3.53 million higher than reported in October 2017,

for a total of \$91.46 million. This increase is due to actual benefit charges that have come in higher than projected, as current year charges continue to come in at higher levels than the prior year, and the average weekly benefit amount (AWBA) rises.

The estimated Local Assistance for 2018-19 is \$8.86 million higher than the 2018-19 level reported in October 2017, for a total of \$89.83 million. This increase is due to a change in assumption that benefit charges would decrease from current year to budget year as a result of anticipated lower wage levels and more stable school budgets. However, the AWBA has been rising and schools are facing budget uncertainty in the face of rising pension costs.

Staff Recommendation. Approve as proposed.

Issue 2: Information Technology Classification Consolidation

Summary. On March 29, the Administration submitted a spring finance letter requesting \$1.9 million ongoing (\$921,000 General Fund, \$271,000 federal funds, and \$713,000 special funds and reimbursements) appropriation for 2018-19 for the ongoing increased costs resulting from the statewide IT Classification. EDD is proposing to fund this with a mixture of fund sources.

Background. In June 2015, the state began an effort to consolidate IT classifications. The newly proposed classifications will transition approximately 36 current IT classifications into five rank-and-file IT classifications and four IT supervisory/managerial classifications. In developing the new IT classifications, the statewide team grouped classifications which have similar functions and/or salaries into one new classification. The consolidation of the classifications result in a salary increase to over half of the staff impacted by this change. The changes to the current classifications took effect on January 31, 2018. The number of positions impacted and the dollar calculations are provided in the table below:

Information Technology (IT) Classification Overview for State Fiscal Year 2018-19					
IT Classification		Number of Positions	Net Impact		Total
Prior	New		PS	Benefits	
Systems Software Specialist III (Supervisory)	IT Manager I	13	\$9,204	\$3,320	\$12,524
Data Processing Manager II	IT Supervisor II	22	\$264	\$95	\$359
Systems Software Specialist II (Supervisory)		1	\$144	\$52	\$196
Systems Software Specialist II (Technical)	IT Specialist (Ranges A – C)	51	\$8,568	\$3,091	\$11,659
Staff Information Systems Analyst (Specialist)		67	\$578,880	\$208,819	\$787,699
Staff Programmer Analyst (Specialist)		38	\$328,320	\$118,435	\$446,755
Systems Software Specialist I (Technical)		34	\$294,576	\$106,262	\$400,838
Associate Systems Software Specialist (Technical)	IT Associate	4	\$864	\$312	\$1,176

Assistant Information Systems Analyst (Range C)	(Ranges A – D)	5	\$66,780	\$24,090	\$90,870
Assistant Information Systems Analyst	IT Technician (Ranges A – C)	2	\$15,240	\$5,498	\$20,738
Computer Operator		9	\$87,480	\$31,557	\$119,037
Information Systems Technician		1	\$9,720	\$3,506	\$13,226
		247	\$1,400,040	\$505,037	\$1,905,077

Staff Recommendation: Approve as proposed.

Issue 3: Local Assistance Adjustments

Summary. The May Revision proposes provisional budget bill language to align budget authority with current federal allotments for local area activities, and to allow EDD to spend federal grant dollars for local youth programs if actual receipts are underestimated.

Staff Recommendation. Approve as proposed.

Issue 4: Accounting Resources

Summary. EDD requests 15 positions and \$6.9 million to provide resources to complete accounting transactions in its legacy system to meet federal reporting requirements necessary to provide unemployment benefits without interruption while also transitioning to the Financial Information System for California (FI\$Cal). This includes up to \$5 million for vendor services to manage this temporary additional workload and allow for successful transition to the new system. Funds will be funded equally by the Disability Insurance (DI) Fund and the EDD Contingent Fund for 2018-19.

Background. The EDD is one of the largest state departments with almost 8,000 employees at hundreds of service locations throughout the state and offers a wide variety of services to Californians under the Unemployment Insurance (UI), DI, Workforce Innovation and Opportunity Act, and Wagner-Peyser programs. EDD also handles the audit and collection of payroll taxes for 1.4 million employers and maintains employment records for more than 18 million California workers.

EDD is mandated to maintain a fully automated accounting and program cost accounting system utilizing a state uniform accounting and reporting system. Currently, the EDD maintains five legacy and two modernized financial information legacy systems. They include the Cost Accounting System (CAS), and two personal computer based systems. CAS is EDD's primary accounting system that captures monthly personal service expenditures, operating expenses and equipment expenditures, sub-grants, and benefit payment information. It also performs cost allocation and reports monthly program expenditures. Additionally, EDD maintains legacy procurement and asset management systems, which were used to manage the department's portfolio of capitalized and sensitive assets.

The FI\$Cal project seeks to enable the state to combine various State entity's accounting, budgeting, cash management, and procurement operations into a single integrated financial

management system. The project is being implemented by the Department of FI\$Cal in releases, with some (mostly smaller) departments having implemented the project over the past two to three years, and a number of other (mostly larger) departments – including the EDD – scheduled to implement the project in 2018-19.

Based on the complex nature of EDD’s legacy systems, combined with the varied programs and funding within EDD, resources are required in order to ensure as smooth a transition as possible without interruption to the vital services EDD provides to the people of California.

The EDD also provides administrative services for two other State agencies, the California Workforce Development Board, and the Labor and Workforce Development Agency. These two agencies would thus also be impacted when the EDD implements FI\$Cal. This proposal improves the quality of financial compliance through FI\$Cal by enabling EDD to meet all federal and state requirements.

If the proposal is not granted, the Administration notes there could be significant impacts for EDD and California, putting federal funding at risk. There could be potential loss of General Fund revenues, delays in paying UI and DI benefit payments, delays in granting cash requests to Local Areas, and untimely payments to vendors for services. Due to the EDD’s commitment to the success of FI\$Cal, this request is necessary to meet the legislative goals of FI\$Cal pursuant to Government Code 11854.

With the transition of FI\$Cal, current processes must be redesigned to adapt to the new system, and it is critical to have appropriate and adequate staffing. In addition, these resources will provide EDD’s Fiscal Programs the resources to perform mandated federal and state reporting activities, grant management responsibilities, and financial audit assistance.

The EDD is also requesting \$5 million for vendor services to manage this temporary additional workload and allow for successful transition into the new system. Specifically, to assist EDD with successful transition activities and ensure business processes conform to federal and state rules, the additional temporary vendor assistance supplements staff levels in order to adequately support implementation and post go-live operations.

Staff Recommendation. Approve as proposed.

7120

CALIFORNIA WORKFORCE DEVELOPMENT BOARD

Issue 5: Global Warming Solutions Act Report

Summary. The California Workforce Development Board requests \$400,000 from the Greenhouse Gas Reduction Fund in 2018-19 to meet the legislative report requirement in AB 398 (Garcia, E.), Chapter 135, Statutes of 2017. Specifically, the bill requires the board to report by January 1, 2019, on the need for increased education, career technical education, job training, and workforce development resources or capacity to help industry, workers, and communities transition to economic and labor-market changes related to statewide greenhouse gas emissions reduction goals. The California Workforce Development Board shall ensure that the report aligns, as appropriate, with California’s Unified Strategic Workforce Development Plan, developed by the California Workforce Development Board. Pursuant to AB 398, California Workforce Development Board and the state board shall work in consultation with various entities.

Staff Recommendation. Approve as proposed.

Issue 6: Workforce Innovation Opportunity Act Discretionary Federal Funds

Summary. The Governor’s May Revision proposes \$60.4 million in state-level discretionary federal Workforce Innovation Opportunity Act (WIOA) funding in 2018-19, a \$1.5 million decrease relative to 2017-18.

Background. Federal law provides that a certain portion of federal WIOA funding, up to 15 percent, may be held by the state for “statewide workforce investment activities,” while the remainder of WIOA funds are passed on to Local Workforce development boards to provide services to unemployed or underemployed adults and youth. The statewide funds are sometimes referred to as “discretionary funds.” The actual amount of discretionary funds that may be reserved at the state level, subject to the 15 percent cap, depends on congressional appropriations.

The May Revision decreases funding for some previously funded items while making offsetting increases in other previously funded items.

- **SlingShot 2.0 Regional Plan Support:** Reduce by \$3.1 million (a majority which were from carry over funds from 2016-17) for a total of \$6 million. This supports regional leadership capacity for the implementation of WIOA regional plans in each Regional Planning Unit (RPU); support Regional Accelerators in the RPUs that build on existing Workforce Accelerator projects (described on the following page) and support new approaches and partnerships that accelerate employment for populations with barriers, including immigrants and/or ex-offenders; support Regional Organizers that assist RPUs in regional plan implementation, leadership coordination, SlingShot development, Workforce Accelerator coordination, and model sector initiatives; and support activities that may lead to the re-designation of multiple local workforce areas within an RPU to a single local workforce area.

- Model Multiple-Employer Industry Sector Programs: Reduce by \$800,000 for a total of \$2.2 million (funding in 2016-17 was approximately \$2 million). Funds are awarded to local workforce regions to implement or advance model sector partnerships. Successful partnerships will emphasize job quality, immigrant integration, and commitment to the joint interests of employers and workers. Targeting key sectors identified in the regional plan, model partnerships will utilize proven earn and learn training approaches (such as incumbent worker training, paid internships, formal apprenticeship) and demonstrate leadership and investment from industry in partnership with labor, education, and community based organizations. Funds will also support technical assistance, intermediary training, and program assessment.
- Service for In-School At Risk Youth: Eliminate the program (\$600,000), which was created last year. This program sought to expand youth services offered by state staff at local job centers, establish partnerships with other local agencies and community-based organizations, and educational institutions that work with youth. Staff notes that there are a variety of programs funded through the slingshot, and workforce accelerator programs that target and engage youth.
- Regional Workforce Accelerator Program: Increase of \$200,000 for a total of \$6.1. This program awards funds to local programs to test innovations that accelerate employment for populations with barriers to employment by more effectively removing barriers and creating improvements in training and job placement. Emphasis is on development of new strategies among related organizations and/or cross-program and service alignment that can improve employment outcomes for formerly incarcerated/ex-offenders and immigrant populations and others with barriers to employment.
- High Performing Boards: Increase of \$100,000. This program will be used to engage businesses and workforce partners regionally to develop sector strategies, build regional awareness of effective business engagement practices, and develop strategies to serve priority populations with barriers to employment. These funds will be used to meet the requirement of Senate Bill 698 (Lieu), Chapter 497, Statutes of 2011, which requires the Governor to establish, through the State Workforce Board, standards for certification of high-performance local workforce boards and to reserve specified federal discretionary funds for high-performance local workforce boards.
- Administration and Program Services: Increase of \$2.7 million for a total of \$37.4 million to fund (1) comprehensive services at ACJCC's, (2) audit, compliance and fraud prevention, (3) labor market information program, (5) local program oversight and technical assistance, (6) financial management and information technology, (7) WIOA implementation, (8) CAAL-Skills performance and participant data alignment, (9) CWDB administration, policy development and program partner coordination.

Staff Recommendation. Approve as proposed.

Issue 7: Statewide Prison to Employment Initiative

Background. This item was heard and discussed on April 26, 2018.

Governor's Budget Proposal

Provides \$14 Million General Fund for Employment Services for Ex-offenders. The Governor's 2018-19 proposal would provide \$14 million General Fund over two years to fund a new job training program for ex-offenders at the state's AJCCs (and their subcontractors). Funds could be used for a variety of services, including English language learning, basic skills and adult education, training stipends, industry-approved certification programs, pre-apprenticeship, and on-the-job training, among others. Based on training cost data from the ForwardFocus grant program, the State Board estimates that about 1,000 ex-offenders would attain job placements as a result of these services. A somewhat larger number of ex-offenders would receive services. This represents \$14,000 in funding for each ex-offender who attains a job placement, which is based on ForwardFocus, established through AB 2060 (Pérez, V. Manuel), Chapter 383, Statutes of 2014.

Provides \$20 Million General Fund for Supportive Services. In addition to direct employment services, the Governor proposes to allocate \$20 million General Fund over two years to fund supportive services for ex-offenders who participate in job training. Supportive services are services that an ex-offender may require in order to attend job training. Common supportive services include bus passes, childcare vouchers, and housing assistance. According to the proposal, ex-offenders who participate in employment services would be eligible for up to \$5,000 each in supportive services.

Provides \$1.75 Million General Fund to Integrate Workforce Training Programs. Under the proposal, the State Board would provide an additional \$1.75 million General Fund to local boards for the creation of regional partnerships and planning between the local boards, CDCR, parole centers and county probation departments, and community-based reentry services and others as authorized by the state board. Grants would be made to each of the 14 workforce regions based roughly on the number of ex-offenders in each region. According to the Administration, implementation grants that facilitate collaboration would help regional partners "package" services and customize job placement based on an ex-offender's training history and job needs.

The proposal requires all local entities to develop partnership plans. These plans would outline how each entity intends to integrate services for ex-offenders. One byproduct of this new planning requirement is that the state workforce plan would add CDCR and county probation as official workforce partners.

The trailer bill provides the board the flexibility to develop guidelines for the program, such as plan content, partners, activities of partnerships, guidelines for allocation and distribution of grants. Trailer bill language requires the board to at least consider need of workforce services in

each region for formerly incarcerated, size of post-release population, and recidivism rate of each region.

Some Grant Evaluation Data Would Be Submitted to State Board. The proposal provides \$1 million for a grant evaluation, and would require local boards to submit to the State Board information about ex-offender participation in grant-funded programs. This would include information about how the grant was implemented, the number of ex-offenders who enrolled in training activities, whether enrollees completed training, and whether participants found employment.

Staff Recommendation. Adopt placeholder trail bill language that includes pre-apprenticeship curriculum offered in state prison facilities consistent with the California Workforce Development Board's State Strategic Workforce Development Plan, to be refined as necessary.

Issue 8: Augmentation for Public Employment Relations Board

Summary. This item was heard on April 26, 2018. The Public Employment Relations Board (PERB) is a quasi-judicial administrative agency charged with administering the eight statutes that establish the collective bargaining process for about 2.3 million governmental employees in California. In this role, PERB (1) ensures these laws are implemented and applied consistently and (2) mediates and adjudicates disputes between governmental employers and employees. Such disputes include “unfair labor practice” claims. Section 3541 of the Government Code establishes PERB and specifies that the board “shall be independent of any state agency.” For January through March 2018, it takes about 165 days to process Office of the General Counsel cases, which directly affect the workload of the Division of Administrative Law. PERB reports it takes about 117 days to process cases at the Division of Administrative Law. PERB also notes that there are 37 cases which are over one year old. These delays are inconsistent with PERB's goals to provide meaningful resolution of labor disputes in a timely manner.

Staff Recommendation. Appropriate \$5 million ongoing General Fund for PERB for process cases in a timely manner and to reduce backlog.

Issue 9: Employee Orientation

Summary. The Legislature adopted AB 119 (Committee on Budget), Chapter 21, Statutes of 2017, which required certain public sector entities to allow public section representatives to present to employees during new employee orientation and provide employee contact information to the representative entities. However, some employees were inadvertently not included in the bill.

Staff Recommendation. Adopt placeholder trailer bill language regarding technical clean-up for employee orientation.

Issue 10: Kern Hospital Authority

Summary. The Legislature approved AB 2546 (Salas), Chapter 613, Statutes of 2014, which authorizes the Kern County Board of Supervisors to establish the Kern County Hospital Authority to manage, administer, and control the Kern Medical Center (KMC), and for the operation of additional programs, facilities, care organizations, physical practice plans, and delivery systems, and specifies the new Authority's governance, powers, and procedures. The language also contains extensive provisions relating to the Authority's effects on current KMC and County employees, including benefits, seniority, and retirement. However, additional language is needed to clarify legislative intent regarding benefits.

Staff Recommendation. Adopt placeholder trailer bill language to clarify legislative intent.

7501 CALIFORNIA DEPARTMENT OF HUMAN RESOURCES (CALHR)
0511 GOVERNMENT OPERATIONS AGENCY

Issue 11: Civil Service Improvement Trailer Bill Language

Summary. This item was heard on April 26th. The Governor's proposes trailer bill language to continue advancing the Administration's civil service improvement efforts.

Background. The California Government Operations (GovOps) Agency is responsible for administering state operations including procurement, information technology, and human resources. GovOps oversees various departments, including CalHR, the State Personnel Board, CalPERS, CalSTRS, Office of Administrative Law, California Franchise Tax Board, Department of General Services, and California Department of Technology. Over the last three years, the Administration has proposed trailer bill language and budget change proposals to further its civil service improvement initiative. The goal of the 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. Staff, the Administration, and relevant stakeholders are in ongoing conversation about the proposed trailer bill language.

Staff Recommendation. Approve placeholder trailer bill language, pending final agreement.

7501 CALIFORNIA DEPARTMENT OF HUMAN RESOURCES (CALHR)

Issue 12: Preventing Sexual Harassment and Discrimination in the Workplace

Summary. The Department of Human Resources (CalHR) is requesting three permanent positions and \$1.45 million (\$720,000 General Fund, \$132,000 Reimbursement, \$47,000 Special Funds, and \$546,000 Central Service Cost Recovery Fund) in fiscal year 2018-19 and ongoing to establish a centralized unit, within the Office of Civil Rights, specifically responsible for the statewide oversight of monitoring and addressing discrimination and harassment complaints received by state entities. The unit will be responsible for analyzing complaint data, assisting state entities with problems, and addressing negative trends. The unit will also provide detailed reporting on all activities, allowing CalHR to be proactive in identifying compliance issues within departments.

The request includes funding for a centralized solution that allows data collection and statewide reporting. The centralized system will allow CalHR to monitor and track discrimination and harassment complaints, case outcomes, and monetary costs related to judgments and settlements. It will also allow CalHR to review and analyze department discrimination and harassment complaint data, correct problems, and identify negative trends.

Staff Recommendation. Approve as proposed.

Issue 13: Statewide Training Center

Summary. Since 2013, CalHR's Statewide Training Center has been creating a centralized training infrastructure with the capability to provide a variety of new civil service-taught training solutions along with its vendor offerings. The Statewide Training Center is a reimbursable program funded through the tuition charged to the employers of the class participants.

Since CalHR provides best practices training programs, there is occasional demand for public employees outside of the Executive Branch, such as public employees from cities, counties, California State University, University of California, the Legislature, judicial branch, and the federal government, to seek participation in training classes through the Statewide Training Center. Although CalHR's focus is on the development of the state's workforce, the Administration notes that there is no reason that all public employees should not benefit from the affordable programs developed and offered by the Statewide Training Center when capacity permits.

This trailer bill would ensure that all public employees could take advantage of the state's training programs by expressly stating the CalHR has the authority to provide training to any public employee and collect registration fees from their employing entity without the need for an interagency agreement.

Staff Recommendation. Adopt trailer bill language, to be modified as necessary.

7900 CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM**Issue 14: CalPERS Operational Budget**

Governor's Budget Proposal. The May Revision proposes various budget bill amendments to incorporate changes to the California Public Employees' Retirement System (CalPERS) operational budget proposed at the CalPERS Board meeting on April 17, 2018, and anticipated to be approved at the May 2018 Board meeting. The request is comprised of the following changes:

- Decrease Item 7900-003-0830 by \$8.3 million
- Increase Item 7900-015-0815 by \$620,000
- Decrease Item 7900-015-0820 by \$34,000
- Increase Item 7900-015-0830 by \$13.6 million
- Increase Item 7900-015-0833 by \$477,000
- Decrease Item 7900-015-0849 by \$1,000
- Increase Item 7900-015-0884 by \$637,000

The budget proposed by CalPERS reflects a net increase of \$6.9 million primarily attributed to an increase in salaries and benefits, and partially offset by a continued reduction in external investment management fees. The budget bill items noted above are display items for informational purposes to reflect the corresponding changes in CalPERS' continuous appropriation authority.

Staff Recommendation. Approve as proposed.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**Issue 15: Revised Creditable Compensation**

Summary. The May Revision requests that Item 7920-011-0001 be increased by \$5.58 million to reflect an increase in creditable compensation reported by the California State Teachers' Retirement System for fiscal year 2016-17, pursuant to Education Code section 22955.5. As compared to the Governor's Budget, the Defined Benefit payment will be increased by \$4.16 million and the Supplemental Benefit Maintenance Account contribution will be increased by \$1.42 million. These adjustments are consistent with existing statutory funding requirements pursuant to Education Code sections 22954 and 22955.1.

Staff Recommendation. Approve as proposed.

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION**Issue 16: Augmentation for Employee Compensation**

Governor's Budget Proposal. The Governor's May Revision proposes the following items related to employee compensation augmentations:

Budget Item 9800 allows for adjustments in departmental budgets to account for changes in employee compensation, including salaries, health and retirement benefits. This proposal would increase Item 9800-001-0001 be increased by \$129.89 million, Item 9800-001-0494 by \$2.7 million, and Item 9800-001-0988 by \$1.39 million to reflect increases to salaries and benefits for the recently negotiated memoranda of understanding with the California Correctional Peace Officers Association (Bargaining Unit 6), natural changes to enrollment in health and dental plans, updated employment information for salary increases and other post-employment benefit contributions, revised pay increases for Judges, and updated costs related to the salary survey estimates for the California Highway Patrol (Bargaining Unit 5). Additionally, while these figures include estimated health premium rates, the Administration notes final health rates are not expected to be adopted by the California Public Employees' Retirement System Board of Administration until June 2018.

Staff Recommendation: Approve as proposed.

CONTROL SECTION 3.60

Issue 17: Control Section 3.60

Governor's Budget Proposal. The May Revision requests Control Section 3.60 be amended to capture changes in state retirement contribution rates for state members of the CalPERS and Judges' Retirement System II (JRS II), adopted by the CalPERS Board on April 18, 2018 and February 14, 2018, respectively. With exception to the State Safety plan, the reduction in state employer contribution rates for CalPERS state members is a result of greater than expected investment returns in fiscal year 2016-17, the state's \$6 billion supplemental pension payment per Senate Bill 84 (Committee on Budget) Chapter 50, Statutes of 2017, and more new hires entering the system under lower benefit formulas pursuant to the Public Employees' Pension Reform Act of 2013.

The newly adopted state employer contribution rates for CalPERS state members result in additional state costs of \$340.5 million, a decrease of \$18.1 million from the \$358.56 million included in the Governor's Budget. Of the \$18.1 million decrease, the General Fund is \$12.44 million, special funds are \$4.55 million, and other non-governmental cost funds are \$1.1 million. Additionally, it is requested that CalPERS' fourth quarter deferral be reduced by \$2.5 million General Fund from the Governor's Budget to reflect the changes in retirement rates. The reduction in the state employer contribution rate for JRS II members is attributed to a revision in demographic assumptions; CalPERS is assuming lower growth in life expectancy. The newly adopted rate results in General Fund costs of \$74.4 million, a decrease of \$5.3 million from the \$79.63 million General Fund included in the Governor's Budget.

The net effect of these changes on the General Fund is a decrease of \$15.2 million in 2018-19 compared to Governor's Budget.

Staff Recommendation. Approve as proposed.

Issue 18: Apprenticeship Programs in Nontraditional Industries

Summary: The Department of Industrial Relations requests \$3.5 million Employment Training Fund and 22.0 positions in 2018-19, \$4.5 million and 32.0 positions in 2019-20, \$5.7 million and 42.0 positions in 2020-21, and \$5.6 million ongoing to expand statewide apprenticeship opportunities to nontraditional industries and the inmate population.

Background

The Division of Apprenticeship Standards (DAS), within the DIR, is responsible for promoting and developing employment based apprenticeship training programs, improving apprentices' working conditions, and advancing profitable employment opportunities for apprentices. The division accomplishes these objectives by providing consultative services to apprenticeship program sponsors, employers, employee organizations, and education providers.

California's State Strategic Workforce plan calls for creating a million middle-skill, industry-valued and recognized postsecondary credentials between 2017 and 2027 and for doubling the number of people enrolled in apprenticeship programs during that same period. As of June 30, 2017, the Division reports over 74,000 active apprentices. The challenge is to substantially increase the number of apprentices in non-construction sectors and to increase access to an approved apprenticeship program for inmates, ex-offenders, veterans, women and other underrepresented communities, in order to achieve the qualitative and quantitative goals of the State Strategic Workforce Plan. Over two-thirds of all active apprentices are in the building and construction trades, and 92 percent of all construction apprentices are enrolled in joint management/labor programs.

The 2017 Budget Act approved six positions and \$923,000 in federal funds to accomplish the objectives of a federal grant to expand and diversify registered apprenticeship, and to begin the expansion and diversification of California's Strategic Workforce Plan. This funding is set to expire in 2018-19. Under the 2017-18 budget, 40 new programs were created, with 20,000 new apprentices, and 133 companies were engaged.

Governor's Budget Proposal. The Administration requests the continuance of that initial funding with an ongoing augmentation of 42.0 positions and \$5.6 million annually to be phased-in over a three-year period.

This proposal will build and strengthen a collaborative relationship between DIR, the California Department of Corrections and Rehabilitation (CDCR), the California Prison Industry Authority, and the Labor and Workforce Development Agency (Agency) by collaborating to create apprenticeship programs and on-the-job training certification for inmates prior to release. The goal is to provide inmates with occupational training and industry recognized certifications while in prison to increase their opportunity for job placement or paid apprenticeship programs upon their release, and successful reintegration into society.

This proposal focuses on engaging nontraditional industry leaders in apprenticeship and increase opportunities for veterans, women and low-income groups. Job growth in the state is occurring in the information technology, health care, advanced manufacturing, and transportation/logistics sectors. DIR has collaborated with and will hold round table discussions with Cisco, Salesforce, California Manufacturing and Technology Association, etc. to increase employer awareness of, enthusiasm for and participation in apprenticeship programs.

Labor Agency and DIR will coordinate with the following governmental agencies:

- CDCR: To develop connections between the Department of General Services, other state agencies and the State Building Trades Council to promote hiring of ex-offenders into state civil service as well as local building trades apprenticeship training committees.
- Workforce Development Board: To meet its Federal Workforce Innovation and opportunity Act and AB 554 mandate, align workforce and education program content with the state's industry sector needs, and provide employers with the skilled workforce necessary to compete in the global economy.
- Employment Training Panel: To provide funding support to employers in upgrading the skills of their workers.
- CalHR Civil Service Initiative team: To craft apprenticeship programs for civil service occupations where skill gaps exist.

The proposal will create opportunities for new and emerging industries by utilizing a creative approach to program design and deployment, which reflects a consensus among government, businesses, and labor about the value of apprenticeship to industry growth, as well as worker advancement and security. Program objectives are as follows:

- Develop a new understanding of apprenticeship among relevant state agencies.
- Create a parallel system for nontraditional apprenticeship models in information technology, health care, advanced manufacturing, etc.
- Ensure the ability of the Division to accommodate unique needs of each industry sector.
- Refresh the established inmate apprenticeship training program to prepare parolees and ex-offenders to meet criteria for successful job placement.
- Align inmate apprenticeship programs with industry demand. Currently, there are approximately 304 internal inmate continuing education training programs in: automotive repair, machinist, meat cutting, printing, upholstery and others. Through coordination with CDCR, these programs are being formalized as apprenticeship or on-the-job training programs where appropriate.
- Engage businesses in the nontraditional industries, to educate them on the value of hiring well trained ex-offenders through partnership with other governmental agencies (i.e. the Board), or local community colleges, to provide a robust package of resources to employers.
- Promote opportunities for ex-offenders, women, veterans, and those from other underrepresented communities.

The Administration estimates the following outcomes associated with the proposal.

Workload Measure	2017-18	2018-19	2019-20	2020-21	2021-22
Number of active apprentices	81,794	87,570	93,346	99,122	104,898
Number of new apprentices enrolled	36,807	39,407	42,006	44,605	47,204
Number of completion certificates issued to graduating apprentices	11,357	13,698	15,204	16,359	17,514
Number of new apprenticeship program applications received	52	100	100	100	100
Number of new apprenticeship programs approved	48	92	92	92	92

Staff Recommendation. Approve budget change proposal, and adopt placeholder trailer bill language that includes pre-apprenticeship curriculum offered in state prison facilities consistent with the California Workforce Development Board's State Strategic Workforce Development Plan, to be refined as necessary.