Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday May 21, 2020
1:30 p.m.
State Capitol - Room 4203

Consultant: Anita Lee

Part A: Labor and Employee Compensation

Vote-Only

(Attachment 1)

Vote Only Calendar for Governor's Budget Proposals from January

Vote Only Calendar for Modifications to Budget Proposals from January

Vote -Only Calendar for New Administration Proposals Introduced in May

Items for Discussion

BU 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 42: Unemployment Insurance Benefits and Program Administration.

Request. The May Revision requests an increase of $37.96 billion ($33.95 billion federal funds) in spending authority for unemployment insurance (UI) benefit payments for 2020-21, of this funding. The May Revision also requests an increase of $126.3 million and 777.1 positions in 2020-21 to reflect federal funding increases and projected workload increases for UI administration.

Background. The state's UI program is an employer-funded program that provides benefits to workers who become unemployed through no fault of their own. From March 2020 through April 2020, approximately 4 million initial unemployment claims were filed. In total, as of May 9th, about $12 billion in unemployment insurance benefits have been distributed. The LAO note that the UI Trust Fund became in solvent a few weeks ago, and as of May 18th, the federal government has advanced $1.1 billion to the state to cover UI benefits over the next few weeks.

According to EDD, the unemployment rate grew from 3.9 percent in February 2020 to 5.3 percent in March 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included several provisions to provide federally funded assistance to workers, as follows: (1) Federal Pandemic Unemployment Compensation (FPUC) provides a temporary increase of $600 per week in addition to the regular weekly benefit amount and will expire by July 31, 2020, (2) Pandemic Unemployment Assistance (PUA) program provides up to 39 weeks of benefits to workers who lost their jobs due to COVID-19, but do not qualify for state UI, this will expire on December 31,2020, and (3) Pandemic Emergency Unemployment Compensation (PEUC), which provides an additional 13 weeks of state UI benefits above the state maximum of 26 weeks.

The Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) provide states with grants for UI program administration. EDD received its first allotment of $58.99 million on April 1, 2020, and EDD will likely apply for the second allotment of $59.0 million in the current year. The EDD UI branch is planning to hire 600 additional staff at the new call center operation in May and June, and 900 new UI program representatives to handle more complex UI claim filings this summer. Additionally, EDD has redirected 1,400 staff from EDDs other branches and throughout the state to help with claims processing. In an effort to provide timely benefit payments, the EDD has exercised flexibility on: (1) the eligibility requirement to look for work and be available for work, and (2) immediately paying incoming claims after identity and wages are verified and prior to making determination of eligibility. Beginning on April 20th, a new call center was stood up for general or technical support from 9 a.m. and 8 p.m., seven days a week. EDD is currently collecting data on its two call centers, the EDD notes that the UI main line, which addresses more complex claims, is open 8 a.m. to noon Monday through Friday, had 80 percent of the calls blocked and the average wait time on the phone is 59 minutes.
Staff Recommendation: Adopt the May Revision proposal.

CONTROL SECTION 3.90, CONTROL SECTION 3.91, ITEM 9800

Issue 43: Employee Compensation Reduction and Suspension

Request. The May Revision proposes to add Control Section 3.90, which specifies a reduction in employee compensation to be achieved through all collective bargaining agreements and non-represented employees by $1.45 billion General Fund and $1.39 billion in other funds. The BBL specifies that a reduction in compensation is not achieved through all collective bargaining agreements by July 1, 2020, then the Director of the Department of Finance shall reduce employee compensation for all members of bargaining units with an agreement to reduce compensation. The reductions in employee compensation shall not exceed 10 percent.

The May Revision also proposes to add Control Section 3.91 to suspend employee compensation increases. The BBL states that absent additional federal funds, increased salaries and wages, such as general salary increases, general wage increase, special salary adjustments, and pay differentials that were to become effective during the 2020-21 fiscal year, that are not specified in Item 9800 are suspended. These suspensions represent a $383.43 million General Fund and $454.78 million decrease to Item 9800.

These items were included in the Governor's "trigger-off" list.

Background. The Governor's budget assumed the state costs to pay for state employee pay and non-retirement benefits would increase $1.5 billion ($660 million General Fund) to fully fund provisions included in ratified memoranda of understanding as well as the proposed Bargaining Unit 18 tentative agreement. The January budget also set aside $230 million General Fund in anticipation of new MOUs. Seven of the 21 state bargaining contracts are scheduled to expire this summer. These bargaining units represent approximately 187,000 full-time equivalent employees.

Staff Recommendation. Hold Open.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Issue 44: Supplemental Pension Payment Adjustment

Background. The 2019-20 budget provided a $3 billion General Fund supplemental pension payment for the state's CalPERS unfunded liability. The budget act specified that $2.5 billion would be applied in 2018-19 and the remaining $500 million over three years starting in 2020-21, of which $243 million was to pay the CHP State plan unfunded liability. The $2.5 billion supplemental pension payment would have produced an estimated $5.9 billion gross savings. The January budget proposed to modify the payment schedule for the $500 million to be applied in 2019-20 instead of over several years.

Proposal. The May Revision proposes to withdraw the $500 million General Fund CalPERS supplemental pension payment due to the economic crisis. The May Revision proposes $243 million Proposition 2 funds, instead of General Fund, to pay for the California Highway Patrol CalPERS unfunded liability. The May Revision also proposes to repurpose the $2.5 supplemental pension payment to supplant state General Fund contributions this year. This results in savings of $2.4 billion over multiple years including 2020-21.

The May Revision proposes trailer bill language to implement this change. Under the Governor's May Revision proposal, the total estimated gross savings over the next three decades is $3.1 billion.

Staff Recommendation. Hold Open.

California State Teachers Retirement System (CalSTRS) and CalPERS School Pool

Issue 45: Supplemental Payment, Supplanting Payment and Rate Authority

Background. The 2014-15 budget enacted a CalSTRS Funding plan which enacted to eliminate the CalSTRS unfunded liability in about 30 years. The plan phased in higher contribution rates from districts, employees and the state. Statute specifies district contribution rates through 2020-21. Under the statutory schedule, the district rate will increase to 19.1 percent in 2020-21. After 2020-21 CalSTRS can increase or decrease the rate by up to one percentage point per year, though the total district rate cannot exceed 20.25 percent.

The 2019-20 budget made a $660 million General Fund supplemental pension payment to the state share of the CalPERS School pool unfunded liability, and $144 million General Fund in 2019-20 and $100 million General Fund supplanting payment in 2020-221 to the school district employer CalPERS contribution rates.

The 2019-20 budget provided $1.64 billion General supplemental pension payment to the state share of the CalSTRS unfunded liability, and $356 million General Fund in 2019-20 and $250 million General Fund in 2020-21 supplanting payment for school employer CalSTRS contribution rates.

Proposal. The May Revision proposes to redirect the $660 million CalPERS School Pool supplemental pension payment to make supplanting payments to school employer contribution rates. This would increase the supplanting payment in 2020-21 to $430 million and $330 million in 2021-22. This would reduce the estimated contribution rate from 22.67 percent to 20.7 percent in 2020-21, and from 24.6 percent to 22.84 percent in 2021-22.

The May Revision proposes to redirect the $1.64 billion General Fund CalSTRS supplemental pension payment to make an additional supplanting payment in 2020-21 and 2021-22. This would increase the supplanting payment in 2020-21 to $1.07 billion and to $820 million in 2021-22. These payments would reduce the estimated employer contribution rate from in 2020-21 from 18.41 percent to 16.15 percent and from 17.9 percent to 16.02 percent in 2021-22.

The May Revision summary notes a trailer bill proposal to suspend the CalSTRS annual rate increases authorized by the STRS Board at the 2019-20 level until 2023-24. The Administration would instead continue to make supplemental payments from Proposition 2.

Staff Recommendation. Hold Open.