Governor: Eliminate Debts, Pay Down Pension Liabilities, and Grow Reserves.

Last week, Governor Gavin Newsom released his proposed 2020-21 State Budget that would fund state government for the 12-month period starting July 1, 2020.

Under the governor’s plan, state spending next year would total just over $222 billion, with $153 billion in general fund and $63.8 billion in special fund spending. Another $5.4 billion in state bond spending makes up the difference. This is about a 3.5% increase over current fiscal year spending. According to the governor, there is $5.6 billion in surplus revenue, which is lower than the $7 billion projected in November by the LAO.

The Newsom proposed budget will sock nearly $2 billion more into the state’s rainy day fund bringing it to $18 billion. With $3 billion held in other reserve accounts, California would be sitting on $21 billion by the end of the 2020-21 fiscal year.

In this Budget, as with last year’s, the majority of the surplus is devoted to one-time spending. This approach enables the state to make significant investments in critical areas without making commitments to ongoing spending in future years. Some of the major issues that the budget intends to address include homelessness, wildfires, health care costs, and universal preschool for four-year-olds, among other expansions in education funding.

While the budget is far from cautious, it seeks limited growth in long-term commitments and urges legislators to limit their requests for more spending due to the fact that both the state and national economies are expected to slow in the immediate future.

Here is the quick rundown on a few items that will specifically interest ACSS members:

State Employee Compensation.

The budget proposal includes $1.5 billion ($654 million general fund) in new funding for increased employee compensation, higher health care costs for active state employees, and the state’s contribution to prefund retiree health care costs for active employees. The budget summary notes the Administration will begin negotiations with 7 of the state’s 21 bargaining units, representing Attorneys and Administrative Law Judges, Correctional Officers, Engineers, Scientists, Craft and Maintenance, Physicians/Dentists/Podiatrists, and Health and Social Services, whose contracts expire in late June or early July 2020.
Building Budget Resiliency and Paying Down Unfunded Retirement Liabilities

The Budget includes a $7 billion payment ($4 billion general fund) for the statutorily required annual state contribution to CalPERS for state pension costs. This is $284 million higher than the amount included in the 2019-20 budget. Included in these costs are $739 million general fund for California State University retirement costs.

In addition to the state’s required contributions, the 2019 Budget Act included a $3 billion supplemental pension payment authorized to be paid towards the unfunded liabilities of the CalPERS state retirement plans over fiscal years 2018-19 through 2022-23. The Budget proposes to accelerate the payment of the remaining $500 million currently scheduled over fiscal years 2020-21 through 2022-23 into a single payment in 2020-21.

State Health Care/Retiree Health Care

In total, the state is projected to spend approximately $6.1 billion on health, dental, and vision care benefits in 2020-21 for more than 850,000 state employees, retirees, and their family members. Of that, $3.7 billion covers the costs for active employees and $2.4 billion covers retirees.

Through the collective bargaining process, the state’s 21 employee bargaining units and related supervisors and managers now prefund retiree health benefits. As a result, $2.6 billion is currently set aside in the prefunding trust fund to pay for future retiree health benefits. A small but important step in paying for what is an estimated $85.6 billion in unfunded health care liability. The health benefit trust is expected to assume paying for state employee retiree health care in 2046.

State Employee Position Increases

The budget projects the hiring of an additional 3,187 state employee positions in 2020-21 for a total of 219,017.

The Governor’s complete budget summary and draft budget can be found here:

www.ebudget.ca.gov

As we delve into more of the details, we will report on any new positions and increased funding proposals for departments outlined in the full budget or if there are other proposals that impact ACSS and its members. Please let us know if you have any questions.