



## ACSS State Budget Report January 15, 2021

Last week, Governor Gavin Newsom released his proposed 2021-22 State Budget that would fund state government for the 12-month period starting July 1, 2021.

Before diving into the newly proposed budget, it is important to remember what took place in the previous budget cycle. Last March, stay at home orders to slow a surging pandemic shut down large parts of our economy and threw millions of Californians out of work. At the time, state economists assumed that California had entered a prolonged COVID-19 recession and predicted a \$54 billion budget deficit and budget deficits for years to come. In order to create a balanced budget, as is required by the California Constitution, the Governor and Legislature agreed upon a bare bones budget in June which made deep across-the-board cuts to state spending programs, including reductions in state employee compensation. Budget writers also warned of a predicted \$9 billion deficit in fiscal year 2021-22.

Fortunately, these predictions were wrong. California's economy and state budget revenues did not fall to the expected levels. Middle and high-income wage earners continued to work from home – and pay taxes just as they always have. As the stock market soared, the wealthy collected, and then paid taxes on, billions of dollars in capital gains. The result: State revenues over the last year have come in at the levels that were predicted prior to the pandemic.

This brings us to the Governor's newly introduced 2021-22 State Budget proposal. The plan proposes total spending next year of just over \$227 billion, with \$164.5 billion in General Fund expenditures. With revenue coming in at far greater levels than projected, the 2021-22 budget anticipates a \$15 billion one-time surplus and reserves of \$22 billion. By comparison, the current 2020-21 State Budget authorized just \$202 billion in total spending, with \$133 billion in General Fund expenditures. It is important to note that the budget also makes clear that the budget good times are likely to be a one-time event. Unless revenue increases, or spending on state programs is decreased, the budget predicts an operating deficit of \$7.6 billion in fiscal year 2022-23, and in the years that follow.

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

**State Employee Compensation.** With the State's improved fiscal condition, the budget suggests the resources may be available to end the Personal Leave Program 2020 (PLP 2020) and restore state employee salaries to their previous levels on July 1, 2021. Under the PLP 2020 program, since July 1, 2020, state employees have received 16 hours of PLP 2020 leave each month as compensation for a reduction in take home pay.

According to the budget summary, undoing the PLP 2020 program and restoring state employee salaries will be done through the collective bargaining process this spring – after the release of the May Budget Revision, which will include an update on the State's fiscal condition.

**5% State Operations Cut.** The proposed budget continues the requirement adopted as part of last year's budget that all State departments reduce their operating costs by 5% in the fiscal year. The State has urged greater adoption of telework and a reduction in state office space to meet this objective.

**CalPERS Contribution.** The budget includes the State's required \$5.5 billion payment to CalPERS for 2021-22 to cover the pension costs of current employees. Interestingly, this is \$115 million less than the payment in the current budget year. The budget summary credits the reduced payment to the supplemental payments in previous budget years to reduce CalPERS unfunded liabilities. The summary also notes that the payment is lower this year due to the reduction in state employee take home pay that is part of PLP 2020 currently in place.

**Supplemental Payment(s) to CalPERS.** In addition to the required payment to CalPERS, the budget proposes an additional \$1.5 billion supplemental payment to boost CalPERS' funding this year and dedicates another \$4.1 billion in supplemental payments to CalPERS over the next two years. Given the predicted deficit, the Governor and Legislature abandoned plans to provide supplemental payments to CalPERS in the 2020-21 budget. It is a very positive development that the Administration is proposing to start them up again.

**CalPERS Retiree Health Care.** The budget also includes \$6.8 billion to meet the State's health care obligations to active employees and state retirees in 2021-22. This represents an increase of about \$700 million over last year. Of the money proposed, \$4 billion specifically covers health care benefits for active employees in 2021-22.

**Prefunding Retiree Health Care.** As you may know, the State's 21 employee bargaining units have agreed to prefund retiree health benefits in trusts managed by CalPERS. State supervisors and managers have been lumped into their related bargaining units and also now prefund retiree health care with a monthly payroll deduction.

According to the budget summary, by the end of fiscal year 2020-21, the CalPERS-managed retiree trust fund balance will approach \$4.1 billion in assets. Given that employee prefunding contributions have been suspended as part of the PLP 2020 that reduces active employee take home pay, the budget provides an additional \$616 million in one-time funding to replace the contributions state employees are not currently making. Doing so will help ensure full funding for retiree health benefits by 2046, when trust revenues are expected to take over the current pay-as-you-go system.

The Governor's complete budget summary and draft budget can be found here: [www.ebudget.ca.gov](http://www.ebudget.ca.gov).

As we delve into more of the details, we will report on any other proposals that impact ACSS and its members. Please let us know if you have any questions. The Legislature has until June 15 to modify and approve the budget, and the Governor must sign it by June 30.