

FEDERAL REVENUE SHARING

Item 85 from the Federal Revenue Sharing Fund

Budget p. 162

Requested 1975-76	\$215,000,000
Estimated 1974-75.....	215,000,000 ^a
Actual 1973-74	280,000,000 ^a
Requested increase	None
Total recommended reduction	None

^a Previously authorized in Budget Act control sections.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

It has been the established budget policy of the State of California to utilize its federal revenue sharing funds to help finance school apportionments which will exceed \$2.0 billion in 1975-76. Our discussion of school apportionments is in Program III of the Department of Education budget (Items 306-327).

The \$215 million in the Federal Revenue Sharing Fund is transferred to the General Fund and is ultimately released to the State School Fund for public school apportionments as required.

PROVISIONS FOR SALARY INCREASES

Civil Service, Statutory and Exempt Employees

Item 86 from the General Fund,
Item 87 from special funds, and
Item 88 from other funds

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Requested 1975-76	\$145,620,000
Estimated 1974-75.....	164,518,442
Recommended augmentation (General Fund)	\$1,875,000
(Special funds)	250,000
(Other funds)	375,000
Total recommended augmentation	\$2,500,000

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
86	Salary Increase. Civil service exempt and statutory employees.	General	\$69,765,000	141
87	Salary Increase. Civil service exempt and statutory employees.	Special funds	41,785,000	141
88	Salary Increase. Civil service exempt and statutory employees.	Other funds	34,070,000	141
			<u>\$145,620,000</u>	

Higher Education Employees

Items 341 and 347 from the General Fund

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Requested 1975-76	\$79,085,000
Estimated 1974-75.....	60,702,424
Actual 1973-74	55,031,027
Total recommended reduction	None

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	Analysis page
341	Salary Increase. University of California employees.	General	\$40,155,000	149
347	Salary Increase. State University and Colleges employees.	General	38,930,000	149
			<u>\$79,085,000</u>	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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| 1. Salary Survey. Recommend State Personnel Board in future years survey only organizations having 500 or more employees. | 144 |
| 2. <i>Compaction. Augment \$1,875,000 General Fund, \$250,000 special funds and \$375,000 other funds.</i> Recommend augmentation to eliminate salary compaction of civil service and related employees. If statutory salaries are increased to eliminate compaction, Department of Finance with State Personnel Board (SPB) assistance, should propose statutory salary adjustments and realignments to Legislature by July 1, 1975. The law should be changed to require SPB to set civil service salaries without regard to statutory or constitutional salaries. | 144 |
| 3. Total Equivalent Compensation (TEC) Improvements. Recommendation withheld pending funding clarification and introduction of legislation. | 147 |
| 4. Employees Benefits. Recommend improvements in employee benefits be made equitably for all categories of state employees. | 147 |
| 5. Benefits model. Recommend a long-range benefits model be developed jointly by the Public Employees' Retirement System and State Personnel Board for submission to the Governor and Legislature for adoption statutorially with the 1975-76 TEC program. | 149 |

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a total of \$224,705,000 for state employee salary increases which is intended to provide an average increase of 8.5 percent for each employee group as indicated in Table 1. The table presents the associated cost by fund and budget item.

Provisions for Salary Increases—Continued

Table 1
Allocation of Salary Increase Funds
1975-76

<i>Employee group</i>	<i>General Fund</i>		<i>Special funds</i>		<i>Other funds</i>		<i>Total</i>	<i>Percent increase</i>
	<i>Amount</i>	<i>Item</i>	<i>Amount</i>	<i>Item</i>	<i>Amount</i>	<i>Item</i>		
Civil service and related	\$69,765,000	86	\$41,785,000	87	\$34,070,000	88	\$145,620,000	8.5%
University of California:								
Faculty and related	21,132,000	341					21,132,000	8.5%
Nonfaculty	19,023,000	341					19,023,000	8.5%
(Total UC)	(\$40,155,000)						(\$40,155,000)	
California State University and Colleges:								
Instructional and related	\$25,938,000	347					\$25,938,000	8.5%
Noninstructional	12,992,000	347					12,992,000	8.5%
(Total CSUC)	(\$38,930,000)						(\$38,930,000)	
Totals	\$148,850,000		\$41,785,000		\$34,070,000		\$224,705,000	

Federal Action Reduces State Pay

The Budget Act of 1973 included funds for providing an average salary increase of 12.5 percent for state civil service and related salaries in order to bring such salaries up to parity with prevailing practice. The federal Cost of Living Council, acting under the authority of the Economic Stabilization Act, however, required that the average increase be limited to 7 percent, which translated to 7.8 percent in state terms as a result of following required federal procedures. State employees not earning more than \$3.50 per hour or \$605 per month were exempted from federal wage controls and received their full salary increase. Budgeted salary increases for academic employees of the University of California and California University and State Colleges were approved by the Cost of Living Council and were implemented fully. Salary increases for state employees affected by the council's decision were not implemented fully until May 1, 1974, when the term of the council expired. Chapter 1136, Statutes of 1973, provides that funds appropriated by the Budget Act of 1973 for state employee salary increases which were not expended during the 1973-74 fiscal year are to be retained until appropriated by the Legislature.

Federal Action Blocks Payment of Withheld Salary Funds

Chapter 597, Statutes of 1974, reappropriated (from the unexpended salary funds retained pursuant to Chapter 1136) amounts sufficient to pay each person employed by the state during September, 1974 the difference between (1) the salary he actually received for state employment from July 1, 1973 to April 30, 1974 and (2) the salary he *would* have received during that period but for action of the federal Cost of Living Council. Continuous federal legal actions, however, have prevented the state from issuing such payments. As of January, 1975 several separate legal actions (including actions initiated by the state) were in process which could ultimately enable the state to make payments to the state employees on a retroactive basis.

CIVIL SERVICE AND RELATED EMPLOYEES' SALARIES

An amount totaling \$145,620,000 is provided in the proposed budget for increasing salaries of civil service and related employees an average of 8.5 percent. Table 2 shows the average salary increase received by civil service and exempt employees since the 1964-65 fiscal year. It should be emphasized that not all employees received these percentage salary increases, since adjustments are made on a class-by-class basis.

Table 2
Salary Increases for Civil Service and Exempt Employees
1964-65 through 1975-76

<i>Fiscal year</i>	<i>Percent increase</i>	<i>Fiscal year</i>	<i>Percent increase</i>	<i>Fiscal year</i>	<i>Percent increase</i>
1964-65	0.8	1968-69	5.7	1972-73	8.4
1965-66	4.4	1969-70	5.6	1973-74	12.5
1966-67	4.5	1970-71	5.2	1974-75	5.3
1967-68	5.1	1971-72	—	1975-76	8.5 (proposed)

Provisions for Salary Increases—Continued**State Salary Lag Computed as of July 1**

We recommend approval, as budgeted, of the State Personnel Board (SPB) recommendation for an 8.5 percent average salary increase for all state civil service employees.

For the first time, the board's annual salary recommendations are based on closing the gap projected as of July 1 of the budget year between state civil service salaries and salaries of comparable nonstate employees. Formerly this gap, on which the recommendations are based, was projected only to March 31, or three months prior to the effective date of the salary increase. This change is in accordance with a recommendation which appeared in the 1974-75 Analysis and in our May 9, 1974 *Supplementary Report of State Employee Salaries*. As a result, state salaries will conform more closely to prevailing rates on the effective date.

Only Large Organizations Should Be Surveyed

We recommend that the SPB in future years restrict its salary surveys to those organizations having 500 or more employees.

The SPB presently includes in its salary surveys organizations having as few as 50 employees. Last year the administration adopted a Total Equivalent Compensation (TEC) approach for adjusting compensation of state employees. A key concept is that because both salaries and employee benefits are forms of payment, they should be considered as interrelated parts of the employee's total compensation. In order to determine the prevailing value of benefit programs offered by nonstate employees, the SPB limits its benefit surveys to include only organizations having 500 or more employees because they are much more likely to offer comparable benefit programs. We believe the TEC approach is logical, provided it is applied consistently. In order to achieve such consistency, state salaries as well as benefits should be adjusted in accordance with prevailing rates in only the larger organizations which are more comparable to the state.

According to the SPB, 40 percent of nonstate employees represented in the board's present salary surveys would be excluded if this recommendation were applied. The board's staff has advanced this as a reason why the recommendation should not be adopted. In our judgment, however, these 40 percent *should* be excluded in order to eliminate the existing distortion which results from having such employees represented in the salary portion of the "total compensation" survey but not in the benefit portion. Based on discussions with SPB technical specialists, we understand that the change we recommend would tend to increase the average level of state civil service salaries by at least 2.5 percent in future years.

Salary Compaction

We recommend:

- 1. Salary compaction of state civil service and exempt employees be eliminated entirely as of July 1, 1975 either by (a) increasing salaries of certain civil service, exempt and statutory employees as required to over-*

come the effects of such compaction or (b) increasing salaries of civil service and exempt employees only, thereby permitting them to exceed statutory and constitutional salaries as necessary. (Augment Item 86 \$1,875,000 [General Fund], Item 87 \$250,000 [special funds] and Item 88 \$375,000 [other funds]. [Note: The proposed augmentation is for alternative a. Funds to implement alternative b would be only slightly less.]

2. If statutory salaries are to be increased in accordance with 1(a) above, the Department of Finance, with assistance of the SPB, should propose to the Joint Legislative Budget Committee and fiscal committees of the Legislature prior to July 1, 1975 specific statutory salary adjustments and realignments to be made effective July 1, 1975.

3. Legislation requiring the SPB in subsequent years to (a) set civil service salaries without regard to statutory or constitutional salaries and (b) include in its annual report to the Legislature and Governor recommendations for special adjustments which should be made to prevent a recurrence of compaction in civil service and exempt salaries.

Compaction A Serious Problem

In order for state programs to operate effectively over the long run, it is necessary that competent individuals be attracted to careers in state service and encouraged to expand and apply their abilities fully. It is particularly important that career employees having special skills be promoted to positions in which their talents properly match their responsibilities.

In order to attract such talent and use it effectively, career state employees must be compensated adequately in relation to their responsibilities. Presently employees in 744 higher-level state civil service positions and 58 exempt positions are not being compensated equitably relative to their responsibilities because their salaries are "compacted" beneath those of their immediate supervisors, the difference being only one dollar per month in certain cases. Such compaction (1) prevents employees from being compensated equitably, (2) deters competent individuals from accepting promotions to responsible state jobs and (3) accumulates salary distortions which ultimately require major salary readjustments.

Progressive Severity

The severity of compaction will increase progressively unless remedial action is taken. Based on discussions with SPB technical staff it is our understanding, for example, that if (1) civil service salaries increase an average of 8.5 percent over the next four years, (2) the policy of paying employees less than their supervisors remains unchanged, and (3) existing statutory salary levels remain in effect, salaries of approximately 2,500 civil service employees will be compacted during the 1978-79 fiscal year.

Causes of Compaction

The SPB is responsible for making class-by-class salary adjustments for state civil service positions and the Department of Finance is responsible for making such adjustments for exempt positions within available funds approved for this purpose by the Legislature and Governor.

Compaction exists because:

Provisions for Salary Increases—Continued

1. It is general SPB and Department of Finance policy to pay an employee less than his supervisor.

2. Constitutional and statutory officers heading state agencies receive low salaries in relation to comparable nonstate employment. According to the State Constitution (Article V, Section 12), constitutional salaries may not be changed during a term and, therefore, may not be increased until January 1979.

State Executive Pay is Low. The state subvenes monies to various local government entities including school districts which pay their executives significantly higher salaries than those received by state executives having comparable or, in certain instances, significantly greater responsibilities. Salaries of many local school district superintendents, for example, are substantially above the \$35,000 annual salary received by the State Superintendent of Public Instruction. The annual salary, for example, of the superintendent of the Los Angeles Unified School District is \$54,250.

Salaries of the President and Vice President of the University of California (\$59,500 and \$52,000 respectively) both exceed the Governor's annual salary of \$49,100. So do salaries of the Los Angeles City Administrative Officer (\$57,712) and City Engineer (\$54,664) and the Los Angeles County Administrative Officer (\$49,500) and District Attorney (\$49,500).

Collective Bargaining Could Distort Salaries Further. During recent years legislation has been introduced to authorize state employees to bargain collectively over salaries, wages and other terms and conditions of employment. If such legislation is passed, certain state employees could obtain greater increases under collective bargaining than they would receive otherwise. The proposed legislation, however, specifically excluded state managers from participating. As a result, career state managers could receive lower pay than those they supervise.

Legislature Reduced Compaction Previously

In 1969 the Legislature reduced compaction substantially through its actions (Chapters 1581 and 1599, Statutes of 1969) which increased salaries of statutory officers. The Legislature acted to eliminate compaction entirely by augmenting the Budget Bill of 1974 by \$2.5 million in accordance with our recommendation. The augmentation, however, was vetoed by the Governor.

SPB Fails to Respond To Legislative Request

Resolution Chapter 176, Statutes of 1974, (SCR 113) requested the SPB to set salaries of civil service employees for the 1975-76 fiscal year without regard to statutory salaries. It is our understanding, however, that the SPB does not intend to comply with the request.

"Political" Salaries Could Be Surpassed

Individuals seek elective or high state appointive offices for various reasons other than the salaries offered. Opportunities to serve the public, gain recognition, and acquire experience to enhance their future careers are considerations which many office holders take into account in accepting such positions. Moreover, policies of Governors vary from administra-

tion to administration as to the salaries to be offered to Governor's cabinet appointees. The considerations exercised by a Governor in selecting his political associates may have little relevance to the salary needs of high-level civil servants and is no reason for shaping the salary structure subordinate to such political positions.

For this reason salaries of such officials and career civil service personnel are not comparable. We believe, therefore, that state civil service and exempt salaries should be adjusted without regard to statutory and constitutional salaries.

Because salary compaction will become more severe until alleviated, we suggest that it be eliminated by either (1) increasing salaries of state civil service, exempt and statutory employees to the extent required or (2) increasing salaries of civil service and exempt employees by allowing them to exceed statutory and constitutional salaries. If statutory salaries are so increased the Department of Finance, with assistance of the SPB, should propose specific statutory salary adjustments and realignments. We suggest, further, that legislation be passed requiring the SPB in future years to set state civil service salaries without regard to statutory or constitutional salaries and recommend annually to the Legislature and Governor (1) specific adjustments which should be made in order to prevent salary compaction from recurring and (2) levels of statutory and constitutional salaries based on appropriate comparisons with salaries paid in other public jurisdictions.

EMPLOYEE BENEFITS

We withhold recommendation on TEC benefits pending clarification of funding and submission of necessary implementing legislation.

Chapter 374, Statutes of 1974, enacted the Total Equivalent Compensation (TEC) program for state civil service employees. The TEC approach for benefits requires the Board of Administration of the Public Employees' Retirement System (PERS) to determine the lead/lag between state civil service benefits (principally retirement and health insurance benefits) and those for other public and private employees. The State Personnel Board (SPB) is responsible for measuring all other areas of compensation and for making an integrated salaries and benefits recommendation to meet any TEC lag.

Equitable Employee Benefits

We recommend that improvements in employee benefits be made equitably for all categories of state employees.

PERS has determined that as of July 1, 1975, state civil service retirement and health benefits will lag by \$50.6 million. The SPB has developed a list of benefit improvements to alleviate this lag. The recommended improvements which require enabling legislation are outlined below. In our opinion, if benefit improvements are extended to civil service employees, comparable improvements should be made for all other categories of state employees, including California State University and Colleges employees and University of California personnel.

Provisions for Salary Increases—Continued

Proposed Benefit Increases

A. *Employee Contributions to PERS*

1. Reduce employee retirement contributions by one, two, or three percentage points, depending on Social Security coverage and monthly salary (one percent for non-Social Security covered employees, two percent for Social Security covered employees and an additional one percent for employees earning \$683 or less per month.

2. Eliminate the employee \$2 monthly contribution for the "1959 Survivors" benefit. This benefit, which applies only to non-Social Security covered employees, provides a monthly allowance to the surviving spouse and children of employees.

B. *Health Benefits*

Maintain the current state contribution ratio for health insurance premiums. The current state contribution is equivalent to 80 percent of the average health plan premium for employees and 60 percent of the average cost for dependents. Such premiums are expected to increase by 15 percent to 20 percent in the budget year.

C. *Retirement Benefits*

1. Increase the automatic cost-of-living adjustment from two percent to three percent for persons retiring after the operative date of the 1975-76 program.

2. Provide one-quarter continuance to the survivors of Social Security covered employees who retire after the operative date of the 1975-76 program.

Unclear Funding of Benefits

Item 97, Augmentations for Price Increases—TEC, proposes \$85 million from the General Fund to provide for (1) general price increases, (2) Medi-Cal cost-of-living increases to providers, and (3) TEC benefits. An additional \$10 million in special funds is requested in Item 98. The budget does not detail how funds are to be allocated among these three programs. Table 3 shows our estimate of the funding requirements to implement the recommended 1975-76 TEC benefit program for all state employees.

Table 3
Estimated Cost To Implement Recommended TEC Program in 1975-76

<i>Employee Group</i>	<i>Fund</i>	<i>Amount (In Millions)</i>
State Civil Service, etc.	General	\$28.8
State Civil Service, etc.	Special	16.0
State Civil Service, etc.	Other	5.8
Total		\$50.6
University	General	\$12.7
State University and Colleges	General	13.3
Total		\$26.0
Grand Total (all funds)		\$76.6
Total General Fund		(\$54.8)

Long-range Benefits Plan

We recommend a long-range benefits plan be developed jointly by the Public Employees' Retirement System and the Personnel Board for submission to the Governor and the Legislature for consideration with the 1975-76 TEC program.

Last year, an interagency task force under the direction of the Agriculture and Services Agency coordinated the implementation of the TEC program by drafting the implementing legislation (Chapter 374) and developing a long-range plan for employee benefits. In recognition of the fact that the combined benefits and contribution rates of PERS and Social Security (SS) are excessive for the miscellaneous membership, a benefits model was proposed by the task force which (1) eliminated membership contributions to PERS and (2) reduced PERS benefits to reflect Social Security coverage.

We have pointed out previously the problems of the combined PERS/SS structure (excessive employee contributions and retirement benefits which can in some cases exceed take-home pay) and have recommended alternate benefit plans. We have also pointed out the legal problems involved in restructuring employee benefits, i.e., court decisions holding that once a benefit is granted it cannot be diminished unless it is replaced with one of comparable value. Both the 1974-75 and the proposed 1975-76 TEC programs reduce employee contributions without realigning the PERS benefit to reflect Social Security. Once PERS employee contributions are eliminated (as contemplated by the task force model developed last year), a reduction in the PERS formula to reflect SS benefits could be accomplished only by granting additional benefits. Hence, a long-range benefits plan should be statutorily adopted this session to minimize the legal problems associated with restructuring employee benefits. Such a model should incorporate for legislative consideration the following additional changes in PERS for miscellaneous members who are covered by Social Security.

1. Reduction of employee contribution rate.
2. Adoption of an automatic, annual cost-of-living adjustment for retirees more nearly in direct proportion to CPI increases.
3. Adoption of a Social Security offset to the PERS benefit formula which realistically reflects the significant improvements in the federal program and the proposed granting of the $\frac{1}{4}$ continuance to survivors.
4. Adoption of improved disability retirement benefits.

HIGHER EDUCATION SALARIES

We recommend approval of an 8.5 percent increase in 1975-76 salaries for all University of California and California State University and Colleges employees.

The Governor's Budget states that it includes funds to raise salaries of all employees of the University of California (UC) and the State University and Colleges (CSUC) by 8.5 percent. These dollar amounts and related percentages are shown in Table 4.

Provisions for Salary Increases—Continued

Table 4

Allocation of Salary Increase Funds for Employees of the University of California and the California State University and Colleges 1975-76 Budget

	<i>Cost</i>	<i>Percent Increase</i>
University of California (Item 341)		
Faculty and faculty related	\$21,132,000	8.5%
Nonfaculty	19,023,000	8.5
Total Item 341	\$40,155,000	n.a.
California State University and Colleges (Item 347)		
Instructional and instructional related	\$25,938,000	8.5%
Noninstructional	12,992,000	8.5
Total Item 347	\$38,930,000	n.a.
Grand Total Items 341 and 347	\$79,085,000	n.a.

Higher Education Salary Increases Equal Civil Service Increases

We assume the decisions in the Governor's Budget are based on recommendations by the State Personnel Board for a comparable 8.5 percent increase for civil service and related classifications. Technical adjustments in the amounts requested will result from increasing the UC base to include new positions proposed in the Governor's Budget and legislative action taken on both UC and CSUC position requests. It is estimated at this time that the UC budgeted allocation would fall short by about \$725,000 if all requested positions in the budget are approved.

In addition if the Legislature approves the policy to provide no General Fund subsidy to programs funded by student fees, as proposed in the budget for CSUC, then Item 347 will have to be reduced by \$2.8 million. This issue is discussed under our analysis of Item 345.

Segmental Requests

The regents and the trustees base their faculty salary requests on the concept of achieving parity with projected average salaries at other comparison institutions. Senate Concurrent Resolution No. 51 of the 1965 General Session directed the Coordinating Council for Higher Education (the California Postsecondary Education Commission since April 1, 1974) to submit annually to the Governor and the Legislature a comparative faculty salary and fringe benefits report. A preliminary report is prepared in November for use in formulating the Governor's Budget and a second report, corrected for actual current year salaries at comparison institutions, is published in February. This year these traditional segmental methods, augmented by the inclusion of a special inflation allowance, resulted in UC and CSUC salary requests of 10.8 percent and 10.4 percent respectively.

Inconsistent Salary Increase Policy in the Past.

Table 5 shows segmental salary increase requests and actual salary increases provided for both higher education and civil service.

Table 5 shows that in only one year out of ten were segmental recommendations fully implemented. It also shows that civil service increases have not been the basis for academic increases. Thus, past higher educa-

Table 5
Comparison of University of California and California State University and
Colleges Faculty Salary Increases with Civil Service Increases

Year	<u>Percent Increase Approved</u>			<u>Segmental Requests</u>	
	<u>Civil Service</u>	<u>UC</u>	<u>CSUC</u>	<u>UC</u>	<u>CSUC</u>
1965-66	4.4%	7.0%	10.7%	10.0%	10.0%
1966-67	4.5	2.5	6.6	2.5	6.1
1967-68	5.1	5.0	5.0	6.5	8.5
1968-69	5.7	5.0	7.5	5.5	10.5
1969-70	5.6	5.0	5.0	5.2	5.2
1970-71	5.2	—	—	7.2	7.0
1971-72	—	—	—	11.2	13.0
1972-73	8.4	9.0	8.9	13.1	13.0
1973-74	12.5	5.4	7.5	5.4	7.5
1974-75	5.3	4.45	5.45	4.73	5.45
1975-76*	(8.5)	(8.5)	(8.5)	(10.8)	(10.4)
10-year Average	5.67%	4.44%	5.60%	7.13%	8.63%

* Proposed; not included in 10 year average

tion salary increase decisions have not been based on any consistent policy. The complex methodology traditionally employed by the segments has not been influential because of questions on the comparability of the selected institutions, inherent problems in projecting future salaries at comparison institutions and inadequate fringe benefit information. In addition, we have consistently maintained that state funded fringe benefits should not differ substantially among California's public employees and that nonacademic personnel are closely related to other civil service classifications and therefore should be treated equitably.

Table 4 shows that although segmental requests have averaged more than civil service increases over the ten years, the increases actually granted academic personnel have nearly matched those granted civil service employees. However, during the last three years (1972-73 through 1974-75) UC and CSUC received increases of only 6.62 percent and 7.28 percent respectively in comparison with an average civil service increase of 8.73 percent.

We believe annual salary and fringe benefit increases for all UC and CSUC employees should be comparable with those granted civil service employees except that every four years a review should be made with an appropriate comparison group of academic institutions selected by the Commission on Postsecondary Education to determine the relative status of academic salaries in UC and CSUC and adjustments recommended as warranted. Because the principal factors driving up salaries and wages are the same in both civil service and academic employment, i.e., inflation and related collective bargaining agreements, there is good cause for similar treatment in regular annual adjustments. The quadrennial survey should be able to properly assess the structural and broad economic trends which apply especially to academic classes as compared with nonacademic and civil service. We believe that much of the confusion and inequity which results from the present complex and uneven comparison process could be eliminated by this new approach.

PROVISIONS FOR SALARY INCREASES

Judicial Salaries

Item 89 from the General Fund	Budget p. 163
Requested 1975-76	\$2,559,000
Estimated 1974-75.....	1,205,722
Actual 1973-74	564,922
Requested increase \$1,353,278 (112 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

Salary Disparity. Recommend salary imbalance between judicial and civil service executive positions be reviewed in conjunction with consideration of state salary compaction and executive salary lag (see page 144.) 153

ANALYSIS AND RECOMMENDATIONS

Under the provisions of Government Code Section 68203, judicial salaries are adjusted each September 1 based on the prior calendar year's increase in the California Consumer Price Index (CCPI). Prior to June 1974, this provision was interpreted to mean the average annual increase, but pursuant to an opinion issued by the Attorney General on June 24, 1974, the salary adjustment is now computed on the basis of the increase in the CCPI from December to December of the preceding two calendar years. This change in computation resulted in a 7.4281 percent salary increase for judges on September 1, 1974, which was greater than would have resulted from the previous computation method, but it also resulted in a net overpayment of salaries in some prior years. The Controller's office advises that the overpayments have been recovered except in a few situations involving deceased judges. It is the responsibility of the counties to recover overpayments to municipal court judges, as such judges are paid by the counties.

The budget contains \$2,559,000 to provide a 13.38 percent salary increase for superior and appellate court judges effective September 1, 1975. All of the increase for the superior court judges must be paid by the state because the county share is limited by the Government Code to either \$5,500, \$7,500, or \$9,500 for each judge, depending on the population of the county. In addition, each county having municipal courts must raise those judges' salaries by 13.38 percent.

Table 1 compares judicial salary increases to state civil service salary increases beginning with the year prior to implementation of the first automatic increase for judicial salaries.

Table 1
Salary Increases for Judges and State
Civil Service Employees

Year	Judges			Civil service	
	Superior court	Municipal court	Percentage increase	Year	Percentage increase
1967.....	\$25,000	\$23,000		1967-68	5.1%
9/1/68.....	30,572	28,126	22.289 ^a	1968-69	5.7
9/1/69.....	31,816	29,270	4.069	1969-70	5.6
9/1/70.....	33,407	30,734	5.0	1970-71	5.2
9/1/71.....	35,080	32,273	5.04	1971-72	—
9/1/72.....	36,393	33,481	3.74	1972-73	7.5
9/1/73.....	37,615	34,605	3.36	1973-74	7.8
9/1/74.....	40,322	37,098	7.43	1974-75	5.5
9/1/75.....	45,717	42,063	13.38	1975-76	8.5

^a Initial quadrennial increase.

Table 1 shows that in the initial year following enactment of the annual increase provision the percentages of increase in judicial salaries approximated those extended to civil service employees, except for 1971 when no general salary adjustment was provided. This discrepancy was partially rectified by a 7.5 percent overall salary increase for state employees in 1972 compared to the 5.04 percent and 3.74 percent increases provided judges in 1971 and 1972, respectively. The judicial increase of 3.36 percent provided September 1, 1973, was significantly below the average percentage increase approved by the Federal Wage Board for state workers in general for the 1973-74 fiscal year.

The judicial salary increase provided September 1, 1974, was approximately two percentage points greater than that provided state employees generally. The projected 1975 increase of 13.38 percent is approximately five percentage points or 59 percent greater than the 8.5 percent average increase proposed for state civil service employees. The effects of double-digit inflation on a judicial salary increase formula results in a significant disparity between the two groups, not only in pay increases but also in retirement benefits. Because judges' retirement benefits are based on a percentage of the incumbent's salary, they are adjusted on the same basis (i.e., 13.38 percent effective 9/1/75), while state civil service retirement benefits are limited to a maximum 2 percent cost-of-living increase after a waiting period of two years.

The proposed salary adjustments for judges and civil service positions (particularly for executive level positions) contribute to a growing imbalance in salary levels between the two groups. It illustrates the extent of the drop in real (constant dollar) income of the state civil service and exempt salaries. For further discussion on this issue, see our analysis of Augmentation for Salary Increase and Employee Benefits on page 144.

EMPLOYEE BENEFITS
(Continue 1974-75 Base)

Item 90 from the General Fund,
Item 91 from special funds,
Item 92 from other funds

Budget p. 164

Requested 1975-76	\$46,800,000
Estimated 1974-75	46,800,000
Requested increase None	
Total recommended reduction	None

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
90	Continue 1974-75 Employee Benefits Base	General	\$26,600,000
91	Continue 1974-75 Employee Benefits Base	Special	14,800,000
92	Continue 1974-75 Employee Benefits Base	Other	5,400,000
			<u>\$46,800,000</u>

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The Budget Act of 1974 appropriated \$65,807,714 to fund the Total Equivalent Compensation (TEC) benefit program (described on page 147) for all state employees (civil service, exempt and statutory; California State University and Colleges; and University of California). However, the Department of Finance withheld \$350,295 from the University's portion stating that the appropriation was overfunded. Therefore, the total estimated expenditure for TEC benefits in 1974-75 is \$65,457,419 (\$65,807,714 minus \$350,295). The 1975-76 budget request contains the \$65,457,419 base. Monies for the University of California and the California State University and Colleges have been added to their funding base for 1975-76. However, monies for civil service and related employees were not added to their funding base but are provided by Items 90, 91 and 92 in the total amount of \$46,800,000. The Department of Finance advises that the 1974-75 benefit program has not been added to the 1975-76 base for civil service and related employees because the costs of the various components of the 1974-75 TEC program could not readily be identified separately for each state agency.

**EMPLOYEE BENEFITS
(To Fund Depooling of PERS)**

Item 93 from the General Fund
and Item 94 from special
funds

Budget p. 165

Requested 1975-76	\$10,000,000
Estimated 1974-75.....	None
Total recommended reduction	None

1975-76 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
93	Depool Public Employees' Retirement Fund	General	\$6,000,000
94	Depool Public Employees' Retirement Fund	Special	<u>4,000,000</u>
			<u>\$10,000,000</u>

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1399, Statutes of 1974, terminated the pooling arrangement whereby the assets and liabilities of all miscellaneous members of PERS (state and local) were considered as one group and a standard employer contribution rate applied. Based on average years of service and employee turnover, the state group is actuarially more expensive than the local agency group as a whole. As a result, the previous pooling arrangement spread some \$10 million in annual state retirement costs to the local agencies. The depooling was necessitated by the TEC legislation which granted state employee benefits not applicable to the local members. The \$10 million requested (\$6 million from the General Fund in Item 93 plus \$4 million from special funds in Item 94) is to fund the depooling cost for 1975-76.

FAIR LABOR STANDARDS ACT

Item 95 from the General Fund

Budget p. 165

Requested 1975-76	\$6,000,000
Estimated 1974-75	6,000,000
Requested increase None	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis*
page

1. Defer recommendation. Await more information and further results of litigation. 156

ANALYSIS AND RECOMMENDATIONS

We defer recommendation on the amount of the appropriation required to comply with federal Fair Labor Standards Act amendments until more information is available concerning state needs and a lawsuit testing the act's constitutionality proceeds further.

The federal Fair Labor Standards Act of 1974 (FLSA) extended minimum wage provisions effective May 1, 1974 and overtime provisions effective January 1, 1975 to certain state employees.

This item appropriates \$6 million from the General Fund for allocation by the Department of Finance to state agencies for increased costs due to FLSA. The same amount was appropriated for 1974-75. So far in the current year none of the funds have been transferred by the Department of Finance to state agencies. However, the Department of Conservation was authorized to expend funds for added fire crew and ecology corps costs to meet federal standards and will require funds. The Department of Finance currently estimates that the Department of Conservation will require a maximum of \$5,554,000 in 1974-75 and \$3,808,000 in 1975-76. The needs of other departments due to FLSA requirements have not been determined.

Chief Justice Burger of the U.S. Supreme Court has ordered a temporary stay in the enforcement of the 1974 amendments and regulations. Several states and cities have joined in a lawsuit to test the constitutionality of the Act, contending that the legislation is a federal preemption of the states' authority to regulate working conditions of their employees. If the law is declared unconstitutional, the \$6,000,000 appropriation may not be needed.