

These state contributions are funded initially from the General Fund. Special fund agencies are assessed prorata charges for their retired employees which are then credited to the General Fund.

State to Pay Medicare Plan B Coverage

Effective January 1, 1978, Chapter 1186, Statutes of 1977, (AB 457) requires the state to pay the cost of Medicare Plan B (medical insurance) coverage directly to annuitants covered by both state and federal (Medicare) medical insurance. This payment is limited to the difference between the maximum state contribution for medical insurance and the actual total cost for each annuitant, or a maximum of \$7.70 per month for each annuitant.

Premium Cost Increase Not Budgeted

We recommend a General Fund augmentation of an unspecified amount to fund the anticipated, but as yet unspecified increase in health insurance premiums. We recommend that the amount of the increase be such as to maintain the state's share of annuitants' health insurance at the current levels.

Current law expresses legislative intent to pay an average of 85 percent of health insurance costs for annuitants and 60 percent of health insurance costs for their dependents. As premium costs for this insurance rise, the state's contribution must also increase proportionally to maintain the same percentage of state contributions.

The \$22.1 million proposed for this item in 1978-79 does not provide for an increase in health insurance premiums. At this writing, the Public Employees' Retirement System (PERS) anticipates a health insurance premium increase of about 10 percent for 1978-79. However, the precise amount of this increase will not be known until May or June 1978, when the new premiums are adopted.

PROVISION FOR EMPLOYEE COMPENSATION

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges

Items 411-421 from the General Fund, Items 422 and 423 from special funds and Items 424 and 425 from other funds.

Budget p. 1103

Requested 1978-79	\$260,739,600
Total recommended change	Pending

1978-79 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
411	Salary increase. Average increase of 5 percent for civil service, exempt and statutory employees.	General	\$62,820,650

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges—Continued

412	Compensation increase. Equivalent of 2 percent salary increase for equity adjustments, low-income adjustments, employee benefits or salary increases for civil service, exempt and statutory employees.	General	25,128,260
413	Salary increase. Increase of 5 percent for judicial employees.	General	2,626,000
414	Salary increase. Average increase of 5 percent for University of California academic employees.	General	17,170,000
415	Salary increase. Average increase of 5 percent for University of California nonacademic employees.	General	14,150,000
416	Compensation increase. Equivalent of 2 percent salary increase for equity adjustments, low-income adjustments, employee benefits or salary increases for University of California nonacademic employees.	General	5,660,000
417	Salary increase. Average increase of 5 percent for California State University and Colleges academic employees.	General	20,425,000
418	Salary increase. Average increase of 5 percent for California State University and Colleges nonacademic employees.	General	11,035,000
419	Compensation increase. Equivalent of 2 percent salary increase for equity adjustments, low-income adjustments, employee benefits or salary increases for California State University and Colleges nonacademic employees.	General	4,414,000
422	Salary increase. Average increase of 5 percent for civil service, exempt and statutory employees.	Special Funds	30,727,670
423	Compensation increase. Equivalent of 2 percent salary increase for equity adjustments, low-income adjustments, employee benefits or salary increases for civil service, exempt and statutory employees.	Special Funds	12,291,068
424	Salary increase. Average increase of 5 percent for civil service, exempt and statutory employees.	Other Funds	38,281,680
425	Compensation increase. Equivalent of 2 percent salary increase for equity adjustments, low-income adjustments, employee benefits or salary increases for civil service, exempt and statutory employees.	Other Funds	\$15,312,672
	Total Budget Bill Items Relative to Compensation Increases:		\$260,042,000
420	Child Care Centers. For start-up costs and alterations to establish child care centers.	General	500,000
421	Benefit Statements. For preparation and distribution of employee benefit statements.	General	197,600
	Total:		\$260,739,600

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	<i>Analysis page</i>
1. Maintain Relationships. Recommend state civil service and related salaries be increased in line with the increase in comparable nonstate rates since July 1, 1977.	1083
2. Employee Benefits. Recommend state contribution ratio for employee health benefits be maintained for state civil service and related employees and California State Universities and Colleges employees, and that comparable benefit improvements be authorized for University of California employees.	1085
3. Compaction. Recommend the State Personnel Board submit compaction relief recommendations to the Legislature by May 1, 1978.	1086
4. Salary Increase. Recommend deletion of control language prohibiting increases of salaries over \$50,000.	1087
5. Red Circle Rates. Recommend Control Section 26.8 be restored, prohibiting funds appropriated by the Budget Act from being used to pay an employee above the maximum of his present salary range following termination from a career executive assignment.	1087
6. Academic Salaries. Recommend academic salary increases for the University of California and California State University and Colleges be deferred until April when comparative salary data become available.	1088
7. Nonacademic Salaries. Recommend University of California and California State University and Colleges nonacademic salaries be increased by the same average percentage as state civil service salaries.	1092
8. Child Care Centers. <i>Delete Item 420 for \$500,000.</i> Recommend deletion of funds for establishing child care centers for state employees.	1092

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget states that \$260,739,600 is proposed for increases in state employee compensation. However, of this amount, (1) \$197,600 (Item 421) is for preparation and distribution of employee benefit statements and (2) \$500,000 (Item 420) is for start-up costs and alterations to establish child care centers, leaving a total of \$260,042,000 budgeted for actual compensation increases. (We discuss Items 420 and 421 on pages 1092 and 1093, respectively.)

The \$260,042,000 proposed for compensation increases is proposed for allocation as follows:

1. \$194,610,000 for providing an average salary increase of 5 percent for

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges—Continued

Table 1
Allocation of Funds Requested for Increases
in Employee Compensation

<i>Employee Group</i>	<i>Funding Source</i>			<i>Total</i>	<i>Percent Increase</i>
	<i>General</i>	<i>Special</i>	<i>Other</i>		
Civil service and related.....	\$87,948,910	\$43,018,738	\$53,594,352	\$184,562,000	7%
University of California (UC):					
Faculty and related	17,170,000	—	—	17,170,000	5%
Nonfaculty	19,810,000	—	—	19,810,000	7%
(Total UC)	(\$36,980,000)			(\$36,980,000)	
California State University and Colleges (CSUC)					
Instructional and related.....	20,425,000	—	—	20,425,000	5%
Noninstructional	15,449,000	—	—	15,449,000	7%
(Total CSUC).....	(\$35,874,000)			(\$35,874,000)	
Judges.....	2,626,000	—	—	2,626,000	5%
Total Cost	\$163,428,910	\$43,018,738	\$53,594,352	\$260,042,000	

civil service, exempt and statutory employees and *all* employees of the University of California (UC) and California State University and Colleges (CSUC).

2. \$62,806,000 for providing the equivalent of a 2 percent salary increase to civil service, exempt and statutory employees and nonacademic employees of the UC and CSUC for "equity adjustments, low income adjustments, employee benefits or salary increases."
3. \$2,626,000 for providing a 5 percent increase in judges' salaries.

Allocation of the \$260,042,000 in this manner is indicated in Table 1 on page 1080.

CIVIL SERVICE AND RELATED EMPLOYEES' SALARIES

(Items 411, 412, 422, 423, 424, and 425)

The Governor's Budget requests \$184,562,000 for increased compensation to state civil service and related employees. The request consists of (1) an average salary increase of 5 percent plus (2) the equivalent of a 2 percent salary increase for equity adjustments, low income adjustments, employee benefits or salary increases.

Legislation Will Replace Prevailing Rate System with Good Faith Negotiating Procedures

Chapter 1159, Statutes of 1977, (SB 839) which becomes operative July 1, 1978, provides for a "good faith negotiating system" over wages and other terms and conditions of employment. This system will be available to certain state civil service employees electing to be represented by employee organizations. Representatives of the Governor are to negotiate with such organizations and prepare "memorandums of understanding". Any provision in such a memorandum requiring expenditure of funds (for example, negotiated salary or benefit increases) is subject to approval by the Legislature.

Traditionally, state civil service salaries and benefits have been adjusted on the basis of (1) State Personnel Board (SPB) surveys of salaries and benefits received in nonstate employment, (2) salary and benefit increase recommendations contained in the board's annual report to the Governor and Legislature, (3) budget action by the Governor and Legislature, and (4) allocation of funds appropriated for salary increases by the board on a class-by-class basis.

The SPB's annual salary recommendations are intended to align state civil service salaries with prevailing nonstate salary rates. The board applies salary survey and comparison procedures to determine the level of prevailing nonstate salaries. The amount by which state salaries are computed as trailing prevailing nonstate salaries is referred to as the state salary "lag".

This prevailing rate approach will continue to be used for state civil service employees who (1) are designated as "management", "supervisory", or "confidential" employees or (2) do not elect to have an employee organization represent them in "good faith" negotiations.

Table 2 shows the average salary increase received by state civil service and exempt employees since the 1967-68 fiscal year. Not all employees

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges—Continued

received these percentage salary increases because the adjustments are made individually on a class-by-class basis.

Table 2
State Civil Service Salary Increases
1967-68 through 1978-79

<i>Fiscal Year</i>	<i>Percent Increase</i>	
	<i>Increase in total payroll</i>	<i>Average increase per employee</i>
1967-68.....	4.9	5.1
1968-69.....	5.3	5.7
1969-70.....	5.6	5.6
1970-71.....	5.0	5.2
1971-72.....	—	—
1972-73.....	8.3	9.0
1973-74.....	12.9	11.7
1974-75.....	5.3	5.0
1975-76.....	7.1 ^a	6.7 ^a
1976-77.....	6.6	^b
1977-78.....	7.5	7.1
1978-79.....	7.0 (proposed)	7.0 (proposed)

^a Does not include one-time bonus of \$400 paid to employees in classes having a maximum salary of \$753 or less on July 15, 1975.

^b Not calculated by SPB because of flat salary increase provided that year.

Budgeting for Compensation Increases in Future Years

Enactment of Chapter 1159 poses a number of significant problems for both the Governor and Legislature in budgeting for compensation increases. Some of the major problem areas are as follows:

1. *No agreed upon standards for determining the appropriate increase for state employees.* In the past, prevailing rates in nonstate employment provided an objective basis for determining compensation increases. By replacing the prevailing rate approach with good faith negotiations, Chapter 1159 has removed the objective basis. As a consequence, it will be much more difficult to select and justify an amount for salary increases.

2. *Providing a specific amount for compensation increases in the budget is likely to undermine any subsequent "good faith negotiations."* Proper budgeting requires that the Governor include all estimated expenditures and revenues in his request to the Legislature. This allows the Legislature to evaluate the state's total fiscal plan. Therefore, it follows that the Governor's Budget should include the best estimate available of proposed compensation increases. However, if the Governor budgets for a specific percentage increase in wages and benefits, he will tend to compromise any subsequent negotiations. That percentage will tend to become both a floor and a ceiling. The employees' representatives could not settle for less than the Governor's "offer" (that is, the percentage increase that his budget implies is available). On the other hand, if the Governor were to negotiate larger increases, he would compromise the integrity of the budget. (Private employers do not face this problem since

they are under no obligation to inform their unions of how much is available for compensation increases.)

3. *It will be more difficult for the state to (a) protect the public's interest, (b) attract and hold capable employees, and (c) maintain the integrity of the budget process.* It seems likely that certain categories of employees (for example, state traffic officers and hydroelectric employees) by the nature of their jobs or their political influence will have greater bargaining power in good faith negotiations than other groups (such as librarians and groundskeepers). If the Governor's representative agrees to increases for the "strong" groups that exceed the average included in the budget, less funds will be available for other employees, particularly (a) employees who do not elect to be represented, or (b) "management," "supervisory," or "confidential" employees who are not permitted to be represented in negotiations over compensation increases. Over time, this could make it difficult to attract and hold qualified employees in those state jobs which pay less than the going rate. On the other hand, responding to the needs of those employees could undermine the budget.

4. *Different fringe benefits for bargaining units within the same (or closely related) departments could interfere with state operations.* Benefits such as paid holidays, sick leave, vacation and health insurance will be subject to negotiation; and therefore, one such benefit may be traded for another or for a greater or lesser salary increase.

Negotiated benefit trade-offs could result in inconsistencies between groups of employees within the same organization. This might interfere with the upward mobility of some employees. It also might lead to anomalous situations in which some employees (e.g., clerical staff) have the day off while others (e.g., the management or technical personnel who require clerical support) do not.

5. *It will be difficult for the Legislature to evaluate and act on negotiated increases in a meaningful manner.* The Legislature may find it difficult to assess wage and salary increases incorporated in memorandums of understanding subject to its approval. While it is hoped that the State Personnel Board (SPB) will continue to collect data on comparable nonstate rates which will aid the Legislature in evaluating negotiated increases (our recommendation under Item 119 would encourage the board in this direction) these data will not be conclusive, given the spirit of Chapter 1159.

Moreover, if the Legislature has reservations about a specific negotiated agreement reached late in the budget process, it may be confronted with the dilemma of either (1) granting approval despite its reservations or (2) disapproving the agreement, thereby requiring further negotiations and possibly extending completion of the entire budget process.

Increases Effective July 1, 1978—We Propose Maintaining the Position of State Civil Service Employees in the Salary Structure

We recommend that state civil service and related salaries be increased in line with the increase in comparable nonstate rates since July 1, 1977 as determined by the State Personnel Board in its spring 1978 salary survey.

Based on the results of its fall 1977 salary survey, the SPB in its January

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10, 1978 annual report, estimates that a 9.5 percent average salary increase will be required to eliminate the gap projected as of July 1, 1978, between state civil service salaries and salaries in comparable nonstate employment.

According to the board's report, the projected 9.5 percent gap consists of (1) an average 2.7 percent unclosed gap that remained in July 1977, after the 1977 salary increase program was implemented, plus (2) an estimated 6.8 percent increase in prevailing salaries from July 1, 1977 to June 30, 1978. The board will update its projection, if necessary, upon completion of its spring salary survey. Results of the survey are expected to be available by May 15, 1978.

Prior to the enactment of Chapter 1159, Statutes of 1977, (SB 839) the standard for compensating state employees established by the Legislature was the prevailing rate for comparable occupations outside state service. Accordingly, when sufficient funds were available we generally recommended that amounts be appropriated to close entirely the gap in state salaries as projected by the SPB. In approving a good faith negotiating system, the Legislature clearly indicated that prevailing rates need not be the standard for compensating state employees. Such a system could result in salary levels that are either above or below comparable nonstate rates.

Because prevailing rates need not be the standard for evaluating state employees compensation, we are left with no agreed-upon objective standards on which to base our recommendation. For this reason, we have chosen to recommend a 1978-79 salary increase that will maintain the position of state employees in the overall wage structure. Based on the board's fall 1977 survey this would require an average increase of 6.8 percent—the average increase in nonstate rates projected by the SPB between July 1, 1977 and June 30, 1978. Any *change* in state employees' salaries relative to the salaries of other employees should take place via the good faith negotiation process. Because our recommendation is based on the board's spring survey, we cannot make a precise cost estimate at this time.

Alternative Approaches for Adjusting Civil Service Salaries Effective July 1, 1978

In addition to maintaining the relative salary position of state employees between July 1, 1977 and July 1, 1978, other alternatives for adjusting civil service salaries which might be considered are as follows:

1. *Close the state salary gap entirely July 1978, as projected by the SPB.* Based on information provided by the SPB, a 9.5 percent average salary increase would be required to close the salary gap completely. In view of the Legislature's action in enacting Chapter 1159, there is no basis for providing full comparability at this time.

2. *Increase salaries in line with cost-of-living increases.* Adjusting salaries in this manner is not sound conceptually, because the state, in efforts to attract and hold competent employees, competes with other employers, not with an index. Based on the projected increase in the California Consumer Index from July 1, 1977 to June 30, 1978, adjusting salaries in this way would result in an increase of about 6 percent.

3. *Approve the salary increase as proposed in the Governor's Budget.*

Although the magnitude of increase proposed (7 percent *including* benefit increases) does not differ substantially from our recommendation, no rationale is presented as to how it was derived. Further, it is not clear as to how the funds (equivalent for providing a 2 percent salary increase) earmarked for "equity adjustments, low-income adjustments, and employee benefits, or salary increases" will be applied.

With respect to employee benefits, we recommend elsewhere in this analysis that the state contribution ratio for employee health insurance be maintained because it represents legislative intent as expressed in law and prevents a reduction in employee take-home pay. Because state employee benefits are generally in line with those provided by nonstate employers, we believe the balance of funds provided for employee compensation should be applied to salary increases.

Table 3 presents a comparison of the percentage increases and costs which would result from applying the alternative approaches which we discuss above to salaries of civil service and related employees and nonacademic employees of the University of California (UC) and California State University and Colleges (CSUC). (CSUC and UC nonacademic salaries should be increased the same percentage as civil service salaries to preserve the policy of treating nonacademic employees the same as other state employees.)

Table 3

Summary Comparison of Alternative Approaches for Adjusting Salaries of Civil Service and Related Employees and Nonacademic Employees of the University of California and California State University and Colleges

Alternative Approach	Percent Increase	Cost			Total
		General Fund	Special Funds	Other Funds	
Close salary gap entirely	9.5 ^a	\$167,210,735	\$58,382,573	\$72,735,192	\$298,328,500
Cost of living increase	6.0%	105,606,780	36,873,204	45,938,016	188,418,000
Governor's program	7.0% ^b	123,207,910	43,018,738	53,594,352	219,821,000
Legislative Analysts' Proposal:					
Maintain July 1977 salary relationship.....	6.8% ^a	\$119,687,684	\$41,789,631	\$52,063,085	\$213,540,400
Maintain State contribution for Employee Health Insurance.....	10.0% ^c	5,700,000	1,400,000	1,800,000	8,900,000
Total, Legislative Analyst Proposal		\$125,387,684	\$43,189,631	\$53,863,085	\$222,440,400

^a These percentages (and the associated costs) are based on increases in prevailing rates projected by the SPB and are subject to change based on the board's spring 1978 salary survey.

^b Of the seven percent, five percent is for salary increases and two percent is designated for "equity adjustments, low income adjustments, and employee benefits, or salary increases."

^c This preliminary estimate, assuming a 10 percent growth in insurance premiums, is based on the same proportional relationship found in the salary increase items and, therefore, should not be considered precise.

State Contribution Ratio for Employee Health Insurance Should be Maintained

We recommend that the state's contribution ratio for employee health insurance be maintained for state civil service and related employees and California State University and Colleges employees, and that comparable

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benefit improvements be authorized for University of California employees.

The state presently pays a portion of employee health insurance premiums. If the cost of the premiums continues to rise, the state's percentage share of the cost would diminish unless adjusted upward periodically. In order to provide for such adjustments, Section 22825.1 of the Government Code requires the SPB to recommend the funding required in order for the state share to be maintained at an average of 85 percent for coverage of employees and 60 percent for coverage of dependents.

For 1978-79 the SPB estimates that \$7.1 million from all funds would be required to maintain the state's percentage for civil service employees only. This amount is based on the assumption that premiums will increase by 12 percent effective August 1978. We were advised recently by PERS staff that the premiums are more likely to increase by approximately 10 percent rather than 12 percent as SPB projected previously.

Given legislative intent to maintain the State's share at 85 percent/60 percent levels, we recommend that the budget be augmented to provide for higher premium rates. The funding required to accomplish our recommendation can not be determined accurately at this time, because new premiums will not be adopted until May or June 1978.

Salary Compaction

We recommend that the SPB submit its salary compaction relief recommendations by May 1, 1978 to enable the Legislature to take them into account when considering the state civil service salary increase items.

Last year, pursuant to our recommendations, the Legislature:

1. Added control language to the Budget Act of 1977 salary increase items (379, 380 and 381) providing that "salaries of senior civil service technical, professional and managerial classes shall be adjusted in a manner which provides for adequate differentials, as determined by the State Personnel Board, above salaries of related subordinate classes."

2. Though the Supplemental Report of the Committee on Conference (Budget Act of 1977—item 379), directed that:

- (a) \$2.5 million of the funds for salary increases in items 379, 380 and 381 be earmarked for reducing salary compaction of state civil service employees.

- (b) The SPB indicate in its future annual reports recommendations for eliminating salary compaction and preventing its recurrence.

The State Personnel Board did not relieve compaction to the extent directed by the Legislature.

In distributing the funds appropriated for the 1977-78 salary increase program, the board applied only \$.8 million for compaction relief, rather than \$2.5 million, as directed by the Legislature. (The \$.8 million represents only about one-half of one percent of the \$155.2 million provided for salary increases for state civil service and related employees in the Budget Act of 1977.)

The board in its January 10, 1978, annual report to the Governor and Legislature indicates that, in view of Chapter 1159, Statutes of 1977 (SB 839) which authorizes a good faith negotiating system with respect to state

civil service salaries effective July 1, 1978, a comprehensive compensation study relative to state managers is planned in the near future. The board states that a more meaningful report on compaction could be made following completion of the study and that it plans to submit a supplemental report on compaction to the Governor and Legislature before July 1, 1978.

In order for the board's recommendations regarding salary compaction to be of value to the Legislature in considering the 1978 salary increase program, we recommend that they be submitted no later than May 1, 1978.

No Increase for Salaries Over \$50,000

We recommend deletion of control language in the various compensation increase items which would prohibit funds appropriated under those items from being used to pay any portion of salaries over \$50,000.

Each compensation increase item other than the one relative to judges (Items 411, 412, 414-419, and 422-425) contains control language prohibiting the funds appropriated under the item from being used to pay salaries over \$50,000.

The Legislature disapproved such control language last year when it was proposed by the administration.

Although this language would directly effect relatively few employees at this time, it could have a significant effect on the top portion of the salary structure by further aggravating compaction.

For these reasons we recommend that the Legislature disapprove the control language again this year.

"Red Circle Rates"

We recommend restoration of Control Section 26.8, prohibiting funds appropriated by the Budget Act from being used to pay a civil service employee above the maximum of his present salary range following termination from a career executive assignment.

The Government Code (Sections 18546-7) authorizes the "career executive assignment" (CEA) program, which permits the appointing power to promote state employees having permanent civil service status into "high administrative and policy influencing positions" in accordance with SPB procedures. An employee receiving such an assignment retains his permanent civil service status and his assignment may be terminated without cause by the appointing power upon 30 days notice. Over 500 CEA positions presently exist within state service.

Government Code Section 18860 provides for "red circle rates". Under that provision, the SPB may authorize a civil service employee having a minimum of ten years state service to be paid above the maximum step in his job class pursuant to being demoted as a result of reductions in force or "other management initiated changes."

The SPB has applied these red circle rates to the CEA classes, so that an employee terminated from a CEA who had at least ten years state service would receive a red circle rate unless the termination was voluntary or based on unsatisfactory performance.

In response, the Legislature added Control Section 26.8 to the Budget Act of 1977 which prohibited payment of state funds for this purpose. Employees who accepted CEA appointments during the period when the

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SPB rule was operative were exempt from this prohibition because it could be construed as a breach of contract.

This control section has been deleted from the 1978-79 Budget Bill and we are recommending that it be restored. The CEA is intended as a special temporary appointment, which the employee accepts at his own risk with the understanding that he may be removed upon short notice at the discretion of the appointing power. For this reason, we believe it inappropriate to pay an employee above the maximum step of a class he occupies pursuant to termination of a career executive assignment.

POSTSECONDARY EDUCATION SALARIES (Items 414-419)**Academic Salaries**

We recommend that a decision on 1978-79 faculty salary increases for the University of California (UC) and the California State University and Colleges (CSUC) be deferred until the California Postsecondary Education Commission (CPEC) publishes its final projections in April showing the academic salary increases necessary for UC and CSUC to achieve parity with their 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 faculty salary and fringe benefit report. The report compares California salaries to a selected group of postsecondary education institutions, as listed below:

Comparison institutions for the University of California:

- Cornell University
- Harvard University
- Stanford University
- State University of New York at Buffalo
- University of Illinois
- University of Michigan
- University of Wisconsin at Madison
- Yale University

Comparison institutions for the California State University and Colleges:

EAST

- State University of New York at Albany
- State University of New York College at Buffalo
- Syracuse University
- Virginia Polytechnic Institute and State University

WEST

- University of Southern California
- University of Hawaii
- University of Nevada
- University of Oregon
- Portland State University

OTHER

- University of Colorado

Illinois State University
 Northern Illinois University
 Southern Illinois University
 Indiana State University
 Iowa State University
 Wayne State University
 Western Michigan University
 Bowling Green State University
 Miami University (Ohio)
 University of Wisconsin at Milwaukee

CPEC Preliminary Report

A preliminary report is prepared by CPEC in December for use in formulating the Governor's Budget and a second report, corrected for actual current year salaries at comparison institutions, is published in April.

The preliminary report issued in December indicates that salary compensation for faculty at UC must be increased by 7.5 percent in order to maintain salary parity with its comparison institutions. The required increase for CSUC is reported at 3.8 percent.

Regarding fringe benefits, the preliminary report indicates that UC would require an increase of 3.0 percent, while CSUC's projected level of benefits exceeds the comparison institutions by 15.8 percent.

The CPEC preliminary report data are summarized in Table 4.

Table 4
CPEC Preliminary Salary Data

<i>Segment</i>	<i>Salary</i>	<i>Fringe Benefits</i>
UC	7.5%	3.0%
CSUC.....	3.8	-15.8

Governor's Budget

The Governor's Budget for 1978-79 provides funds sufficient to cover a 5 percent increase for faculty at UC (\$17,170,000) and CSUC (\$20,425,000). In the segments' budget requests, UC requested a 9.3 percent increase for faculty salaries, and CSUC requested a 9.9 percent increase. Table 5 summarizes the fiscal impact (in millions) of these salary proposals.

Table 5
Fiscal Impact of Salary Proposals (in millions)

<i>Segment</i>	<i>CPEC (Preliminary)</i>		<i>Governor's Budget</i>		<i>Segments</i>	
	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>
UC.....	7.5%	\$25.8	5.0%	\$17.2	9.3%	\$31.9
CSUC.....	3.8	15.5	5.0	20.4	9.9	40.4

Segmental Requests Based on Different Methods

While similar in percentage amount, the UC and CSUC requests are based on two different methods. UC's 9.3 percent request is composed of (a) 7.54 percent which is the result of the comparison survey and (b) 1.76

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percent (.62 percent of which guarantees assistant professors at least a 6 percent increase) for additional help to recoup the erosion of real purchasing power. CSUC's 9.9 percent request is composed of (a) 6 percent for current rate of inflation and (b) 3.9 percent for a partial makeup of erosion of real purchasing power. It is important to note that "the comparison method is the underpinning of the University (UC) policy on faculty salaries" while "the Board of Trustees (of CSUC) discarded the comparison institution methodology and adopted last year an approach based mainly upon the current rate of inflation and the erosion in purchasing power."

Parity Versus Inflation

CPEC's report as directed by the Legislature, is based on the concept of parity (i.e., a determination of the salaries and fringe benefits which will be equal to comparable postsecondary institutions). In recent years, it has been argued by faculty and segmental representatives, that employee compensation at UC and CSUC should more properly be based on inflation rates, and that *real* income should not be allowed to decrease.

Table 6 provides data on faculty salaries at UC and CSUC, state civil service employee salaries, and rates of inflation in California since 1960-61.

Table 6
Increases in Salaries and Inflation, 1960-61 to 1978-79

Year	UC Faculty	CSUC Faculty	State Civil Service ^a	California Consumer Price Index
1960-61.....	7.5%	5.0%	6.2%	1.3%
1961-62.....	6.0	6.0	6.0	1.3
1962-63.....	0	0	1.2	1.6
1963-64.....	5.0	5.0	6.1	1.7
1964-65.....	0	0	0.8	2.0
1965-66.....	7.0	10.0	4.4	2.0
1966-67.....	2.5 ^b	6.6	4.5	2.8
1967-68.....	5.0	5.0	5.1	4.1
1968-69.....	5.0	7.5	5.7	5.0
1969-70.....	5.0	5.0	5.6	5.1
1970-71.....	0	0	5.2	3.7
1971-72.....	0	0	0	3.4
1972-73.....	9.0	8.4	8.95	5.8
1973-74.....	5.4	7.5	11.7	10.2
1974-75.....	5.45	5.3	5.0	10.4
1975-76.....	7.0	7.1	6.7 ^c	6.2
1976-77.....	4.4	4.3	6.6	7.0 (est.)
1977-78.....	5.0	5.0	7.5	5.8 (est.)
1978-79.....	5.0 ^d	5.0 ^d	7.0 ^d	6.0 (est.)

^a Average increase per employee.

^b An additional 3 percent was granted for a tax sheltered annuity.

^c Does not include one-time bonus of \$400 paid to employees in classes having a maximum salary of \$753 or less on July 15, 1975.

^d Proposed in Governor's Budget.

Purchasing Power

One of the difficulties in attempting to relate faculty salary increases to inflation is that the net change in real income varies depending upon which time period is being considered. This is illustrated in Table 7, which shows changes in the purchasing power of faculty and civil service salaries over several different time intervals.

Table 7
Changes in Purchasing Power of Faculty and Civil Service Salaries^a

	<i>Base Year Through 1977-78</i>			
	<i>1959-60</i>	<i>1964-65</i>	<i>1968-69</i>	<i>1971-72</i>
UC	+0.0%	-9.6%	-14.4%	-8.1%
CSUC	+8.2	+0.2	-13.3	-7.0
Civil Service	+18.7	+5.4	-0.3	+1.0

^a Based on the California Consumer Price Index.

A policy of basing salary adjustments on the principle of maintaining real income, could have several adverse effects:

- it could result in California faculty members being paid more—or less—than their counterparts at comparable institutions;
- it could result in one group of state-supported employees—faculty members—receiving considerably larger (or smaller) increases than other groups;
- it would prevent faculty members from bettering their standard of living through increased real income. On the other hand, relying strictly on the parity concept could also have adverse effects, since it ignores significant changes in the economic environment, except to the extent they are reflected in salaries paid by comparable institutions.

On balance, we continue to believe that in the absence of a good faith negotiating system as approved by the Legislature for civil service employees, the comparison method is the more rational approach to determining faculty salary increases.

Current Salary Levels

Tables 8, below, and 9, on page 1092, indicate the estimated UC and CSUC academic salary relationships with those of the comparison institutions in 1977-78.

Table 8
Estimated UC and Comparison Institutions Average Salaries (9 Month) (1977-78)

	<i>University of California</i>	<i>Comparison Group</i>	<i>Difference</i>	
			<i>Amount</i>	<i>Percent</i>
Professor	\$29,358	\$30,365	-\$1,007	-3.3%
Associate Professor	20,116	20,444	-328	-1.6
Assistant Professor	16,809	16,219	+590	+3.6
Instructor	N/A	12,647	-	-

Librarians' Salaries

Last year, the Committee on Conference for the Budget Act recommended that CPEC submit a report on salaries of librarians employed by UC and CSUC. The commission intends to publish this analysis in conjunction with the final report on faculty salaries in April of 1978.

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges—Continued

Table 9
Estimated CSUC and Comparison Institutions Average Salaries
(1977-78)

	California State University and Colleges	Comparison Group	Difference	
			Amount	Percent
Professor.....	\$26,391	\$26,510	-\$119	-0.5%
Associate Professor	20,207	19,985	+222	+1.1
Assistant Professor	16,612	16,098	+514	+3.2
Instructor	14,383	12,866	+1,517	+11.8

Nonacademic Salaries

We recommend that University of California (UC) and California State University and Colleges (CSUC) nonacademic salaries be increased by the same average percentage as state civil service salaries.

The Governor's Budget would provide a 5 percent increase for UC and CSUC nonacademic employees (\$25,185,000) and an additional 2 percent for payment of equity adjustments, low-income adjustments and other employee benefits (\$10,074,000) at a total cost of \$35,259,000.

If our recommendation for civil service and related classes is approved, a corresponding change should be made for these employees to maintain the policy that UC and CSUC nonacademic employees should be treated the same as other state employees.

JUDICIAL SALARY INCREASE (Item 413)**Five Percent Increase**

We recommend approval.

The budget requests \$2,626,000 to provide a 5 percent salary increase for judges and justices of courts of record.

Pursuant to Chapter 1183, Statutes of 1976 (AB 3844), judicial salaries are adjusted each July 1 by (1) the percentage increase in the California Consumer Price Index (CCPI) during the prior calendar year or (2) 5 percent, whichever is lower.

The amount budgeted is appropriate, because the increase in the CCPI during the 1977 calendar year exceeded 5 percent.

CHILD CARE CENTERS FOR STATE EMPLOYEES (Item 420)

We recommend deletion of \$500,000 from Item 420 proposed for establishment of child care centers for state employees.

Item 420 proposes \$500,000 for start-up costs and remodeling of physical sites for child care centers on or near state agencies for children of state employees.

Our office has recently issued a report on this subject with specific attention to the existing Department of Motor Vehicles (DMV) child care center. Our analysis found that work-site child care centers have generally

had disappointing results including (a) low utilization due to alternative parental child care preferences, (b) high start up costs and requirements for employer subsidies for operating expenses, and (c) a lack of demonstrated employment benefits in terms of reduced absenteeism, tardiness or turnover, or increased employee productivity or efficiency. Although many such centers were initiated in the late 1960's, a large number closed within a few years of their establishment; these results have largely curbed employer enthusiasm for such centers.

The child care center which presently exists at DMV illustrates some of these problems. While the center has a licensed capacity for 54 full-time children, its enrollment as of January 1978, was 44 children, of whom 34 participated on a full time basis (see Item 161 of the Analysis for a more detailed discussion of the DMV center).

Subsidized child care centers for state employees have several significant drawbacks: (a) they may result in inequitable treatment for some state employees since they provide a fringe benefit for a limited number of state employees, (b) they may have disruptive effects on the private child care market in the nearby area, and (c) they result in state funds being used to support child care services for middle income employees while some welfare recipients and low-income families do not have access to such services.

A policy of state-funded child care centers could have a significant impact on the budget. Development of from four to six child care centers to serve children of employees in Sacramento, and a proportionate number to serve state employees in major field offices could require an expenditure of several million dollars (i.e., if substantial funds are needed for construction or renovation of sites).

Based on the lack of success such centers have had in the past, and the drawbacks noted above, we conclude that the state financing in Item 420 is not warranted.

EMPLOYEE BENEFIT STATEMENTS (Item 421)

Statements to Each Employee Itemizing Benefits and Their Value

We recommend approval.

The budget requests \$197,600 for providing to each state civil service and related employee and employees of the University of California and California State University and Colleges a statement listing each benefit to which the employee is entitled and its monetary value.

"Annual" Statements Prepared Only Once Before

In 1973 the state hired a private consulting firm to conduct a comprehensive evaluation of the entire state civil service compensation program. One of the firm's recommendations was that the state should "issue an annual statement to each employee providing the amounts of his benefits (from all sources and for all circumstances of payment) and of the state's and the employee's annual contributions."

In accordance with the recommendation, the state contracted with a separate firm to prepare such statements (at a cost of approximately \$90,000) which were issued to civil service employees during the fall of

Civil Service, Exempt, Statutory, Academic and Nonacademic Employees and Judges—Continued

1974. Although the intent was to issue such statements annually, none has been issued since that time.

Legislature Expressed Concern About Lack of Employee Benefit Counselling

Resolution Chapter 38, Statutes of 1976, (SCR 30) requested the SPB in cooperation with other specified state agencies to study state employee benefit counselling needs and submit recommendations in this area. One of the board's recommendations was to periodically provide individualized benefit statements to employees.

House Resolution 10, adopted March 7, 1977, requested that the Department of Finance make funds available for providing such statements to employees.

Technically, issuing such benefit statements, like payroll warrants, would represent a state administrative expense, rather than a form of employee compensation as indicated in the budget. However, because a valid need exists, we recommend approval of the funds requested for this purpose.

RESERVE FOR CONTINGENCIES—EMERGENCY FUND

Item 426 from the General Fund

Budget p. 1107

Requested 1978-79	\$1,500,000 ^a
Appropriated by the Budget Act of 1977	1,500,000 ^a

^a In addition there is a \$1,500,000 appropriation for temporary loans.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

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|---|-------------------------|
| <p>1. Prior Review of Contingencies. Recommend control language to require the reporting of emergencies within 10 days after approval, and the reporting of contingencies 30 days prior to approval.</p> <p>2. Appropriations for Special Funds. Recommend contingency appropriations be added to the Budget Bill for state special funds and nongovernmental cost funds.</p> | <p>1095</p> <p>1096</p> |
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ANALYSIS AND RECOMMENDATIONS

This item appropriates \$1,500,000 for expenditure from the Emergency Fund. The Emergency Fund provides a source from which the Department of Finance can allocate funds to state agencies for expenses resulting from unforeseen contingencies not covered by specific appropriations.