

September 3, 2013

MOU Fiscal Analysis: Bargaining Unit 7

LEGISLATIVE ANALYST'S OFFICE

Presented to:
The California Legislature
Pursuant to Section 19829.5 of the Government Code





State Memorandum of Understanding (MOU) Process

- Ralph C. Dills Act Provides for State Employee Collective Bargaining.*** With passage of the Dills Act in 1977, the Legislature authorized collective bargaining between rank-and-file state employees organized into bargaining units and the Governor. About 180,000 full-time equivalent (FTE) positions are represented by 1 of the state's 21 bargaining units in the collective bargaining process. In collective bargaining, bargaining units are represented by unions and the Governor is represented by the California Department of Human Resources. The product of the collective bargaining process is an MOU that establishes the terms and conditions of employment for rank-and-file state employees.

- Legislature and Employees Must Ratify MOUs.*** An MOU must be ratified by the Legislature and bargaining unit members in order to take effect. In addition, under the Dills Act, the Legislature generally may choose whether to appropriate funds in each annual budget to continue the financial provisions of MOUs.

- Fiscal Analysis Required by State Law.*** Section 19829.5 of the Government Code—approved by the Legislature in 2005—requires the Legislative Analyst's Office (LAO) to issue a fiscal analysis of proposed MOUs.

- MOU for Bargaining Unit 7 Now Before Legislature.*** The Unit 7 MOU expired in July 2013. Under the Dills Act, provisions of an expired MOU remain in effect until a new MOU is ratified by the Legislature and bargaining unit members. A tentative agreement between the bargaining unit and the Governor to replace the expired MOU is now before the Legislature for approval. The proposed MOU would expire July 1, 2016.



Common Provisions of State MOUs Ratified in 2010-11

Bargaining Unit (Percent of Workforce)	Months of Personal Leave Program	Employee Pension Contribution			Professional or Personal Development Days	Top Step Increase in 2012 or 2013
		Miscellaneous and Industrial	Safety	Police Officer, Firefighter, and Patrol		
MOUs That Expired July 2013						
1, 3, 4, 11, 14, 15, 17, 20, and 21— SEIU Local 1000 (42.8%)	24	8%	9%	—	2	3%
2—Attorneys (1.8)	24	9	10	—	5	4
6—Correctional Peace Officers (12.3)	24	8	—	11%	2	3-4
7—Protective Services and Public Safety (3.3)	24	8	9	10	2	2-3
9—Professional Engineers (4.9)	12 ^a	8	9	—	2	3
10—Professional Scientific (1.2)	24	8	9	—	2	3
12—Craft and Maintenance (5.1)	24	10	11	—	2	5
13—Stationary Engineers (0.4)	12 ^a	10	11	—	2	5
16—Physicians, Dentists, and Podiatrists (0.7)	24	10	11	—	2	5
18—Psychiatric Technicians (2.7)	24	10	11	—	2	5
19—Health and Social Services/ Professionals (2.2)	24	10	11	—	2	5
MOUs That Expire July 2017						
8—Firefighters (1.7)	12	10	—	10	—	4-5
MOUs That Expire July 2018						
5—Highway Patrol (3.0)	12	10	—	10	—	2

^a These employees also received 12 months of furlough.



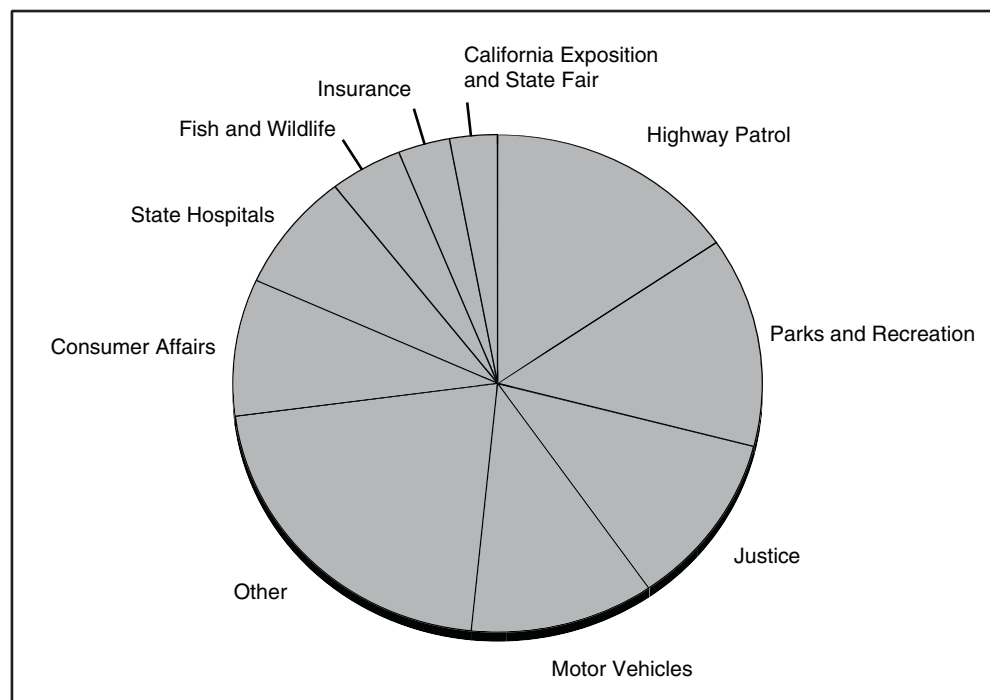
Common Elements in 2010-11 MOUs. During fiscal year 2010-11, the Legislature ratified new MOUs for all 21 bargaining units. The figure compares similar major provisions from these MOUs. While the nine bargaining units represented by Service Employees International Union, Local 1000 (Local 1000) now work under new MOUs ratified by the Legislature in July 2013, all other state bargaining units work under the 2010-11 MOUs. With the exception of Units 5 and 8, all 2010-11 MOUs expired in July 2013. We discuss major provisions of the expired Unit 7 MOU later in this report. For additional information, refer to past MOU analyses posted on our website.



Unit 7 at a Glance



Protective Services and Public Safety. Unit 7 includes nearly 7,000 FTE positions. These employees protect state lands and buildings, issue licenses or permits, conduct investigations, and, in some cases, arrest individuals. As can be seen in the figure, Unit 7 employees work in many departments. Among the largest classifications are California Highway Patrol dispatchers, Department of Motor Vehicles licensing-registration examiners, Department of State Hospitals police officers, and park rangers. Unit 7 employees are represented by the California Statewide Law Enforcement Association (CSLEA).





Expired Unit 7 MOU— Provisions Affecting Pay

- Personal Leave Program (PLP).*** In each month of PLP, employees received eight hours of unpaid leave, resulting in a 4.6 percent pay cut. The PLP is fundamentally the same policy as furloughs, except PLP is established through the collective bargaining process. Through the original MOU and an addendum, CSLEA agreed to 24 months of PLP since 2010-11. June 2013 was the last scheduled month of PLP.

- Employee Pension Contributions.*** The expired MOU increased active and future employees' pension contribution rates by either 2 percent or 3 percent, varying by retirement tier. As a result, most Unit 7 employees now contribute about 9 percent of their pay to cover a portion of pension expenses.

- Top Step Pay Increase.*** The MOU increased the level of the "top step" of employee pay ranges by either 2 percent or 3 percent in July 2013. Most state employees are at or near the top step of their pay range.



Expired Unit 7 MOU— Other Major Provisions

- Health Benefits.** The state pays a specified dollar amount towards Unit 7 employee health benefits that is about 80 percent of the average health premium costs. This “flat-dollar” employer contribution was last increased earlier this year to reflect rising health premium rates. Absent a new agreement, the state’s contribution for Unit 7 health care costs would not change when health premium costs increase in future years.

- Personal Development Days (PDD).** Unit 7 employees are eligible for two days off each year that may be used at the employee’s discretion. Unused days do not carry over from one year to the next.

- Continuous Appropriations.** As part of the legislation ratifying the expired MOU, the Legislature approved continuous appropriations of the economic terms of the agreement through July 1, 2013.



Proposed Unit 7 MOU— Provisions Affecting Pay

- General Salary Increase.** All Unit 7 employees would receive a 3 percent general salary increase on July 1, 2015. This is the first general salary increase for these employees since 2007-08.
- Additional Pay Increase for Two Classifications.** Two classifications of peace officers—hospital police officer and developmental center peace officer—would receive a 4.67 percent pay increase on July 1, 2015, in addition to the 3 percent general salary increase.
- Cash Out of Vacation and Annual Leave.** Upon separation from state service, departments compensate employees for any unused vacation or annual leave based on their final salary level. This is known as “cashing out” leave balances. The agreement would give current employees the opportunity to cash out up to 20 hours of vacation or annual leave each year at their current salary level provided that the department director determines that “the department has funds available for the purpose of cashing out accumulated Vacation/Annual Leave.”
- Continuous Appropriations.** The parties agree to present to the Legislature legislation to provide continuous appropriations of the economic terms of the agreement through July 1, 2016.



Proposed Unit 7 MOU—Health Benefits

- Increased State Contribution for Term of Agreement.*** The flat-dollar state contribution towards monthly health premiums for Unit 7 employees and their dependents would be increased to the equivalent of about 80 percent of health premium costs for the term of the contract. The state's contribution would be adjusted to reflect any premium increases on January 1 of 2014, 2015, and 2016.



Proposed Unit 7 MOU— Other Fiscal Provisions

- Meal and Lodging Expenses.*** State employees may be reimbursed for specified costs related to travel and other business expenses. The proposed agreement would increase the maximum reimbursement rates available to Unit 7 employees for costs related to meals and lodging while traveling on state business. Employees would be eligible for reimbursement for:
 - A maximum of \$41 for meals (up from \$34) in a 24-hour period of travel.
 - Between \$90 and \$150 each night (up from between \$84 and \$140 each night) for necessary in-state lodging, depending on location.

- Limited Use of Retired Annuitants.*** Retired state employees who are paid by the state to work while also receiving a state pension are called retired annuitants. There are a variety of reasons why departments choose to use retired annuitants. The agreement would require that any retired annuitants used by the state not displace CSLEA represented employees.

- Retirement Benefits.*** Employee retirement benefits outlined in the agreements—including employee contributions to the California Public Employees' Retirement System (CalPERS) and pension formulas—would reflect current law established by last year's pension legislation (AB 340). Assembly Bill 340 largely affects retirement benefits for *future* state employees. Conforming the MOUs to AB 340 generally does not change current or future employees' retirement benefits from what is already established in current law.



Administration's Fiscal Estimate of Proposed MOU

(In Millions)

Proposal ^a	2013-14		2014-15		2015-16	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Increased state contribution to health premiums	\$0.3	\$1.1	\$1.4	\$4.7	\$2.8	\$9.5
3 percent general salary increase	—	—	—	—	4.4	14.9
4.67 percent pay increase to specified peace officers	—	—	—	—	1.9	2.0
Increased travel reimbursement rates ^b	0.0	0.1	0.0	0.1	0.0	0.1
Totals	\$0.3	\$1.2	\$1.4	\$4.8	\$9.2	\$26.5

^a Does not include costs associated with current law.
^b The administration assumes that some or all of these costs will be absorbed within existing departmental resources.
 Note: 0.0 indicates an estimated cost of less than \$50,000.



Little Effect on Current-Year Budget, Rising Costs in Future Years. The administration estimates that the agreement would increase state costs by about \$350,000 (General Fund) in 2013-14. The administration estimates that costs increase in 2014-15 and 2015-16 as a result of rising health care costs each year and the pay increases in 2015-16.



LAO Comments— Administration's Fiscal Estimates

- Estimates Reasonable.*** Our fiscal estimates generally are similar to those of the administration.

- Leave Cash Out Provision Increases Short-Term Costs, Reduces Long-Term Liabilities.*** The administration's fiscal estimates do not reflect the fiscal effect of Unit 7 employees cashing out up to 20 hours of vacation and annual leave each year. This provision could cost departments as much as a few million dollars in any given year. Although this provision increases the state's short-term costs, it reduces the state's long-term liabilities. At the end of 2011-12, the state's liability associated with Unit 7 employees' vacation/annual leave balance was about \$55 million. This liability grows as employees receive pay increases. Allowing employees to cash out leave before they separate from state service reduces these long-term liabilities.



LAO Comments—Salary Compaction

- Managers and Supervisors Do Not Necessarily Receive Pay Increase.*** The administration has broad authority over supervisory and managerial salaries. When rank-and-file employees negotiate pay increases, managerial employees do not automatically receive a comparable increase in pay. When rank-and-file pay increases faster than managerial pay, “salary compaction” can result.

- Difficult for Legislature to Determine Where Compaction Exists.*** Salary compaction can be a problem when the differential between management and rank-and-file pay is too small to create an incentive for employees to accept the additional responsibilities of being a manager. To date, there has not been a consistent or coordinated process for the administration to analyze compaction issues and inform the Legislature where such problems exist.

- Consider Extending Pay Increases to Managers and Supervisors.*** If the pay increases provided for in the proposed MOU are not extended to these employees’ managers and supervisors, any salary compaction that currently exists between these classifications will increase. The administration estimates that extending the 2015 pay increases to managers and supervisors of rank-and-file employees represented by Unit 7 could increase state costs by \$1.4 million (General Fund) over the course of the agreement.



Selected Features of Summer 2013 Agreements

Bargaining Unit	Expires	Maximum Compounded GSI	Some Provisions Contingent on DOF Fiscal Estimates	One-Year Dependent Health Vesting	Increased Flat-Dollar Health Contribution	Leave Cashout
Units With Agreements Before Legislature						
7—Protective Services and Public Safety	2016	3.0% ^a	No	No	Yes	Yes
12—Craft and Maintenance	2015	3.3	Yes	Yes	Yes	Yes
16—Physicians, Dentists, and Podiatrists	2016	4.0 ^b	Yes	No	N/A	No
18—Psychiatric Technicians	2016	4.3	Yes	Yes	Yes	No
19—Health and Social Services Professionals	2016	3.0 ^c	Yes	Yes	N/A	No
Agreements Ratified by Legislature						
1, 3, 4, 14, 15, 17, 20, and 21 —SEIU Local 1000	2016	4.6	Yes	Yes	Yes ^d	No
^a Listed GSI applies to most Unit 7 employees. Specified peace officer classifications eligible for an additional 4.67 percent pay increase. ^b Listed GSI applies to most Unit 16 employees. Specified classifications eligible for up to 8.1 percent GSI. ^c Listed GSI applies to most Unit 19 employees. Specified classifications eligible for up to 8.2 percent GSI. ^d Only applies to Unit 3. State contributions for other Local 1000 bargaining units automatically increase when health premiums increase. GSI = General Salary Increase and DOF = Department of Finance.						



Common Provisions in New MOUs. At the time this report was published, our office had completed its analysis of 14 tentative agreements affecting Units 7, 12, 16, 18, 19, and the 9 bargaining units represented by Local 1000. The figure compares certain provisions from these agreements. Our office's analyses of tentative agreements for Units 6 and 9 will be released within the next few days.