FEDERAL REVENUE SHARING

Item 485 from the Federal
Revenue Sharing Fund Budget p. GG 166

Requested 1980–81	$276,200,000
Estimated 1979–80	276,200,000
Actual 1978–79	276,200,000
Requested increase None	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The State and Local Fiscal Assistance Act of 1972 (general revenue sharing) was enacted on October 20, 1972.

The act was designed to give financial aid to state and local governments. The allocation of general revenue sharing funds among the recipient governments for each entitlement period is made according to statutory formulas using data such as population, general tax effort, and income tax collections.

The State and Local Fiscal Assistance Amendment of 1976 extended the program to September 30, 1980. No substantive changes were made to the allocation formulas. The new law, however, requires recipient governments to hold public hearings on proposed uses of the funds.

In fiscal year 1973–74, federal revenue sharing funds were appropriated for educational apportionments and for the costs of welfare payments under the State Supplementary Payment program (SSP). For fiscal years 1974–75 through 1977–78, funds were appropriated to the State School Fund for public school apportionments. In fiscal years 1978–79 and 1979–80, funds were appropriated solely for the support of the SSP program in order to ensure compliance with federal requirements for an "audit trail" and nondiscrimination in the use of revenue sharing funds.

In 1980–81, the Governor's Budget proposes that $276.2 million in federal revenue sharing funds again be expended solely for the SSP program (Item 310 of the Governor's Budget). During the budget year, the state will receive the last two revenue sharing payments under the current program, estimated at $133.2 million, a 49 percent decrease from the anticipated current year receipts. As a result, the proposed 1980–81 expenditure will reduce the fund's available surplus from nearly $290 million to about $161 million. This amount is available for appropriation at any time, provided all federal requirements have been met.

Future of Federal Revenue Sharing Uncertain

Congress is currently considering whether to extend the Revenue Sharing Program beyond its current termination date of September 30, 1980. Because it is uncertain what action Congress will take, the estimate of revenue sharing receipts for the budget year includes only those entitlements under the current program.

FEDERAL REVENUE SHARING—Continued

Effect of Lower "Tax Effort" Under Proposition 13

As we noted in the Analysis of the 1979 Budget Bill, the lower property tax revenues (and thus lower "tax effort") brought about by the passage of Proposition 13 (Article XIIIA of the State Constitution) will not affect the state's allocation of federal revenue sharing funds in the budget year because the data that will be used to compute the allocation through the end of the current revenue sharing program were collected prior to the effective date of the proposition. However, if the federal revenue sharing program is extended beyond September 30, 1980, and the allocation formulas remain the same, lower post-Proposition 13 property tax revenues will cause a significant reduction in the state's allocation of revenue sharing funds. The federal Office of Revenue Sharing has estimated that, if property tax revenues as reduced by Proposition 13 had been used to compute California's allocation for the 1978 entitlement period, state government's share of that allocation would have been reduced by about $23 million, or approximately 9 percent.

Maintenance of State Transfers

An even more significant effect on the state's revenue sharing allocation could result from changes in the amount of intergovernmental transfers from the state to local governments. Under *present* law, a reduction of state transfers below the level of transfers during the prior 24-month period results in a *dollar-for-dollar* reduction of the state's revenue-sharing allocation. As a result of the state's "fiscal relief" of local governments, local asssistance has been increased substantially above historical levels. If the revenue-sharing program is extended and the maintenance of state transfers provision remains in effect, any substantial reduction of total state assistance to local governments (such as might occur as a result of the deflator provision in AB 8) would result in a significant reduction in California's revenue sharing allocation.

HEALTH BENEFITS FOR ANNUITANTS

Item 486 from the General Fund — Budget p. GG 178

Requested 1980–81	$33,033,000
Estimated 1979–80	29,836,000
Actual 1978–79	25,082,474
Requested increase $3,197,000 (+10.7 percent)	
Total recommended increase	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Funding for Premium Increase. Augment by a yet-unspecified amount.* Recommend funding for part of the anticipated premium increase.	1481

GENERAL PROGRAM STATEMENT

This appropriation provides the state's contribution toward payment of monthly health insurance premiums for annuitants of retirement systems to which the state contributes as an employer. These systems include the Judges' Legislators', Public Employees' and Teachers' Retirement Systems. For the latter two systems, this health insurance contribution is limited to retired state employees.

This program offers a degree of post-retirement security for employees and their dependents by paying one of the following amounts toward the monthly premium of a state-approved insurance plan: (1) $43 for the annuitant only, (2) $79 for an annuitant with one dependent, and (3) $102 for an annuitant with two or more dependents. These contribution levels were authorized by the 1979 Budget Act and became effective July 1, 1979. The prior state contribution rates were $38, $72, and $92, respectively.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $33,033,000 from the General Fund for payment of health insurance premiums in 1980–81, which is $3,197,000, or 10.7 percent, more than estimated current year expenditures. The increase is attributable only to the projected growth in the number of annuitants, which is shown in Table 1.

Table 1
Annuitant and Health Benefit cost Projections

	Number of Annuitants			*State Costs (thousands)*		
	Estimated 1979–80	*Projected 1980–81*	*Percent Increase*	*Estimated 1979–80*	*Proposed 1980–81*	*Percent Increase*
Retirement System						
Judges	410	428	4.4%	$273	$332	21.6%
Legislators	90	98	8.9	61	66	8.2
Employees	41,984	46,243	10.1	29,337	32,438	10.6
Teachers	265	276	4.2	165	197	19.4
Totals	42,749	47,045	10.0%	$29,836	$33,033	10.7%

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

Premium Cost Increase Not Budgeted

We recommend a General Fund augmentation of an unspecified amount to fund the anticipated, but as yet-unknown 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 100 percent of health insurance costs for annuitants and 90 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 amount proposed for this item in 1980–81 does not provide for an

HEALTH BENEFITS FOR ANNUITANTS—Continued

inflationary increase in health insurance premiums. When this analysis was written, the Public Employees' Retirement system (PERS) anticipated a health insurance premium increase of about 12 percent for 1980–81. However, the precise amount of this increase will not be known until May or June 1980, when the new premiums are adopted.

MISCELLANEOUS LEGISLATIVE MANDATES

Item 487 from the General Fund — Budget p. GG 185

Requested 1980–81	$64,668,670
Estimated 1979–80	4,305,000
Recommendation pending	424,935
Recommended reduction	6,243,735
Recommended transfer to Item 355	58,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Deficiency Appropriations. We withhold recommendation on the $424,935 requested for deficiency appropriations pending receipt and analysis of additional data. 1484
2. *Prior-Year Costs Attributable to Board of Control Awards. Reduce by $6,243,735.* Recommend deletion of $6,243,735 in funding provided for reimbursement of mandated costs incurred in 1977–78. Also recommend adoption of Budget Bill language instructing the Board of Control to accept no more claims for reimbursement of 1977–78 costs associated with specified statutes. 1485
3. Statute of Limitations on Claims of First Impression. Recommend adoption of Budget Bill language directing the Board of Control to accept no claims of first impression submitted after October 31 following the fiscal year in which the costs were incurred. 1487
4. Budgeting of Mandated Costs. Recommend transfer of $58,000,000 in funding provided for costs incurred in 1978–79 and 1979–80 to Item 355. 1487
5. Reporting of Mandated Cost Reimbursements. Recommend adoption of Budget Bill language requiring the Controller to provide information on the reimbursements attributable to costs incurred in each fiscal year for each mandate. 1487

GENERAL PROGRAM STATEMENT

Under the terms of Chapter 1406, Statutes of 1972 (SB 90), California established the principle of reimbursing local governments for certain costs mandated on them by the state. Current law requires the state to reimburse local agencies and school districts for all costs incurred as a result of any law or executive order which mandates a new program or an increased level of service for an existing program.

Reimbursement Process for Funded Mandates

Each year the Budget Act provides an appropriation for the ongoing costs of those legislative mandates which are enacted with authorizations for state reimbursement of local costs. To obtain reimbursement for costs incurred as a result of these mandates, local agencies are required to file claims with the State Controller's Office. These claims are then paid by the Controller out of the appropriations contained in the departmental budgets.

Reimbursement Process for Unfunded Mandates

Chapter 1135, Statutes of 1977, and Chapter 794, Statutes of 1978, authorized the Board of Control to hear local agency claims which allege that:

(1) A chaptered bill contained a disclaimer, yet had resulted in "costs mandated by the state" or

(2) A chaptered bill had resulted in "costs mandated by the state," but contained neither an appropriation or a disclaimer.

For these claims, the initial determination as to whether a mandated cost has been incurred is based on a "claim of first impression" submitted to the Board of Control by a local agency. If the board decides that the legislation contains an unfunded mandate, it adopts parameters and guidelines which specify the types and amount of costs eligible for reimbursement. All local agencies may then submit their claims for first-year costs to the board, which forwards them to the State Controller for desk auditing prior to approval.

The Board of Control submits a report to the Legislature specifying the amount and identity of the claimants for all approved claims. This report, submitted twice per year, serves as the basis for the local government claims bill, which appropriates funds for payment of these claims. Once such an appropriation is made, the Department of Finance is required to include funding for mandated costs incurred in subsequent years in the Governor's Budget.

The length of time between the filing of a claim of first impression and reimbursement of local agency costs has been about 12 to 18 months. This includes: (1) an average of 4⅓ months to determine whether or not a mandate exists, (2) 3 months to adopt parameters and guidelines, (3) 2 months for the Controller to audit the claims, and (4) 3 to 6 months to enact legislation appropriating funds to pay them.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $64,668,670 from the General Fund for reimbursement of state-mandated local costs incurred in the 1977–78 through 1979–80 fiscal years. Funds for reimbursement of mandated costs to be incurred in the budget year are included in related departmental budgets and summarized for informational purposes in the text of this item.

This request has two components:

- Funds needed to reimburse school districts for costs incurred under

MISCELLANEOUS LEGISLATIVE MANDATES—Continued

four specific legislative mandates ($64,243,735). Funding for these mandates has been approved through the Board of Control claims process.

- Funds needed to cover deficiences in prior-year appropriations ($424,935).

Deficiency Appropriations

We withhold recommendation on the $424,935 requested for deficiencies in prior-year appropriations pending receipt and analysis of data supporting the requested amounts.

In some cases, the Budget Act appropriation for reimbursement of costs associated with a mandate is insufficient to allow full payment of all claims received, and a proration of the available funds among the eligible claims is then required. In addition, the Controller is required to inform the Department of Finance and the chairmen of the fiscal committees in each house of the situation in order that an appropriation for payment of the deficiencies may be obtained. Funds were provided in Item 434 of the 1979 Budget Act to fund $424,935 of deficiencies for the 1978–79 fiscal year.

Information on the amount of any deficiencies for the 1979–80 fiscal year is not yet available. In the expectation that some appropriations in the 1979 Budget Act will not be sufficient to pay all valid claims filed, the budget requests funds equal to the amount appropriated last year for this purpose. Because information on the actual amount of deficiencies in 1979–80 is not yet available, we are withholding recommendation on the requested appropriation for these deficiencies pending receipt and analysis of data supporting the requested amounts.

Prior-Year Costs Attributable to Board of Control Awards

The Legislature has provided funds to pay claims for costs incurred by school districts pursuant to the following four mandates identified through the Board of Control claims process:

STRS and PERS Sick Leave Credits. Chapters 89 and 1398, Statutes of 1974, require school districts to pay the cost of converting accumulated unused sick leave to retirement credits when an employee retires.

Although information available to the Legislature at the time these statutes were enacted indicated that savings resulting from a decrease in sick leave usage would be sufficient to offset the cost of the increased retirement benefits, a subsequent report by the Auditor General found that costs far exceeded savings.

The Board of Control approved claims totaling $7,731,455 for reimbursement of costs incurred by certain school districts in 1977–78. Chapter 1201, Statutes of 1979, limited the sick leave credit to *existing* employees, and appropriated funds to pay these claims.

Jury Duty for Teachers. Chapter 593, Statutes of 1975 (AB 681), repealed the exemption from jury duty for 17 designated classes of persons, including school teachers. Because the Legislative Counsel advised the Legislature that AB 681 did not contain a mandated local program, the bill was assumed to have no cost impact and was not assigned to a fiscal committee.

Chapters 419 and 1137, Statutes of 1979, appropriated $628,536 to pay 284 claims approved by the Board of Control for costs incurred in 1977–78.

Collective Bargaining for School Employees. Chapter 961, Statutes of 1975, established collective bargaining for public school employees. Chapter 1137 included an appropriation of $24,810 to pay eight claims approved by the Board of Control for costs incurred in 1977–78.

Funding for Costs Incurred Between Initial Year and First Year of Budget Funding. Section 2231 of the Revenue and Taxation Code provides for the inclusion of funds in the Budget Act sufficient to cover the *continuing costs* of approved claims—that is, costs incurred subsequent to the enactment of a claims bill. Because of the delays in the process of approving and funding claims, several years may pass before Section 2231's requirement becomes operative for a given claim.

Because the claims bills which provided funds for these four mandates were not approved until after the 1979 Budget Act was adopted, the continuing costs of these mandates are proposed to be funded in the 1980–81 budget. Funding for reimbursement of the costs to be incurred in 1980–81 under these four mandates is included in the appropriate program budget. Funding for the remaining 1977–78 costs, and for the 1978–79 and 1979–80 costs of these programs, is included in this item. Table 1 provides information on the proposed funding.

Table 1
Prior-Year Costs Attributable to Board of Control Awards

Chapter		*Statutes*	*1977–78*	*1978–79*	*1979–80*	*Total*
89	1974	STRS sick leave credits ..	$1,023,818	$14,000,000	$14,000,000	$29,023,818
1398	1974	PERS sick leave	244,727	4,000,000	4,000,000	8,244,727
593	1975	Jury duty for school employees	—	1,000,000	1,000,000	2,000,000
961	1975	Collective bargaining for school employees	4,975,190	10,000,000	10,000,000	24,975,190
		Totals	$6,243,735	$29,000,000	$29,000,000	$64,243,735

There are two issues relating to the requested appropriation:

- Should there be a statute of limitations on the submission of these claims?
- Where should the cost of these mandates be shown in the budget?

Statute of Limitations on Claims for Reimbursement

We recommend deletion of $6,243,735 in funding provided for reimbursement of mandated costs incurred in 1977–78.

We further recommend adoption of Budget Bill language directing the Board of Control to accept no more claims for reimbursement of 1977–78 costs associated with these statutes.

The Revenue and Taxation Code contains two statutes of limitation relating to SB 90 claims:

(1) For funded mandates, Section 2231 (d(2)) requires local governments to submit claims for *estimated* costs to the Controller by October 31 of the fiscal year in which the costs are to be incurred. If a local entity

MISCELLANEOUS LEGISLATIVE MANDATES—Continued

submits an otherwise valid claim after that date, the Controller is required by Section 2238 to pay 80 percent of the amount which he would have paid, had the claim been filed on time. Current law does not include *any* deadline by which late claims must be filed under Section 2238.

(2) For unfunded mandates, Section 2253.8 specifies that the Board of Control shall *not* consider any claim for reimbursement of mandated costs which is submitted more than *one year* after the October 31 deadline for filing of *estimated* cost claims. Therefore, any claim which is submitted after October 31 following the *end* of the fiscal year in which the costs were incurred may not legally be considered by the Board of Control. As discussed below, this deadline has not been observed by the board because in most cases, parameters and guidelines have not been adopted by that date.

Existing law requires a local agency to submit a claim for reimbursement of actual costs in accordance with the parameters and guidelines established by the Board of Control. These claims must be filed by *October 31 following the close of the fiscal year in which the costs were incurred.* However, because the board has failed to adopt parameters and guidelines by the October 31 deadline in all but four cases, it was not possible for many local agencies to submit claims on time. Nevertheless, the board has approved local claims for reimbursement submitted *after* the statutory deadline, and the Legislature has appropriated funds for some of these late reimbursement claims. The result is that there is effectively no statute of limitations for reimbursement claims submitted to the Board of Control.

We believe that some reasonable limitation should apply to the submission of these claims in order to encourage local agencies to submit their claims in timely fashion and to provide timely information on the extent of the state's fiscal obligations. Our analysis indicates that a one-year period following the date on which parameters and guidelines are adopted would provide a reasonable period for local governments to file their claims. Accordingly, we recommend that legislation be enacted requiring that claims for reimbursements submitted more than one year after the date parameters and guidelines are adopted be rejected.

This item includes $6,243,735 for reimbursement of costs *estimated* to have been incurred by school districts in 1977–78 under the following four statutes:

Chapter 89, Statutes of 1974
Chapter 1398, Statutes of 1974
Chapter 593, Statutes of 1975
Chapter 961, Statutes of 1975

All of the claims which would be paid from these funds would violate the one-year filing period recommended above. A portion of the $6,243,735 would be paid for claims already submitted to the State Board of Control, but the remainder represents the estimated cost of claims not yet filed with the board. It is not known how many additional claims will be received.

Because the board did not enforce a statute of limitations in the past, school districts have had no direction from the state as to what, if any, deadline for submission of claims would be enforced. Because it does not seem reasonable to impose the above deadline retroactively, we recommend that claims which are submitted to the board prior to enactment of the Budget Act be funded through the next local government claims bill. We further recommend that the following Budget Bill language be added to this item:

> "provided, that the State Board of Control shall accept no additional claims for reimbursement of 1977–78 costs associated with the following statutes:
> a) Chapter 89, Statutes of 1974;
> b) Chapter 1398, Statutes of 1974;
> c) Chapter 593, Statutes of 1975, with respect to jury duty for teachers; and
> d) Chapter 961, Statutes of 1975."

Enforce Existing Statute of Limitations on Claims of First Impression

We recommend that Budget Bill language be adopted directing the Board of Control to accept no claims of first impression submitted after October 31 following the fiscal year in which the costs were incurred.

Claims of first impression are also subject to the statutory deadline contained in Section 2253.8. Here again, the board has in certain cases considered claims received *after* October 31 following the fiscal year in which the costs were incurred. We are aware of no justification for ignoring the existing statute of limitations with respect to claims of first impression. Therefore, we recommend that the following Budget Bill language be added to this item:

> "provided further, that the State Board of Control shall accept no claims of first impression submitted after October 31 following the fiscal year in which the costs claimed were incurred."

Budgeting of Mandated Costs

We recommend the transfer of $58,000,000 in funding for costs incurred in 1978–79 and 1979–80 to Item 355. As noted earlier, funding for the 1980–81 costs of the four mandates included in this item is provided in the appropriate program budget. We recommend that all costs associated with these mandates be reflected in the program budget.

In our analysis of Item 355, we recommend that:

- All funds appropriated to reimburse school districts for mandated costs associated with Chapter 961, Statutes of 1975 (collective bargaining), be distributed based on average daily attendance (ADA).
- The funds appropriated for reimbursement of costs associated with Chapter 89, Statutes of 1974, be disbursed directly to STRS.

Reporting of Mandated Cost Reimbursements

We recommend adoption of Budget Bill language directing that the reporting of mandated cost reimbursements by the Controller be modified to reflect the actual cost incurred by local government to comply with each mandate in each fiscal year.

Currently, the information presented in the budget on expenditures for mandated cost reimbursements shows the actual cash disbursements for

MISCELLANEOUS LEGISLATIVE MANDATES—Continued

a mandate in each fiscal year. Because the cash disbursements reflect adjustments made by the Controller to compensate for over and under payments made in prior years, this information does not indicate the actual cost incurred by local government to comply with a given mandate.

Under the existing procedure, the Controller's payments to local agencies in any given year are made on the basis of costs *estimated* to be incurred under each mandate during that same year. At the end of each fiscal year, the local agencies report their *actual* expenditures for that year to the Controller and make a claim for the costs they estimate will be incurred in the next (current) year. If the local agency overestimated its cost for the prior year, the Controller *reduces* the amount to be paid in the current; and if it underestimated its actual costs, the Controller *increases* its payment for the current year. Therefore, the cash disbursements for a given mandate do not normally reflect the mandated costs actually incurred.

The Legislature needs information on the actual costs incurred by local governments to comply with each mandate to ensure accurate budgeting for reimbursements and to evaluate the continued desirability of mandated programs. Accordingly, we recommend that the following Budget Bill language be added to this item:

> "provided further, that the State Controller shall modify his reporting of mandated cost reimbursements to reflect the actual cost incurred by local government to comply with each mandate in each fiscal year."

Provision for Employee Compensation

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES

Item 488 from the General Fund, Item 489 from special funds, and Item 490 from other funds — Budget p. GG 190

Requested 1980–81	$427,184,000
Total recommended change	Pending

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
488	Compensation increase. (1) Salary increase of 5 percent for judicial employees and (2) equivalent of a 9 percent salary increase for civil service and related employees and employees of the University of California and California State Universities and Colleges.	General	$280,700,000
489	Compensation increase. Equivalent of a 9 percent salary increase for civil service and related employees.	Special	70,839,000
490	Compensation increase. Equivalent of a 9 percent salary increase for civil service and related employees.	Other	75,645,000
	Total		$427,184,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Compensation Increase. Recommend SPB submit information to the Legislature for evaluating compensation increases.	1496
2. Health Insurance Cost Data. Recommend PERS, in cooperation with Department of Finance, annually submit specified cost data relative to employee health insurance.	1497
3. Salary Comparisons. Recommend rejection of new salary comparison method proposed by University of California.	1503

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget includes $427,184,000 for compensation increases for state employees. The budget states that "these funds will support increases in salaries, benefits and terms and conditions of employment negotiated during the collective bargaining process." The budget also states that collective bargaining may not begin in time to affect the budget and, therefore, the $427,184,000 has been included "to provide funding for all state employees for salary and related benefit increases, including increases in health benefits and any other benefits and terms and conditions of employment." (The status of collective bargaining is discussed later in this analysis.)

The $427,184,000 proposed for compensation increases would provide for:

1. A 5 percent salary increase for judges and justices of courts of record.
2. The equivalent of a 9 percent increase for civil service and related employees and employees of the University of California (UC) and California State Universities and Colleges (CSUC).

Table 1
Allocation of Funds Requested for Increases in Employee Compensation (in thousands)

	Funding Source				*Percent*
Employee Group	*General*	*Special*	*Other*	*Total*	*Increase*
Civil service and related	$135,756	$70,839	$75,645	$282,240	9%
University of California (UC):					
Academic	37,989	—	—	37,989	9
Nonacademic	36,747	—	—	36,747	9
(Totals UC)	($74,736)	—	—	($74,736)	
California State University and Colleges (CSUC):					
Academic	$42,003	—	—	$42,003	9
Nonacademic	26,280	—	—	26,280	9
(Totals CSUC)	($68,283)	—	—	($68,283)	
Judges	1,925	—	—	1,925	5
Total Costs	$280,700	$70,839	$75,645	$427,184	
(Item Number)	(488)	(489)	(490)	—	

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

If the funds were allocated in this manner, the distribution would be as indicated in Table 1. The cost of providing various levels of salary increases to the major categories of state employees, other than judges, is indicated in Table 2. (Judges are excluded because they are budgeted to receive a 5 percent salary increase, as required by law.)

Table 2
Cost of Providing Various Levels of Salary Increases For State Employees (Excluding Judges)

		Amount of Increase (thousands)				
Employee Group	*Fund*	*1 Percent*	*5 Percent*	*9 Percent*	*12 Percent*	*15 Percent*
Civil service and related	General	$15,084	$75,420	$135,756	$181,008	$226,260
	Special	7,871	39,355	70,839	94,452	118,065
	Other	8,405	42,025	75,645	100,860	126,075
(Totals, civil service and related)		($31,360)	($156,800)	($282,240)	($376,320)	($470,400)
University of California (UC):						
Academic	General	$4,221	$21,105	$37,989	$50,652	$63,315
Nonacademic	General	4,083	20,415	36,747	48,996	61,245
(Totals, University of California)		($8,304)	($41,520)	($74,736)	($99,648)	($124,560)
California State University and Colleges (CSUC):						
Academic	General	$4,667	$23,335	$42,003	$56,004	$70,005
Nonacademic	General	2,920	14,600	26,280	35,040	43,800
(Totals, CSUC)		($7,587)	($37,935)	($68,283)	($91,044)	($113,805)
Total Costs		$47,251	$236,255	$425,259	$567,012	$708,765
	General	(30,975)	(154,875)	(278,775)	(371,700)	(464,625)
	Special	(7,871)	(39,355)	(70,839)	(94,452)	(118,065)
	Other	(8,405)	(42,025)	(75,645)	(100,860)	(126,075)

Lump-Sum Payment (SB 91)

Background. The 1978 Governor's Budget proposed:

1. An average salary increase of 5 percent for civil service and related employees and all employees of the UC and CSUC.
2. The equivalent of a 2 percent salary increase for civil service and related employees and nonacademic employees of the UC and CSUC for "equity adjustments, low income adjustments, employee benefits or salary increases."

After the passage of Proposition 13, the Legislature enacted the budget which provided for:

1. A 2.5 percent across-the-board salary increase for all civil service and related employees and all employees of the UC and CSUC.
2. Maintaining the state contribution rate for health insurance at an average of 85 percent for coverage of employees and 60 percent for coverage of dependents.

The Governor subsequently eliminated the 2.5 percent across-the-board increase for civil service and related employees and employees of the UC and CSUC. Thus, the compensation program approved by the Governor and reflected in the 1978 Budget Act provided only for maintaining the state contribution rate for employee health insurance. (It also provided for a 5 percent increase in judges' salaries and a ten percent increase in legislators' salaries, as prescribed by law.)

Chapter 192 (SB 91) authorized a lump sum payment to all state employees, other than judges and highway patrolmen. The measure provided for each such employee to receive a lump-sum payment equal to the additional compensation the employee would have received had his or her salary been increased by 7 percent effective October 1, 1978. If the payment were spread over the period July 1, 1978, to June 30, 1979, it would be equivalent to a 5.25 percent increase for the entire fiscal year. The act appropriated $207.6 million ($135 million General Fund) to cover the cost of the lump-sum payment.

The Governor vetoed this measure, but his veto was overridden on July 2, 1979, and the measure became law.

Lump-Sum Payment Issue is in the Courts. In November 1979, the Third District Court of Appeals ruled that the lump-sum payment was unconstitutional. The court held that such a payment would violate a provision in the State Constitution which prohibits granting extra compensation to public employees for work already performed. The State Attorney General's Office is appealing the case to the State Supreme Court. If the Supreme Court elects to hear the case, a final decision will probably not be forthcoming for a number of months.

The funds appropriated for SB 91 appear in the Governor's Budget as a current year expenditure. If the measure is ruled unconstitutional or if the Supreme Court refuses to hear the case, the funds would be returned to the surplus and available for appropriation by the Legislature.

1979 Salary Program

The 1979 Governor's Budget did not include funds for compensation increases for any state employees other than judges, who received a 5 percent increase as prescribed by law.

The Legislature augmented the budget to provide for:

1. An average salary increase of approximately 15 percent for state employees, other than judges and highway patrolmen.
2. A 20.6 percent salary increase for highway patrolmen.
3. Maintaining the state contribution rate for employee health insurance at (a) 100 percent for coverage of employees and (b) an average of 90 percent for coverage of their dependents.

Veto was Overridden. The Governor reduced the salary increase for (1) highway patrolmen from 20.6 percent to 15 percent and (2) all state employees other than judges and highway patrolmen from an average of 15 percent to an average of 9.3 percent. Subsequently, the Legislature overrode the Governor's veto, and the compensation increases approved by the Legislature became effective on July 1, 1979.

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

Comparative Salary Increases

Table 3 compares the annual salary increases received by superior court judges, state civil service employees, state statutory officers (those officials whose salaries are specified by statute) and state legislators, from fiscal years 1967–68 through 1979–80.

Table 4 shows both the dollar amounts and percentages by which the 1979–80 salary level exceeds the 1967–68 level for each such group, and the percentage change in the California Consumer Price Index (CCPI) between 1967–68 and 1979–80.

During that 12-year period, the CCPI increased 124.3 percent while salaries were increased as follows:

1. Civil service employees—122.6 percent.
2. Judges—116.8 percent.
3. Statutory officers—82.9 percent.
4. Legislators—59.7 percent.

Table 3

Comparison of Annual Salary Increases Received by Judges, State Civil Service Employees, Statutory Officers and State Legislators From 1967–68 through 1979–80

	Superior Court Judges		*Civil Service Percent Increase*			*State Legislators*	
	Salary[a]	*Percent Increase*	*Increase in Total Payroll*	*Average Increase per Employee*	*Statutory Officers Percent Increase*	*Salary*	*Percent Increase*
1967–68	$25,000	—	4.9%	5.1%	—	$16,000	—
1968–69	30,572	22.3%	5.3	5.7	5.0%	16,000	—
1969–70	31,816	4.1	5.6	5.6	11.5	16,000	—
1970–71	33,407	5.0	5.0	5.2	—	19,200[d]	20.0%
1971–72	35,080	5.0	—	—	—	19,200	—
1972–73	36,393	3.7	8.3	9.0	5.0	19,200	—
1973–74	37,615	3.4	12.9	11.7	12.5	19,200	—
1974–75	40,322	7.4	5.3	5.0	5.0	21,120[e]	10.0
1975–76	45,299	12.3	7.1[b]	6.7[b]	—	21,120	—
1976–77	49,166	8.5	6.6	[c]	1.9	23,232[f]	10.0
1977–78	49,166	—	7.5	7.1	7.5	23,232	—
1978–79	51,624	5.0	—	—	—	25,555[g]	10.0
1979–80	54,205	5.0	15.0	14.5	15.0	25,555	—

[a] Increases effective each September 1 until 1977–78. Pursuant to Chaper 1183, Statutes of 1976, judicial salaries in effect January 1977 were frozen until June 30, 1978 and, thereafter, such salaries were increased each July 1 (beginning in 1978) by the lower of (1) the percentage increase in the California Consumer Price Index during the prior calendar year or (2) 5 percent. Pursuant to Chapter 1018, Statutes of 1979, judicial salaries are to be increased effective each July 1 (beginning in 1980) by the lower of (1) the average percentage increase in state civil service salaries or (2) 5 percent.

[b] Does not include one-time bonus of $400 paid to employees having a maximum salary of $753 or less on July 15, 1975.

[c] Not calculated by State Personnel Board because of flat salary increases.

[d] Effective January 1971.

[e] Effective December 1974.

[f] Effective December 1976.

[g] Effective December 1978.

Table 4
Comparison of Amounts by Which 1979–80 Salaries Exceed 1967–68 Salaries for Judges, State Civil Service Employees, Statutory Officers and Legislators In Relation to the Increase in the California Consumer Price Index During that Period

	Superior Court Judges	*State Civil Service*[a]	*Statutory Officers*[b]	*State Legislators*	*California Consumer Price Index*
1979–80 salary level	$54,205	$35,613	$29,269	$25,555	229.2[c]
Less: 1967–68 salary level	25,000	16,000	16,000	16,000	102.2
Amount of Increase	$29,205	$19,613	$13,269	$9,555	127.0
Percent Increase	116.8%	122.6%	82.9%	59.7%	124.3%

[a] Based on hypothetical employee (1) earning $16,000 on June 30, 1967 and (2) receiving annual increases equivalent to the average increases for the total civil service payroll. (Civil service salaries actually are adjusted individually on a class-by-class basis.)
[b] Based on a hypothetical statutory officer earning $16,000 on June 30, 1967. (All statutory officers presently receive the same annual percentage increases.)
[c] Estimated by Department of Finance.

JUDICIAL SALARY INCREASE

Five Percent Increase

We recommend approval.

The budget contains $1,925,000 to provide a 5 percent increase for judges and justices of courts of record. Pursuant to Chapter 1018, Statutes of 1979 (SB 53), judicial salaries are adjusted each July 1 by the lower of (1) the average percentage increase in state civil service salaries or (2) 5 percent.

The amount budgeted is appropriate, assuming that state civil service salaries will be increased by 5 percent or more effective July 1, 1980.

CIVIL SERVICE AND RELATED EMPLOYEES

At the time this analysis was prepared, there was no basis for estimating how many state civil service employees, if any, will be represented in collective negotiations over salary and benefit levels for the budget year. It had not been determined when exclusive bargaining agents will be certified or how many employees will be represented by exclusive bargaining agents.

Legislation Replaces Prevailing Rate System With Good Faith Negotiation Procedures

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) action by the Legislature and Governor on the budget act, and (4) SPB allocation of funds appropriated for salary increases, among occupational classes.

Chapter 1159, Statutes of 1977 (SB 839), which became operative July 1, 1978, provides for a formal, bilateral employee relations system for most state civil service employees. Under its provisions, the Governor or his designee is required to "meet and confer in good faith" with employee organizations which have been selected by a majority of employees within individual bargaining units in an effort to reach agreement relative to "wages, hours and other terms and conditions of employment." Such agreements are to be formalized in memorandums of understanding. Any provision in such a memorandum requiring the expenditure of funds (for example, negotiated salary or benefit increases) is subject to approval by the Legislature. Mediation is required if the parties are unable to reach agreement.

The Public Employment Relations Board (PERB) is responsible for (1) determining appropriate bargaining units (that is, designating the specific civil service classifications which are to be combined in separate units for representation by individual employee organizations) and (2) conducting elections to determine which, if any, of the competing employee organizations will serve as the exclusive bargaining agent for each such unit.

Status of Implementing Collective Negotiations

The PERB completed the civil service unit determination process in November 1979 and designated a total of 20 separate bargaining units.

The next major step toward implementing collective negotiations is the conducting of elections to determine which employee organizations will be the exclusive representatives of the individual units. To qualify, an organization must be certified by the PERB as having received a majority of the valid votes cast by the employees in a given unit. (If the majority vote for "no representative," no organization will be certified.)

Various employee organizations have formally requested that the PERB conduct such elections, and the board now is in the process of determining which of these organizations have qualified to appear on the ballot. To qualify, an organization must demonstrate "proof of support" by securing the signatures of at least 30 percent of the employees in a unit.

After the board determines that an organization has qualified, competing organizations are allowed during the following 30-day period to qualify for the ballot. To do so, competing organizations must demonstrate proof of support by securing the signature of at least 10 percent of the employees in the particular unit. After an election is completed and the results are certified, the winning organization, if there is one, has the right to act as the exclusive bargaining representative of all employees in the particular bargaining unit in accordance with the provisions of Chapter 1159.

According to PERB staff, employee organizations may be certified as the exclusive representative for some of the bargaining units prior to July 1, 1980.

Legal Action Challenges the Constitutionality of Chapter 1159

In January 1979, the Pacific Legal Foundation filed on behalf of a group of state employees, a lawsuit challenging the legality of Chapter 1159. The suit contends that Chapter 1159 removes constitutionally-based responsibilities of the SPB. In February 1979, a similar but independent lawsuit was filed by the State Attorney General. The cases were jointly argued before the Third District Court of Appeal in August 1979. In December 1979 the court stated that the complexity of the issues required that reconsideration of the case be extended for an additional 90 days. Regardless of how the appellate court rules, the cases probably will be appealed to the State Supreme Court. If the Supreme Court decides to hear the cases, it could be a considerable time before a final decision is rendered.

Consequently, it is uncertain at this time whether or when collective negotiations will take place with respect to state civil service employees.

Problems the Legislature Faces in Providing for Compensation Increases Under the Provisions of Chapter 1159

In our 1978 Analysis (pages 1082–1083) we described a number of significant problems that the Governor and Legislature will face in budgeting for compensation increases under the provisions of Chapter 1159. We noted, among other things, that:

1. No agreed upon standards will exist for determining the appropriate increase for state employees.
2. It will be difficult for the Legislature to evaluate and act on negotiated increases in a meaningful manner.

In the past, prevailing rates in nonstate employment have provided an objective basis for determining compensation increases. By replacing the prevailing rate approach with collective negotiations, Chapter 1159 has removed the objective basis. Consequently, it will be much more difficult to select and justify an amount for salary increases. While it is expected that the SPB will continue collecting data on nonstate salary rates which will provide some basis to the Legislature in evaluating negotiated increases, these data will not be conclusive, given the spirit of Chapter 1159.

Furthermore, it is not clear how increases will be determined for employees not covered by collective negotiations. Under Chapter 1159, the SPB will continue to adjust salaries of state civil service employees who are (1) designated as "management," "supervisory," or "confidential" employees or (2) in bargaining units not represented by exclusive bargaining agents.

Alternative Criteria the Legislature Might Use for Evaluating Compensation Increases

There are several criteria which the Legislature might use for evaluating compensation increases (1) negotiated by the administration and (2) proposed by the SPB for employees not represented in the collective bargaining process.

Negotiated Increases. Criteria which might be used for evaluating negotiated increases include:

1. Prevailing salary rates in comparable nonstate employment.
2. Increases in the California Consumer Price Index (CCPI).
3. Recruitment and retention problems which exist for individual state classifications.

Increases Proposed by the SPB. As stated previously, the SPB will continue to adjust salaries of management, supervisory, and confidential employees as well as employees in units not represented by exclusive bargaining agents. However, it is uncertain at this time what bases will be used to determine the amounts of such adjustments.

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

Confidential employees and employees in units not represented by exclusive bargaining agents might have their salaries adjusted on the basis of:

1. Prevailing rates.
2. Increases in the CCPI.
3. Recruitment and retention problems.
4. Increases received by employees represented by exclusive bargaining agents.

Management and supervisory employees might have their salaries adjusted on the basis of:

1. Prevailing rates.
2. Increases in the CCPI.
3. Recruitment and retention problems.
4. Increases received by employees represented by exclusive bargaining agents.
5. Percentage differentials between their salaries and the salaries of the employees they supervise.

Information Needed for Legislative Decision Making Under the Provisions of Chapter 1159

We recommend that the SPB submit information to the Legislature for (1) evaluating increases negotiated by the administration and (2) determining increases appropriate for employees not represented in the collective bargaining process.

The information needed by the Legislature for evaluating compensation increase proposals will depend on which criteria the Legislature chooses to apply. While there will be no easy way for evaluating such proposals, the following information should be useful for this purpose.

1. Salaries paid for comparable work in nonstate employment.
2. Recruitment and retention problems which exist with respect to individual state civil service classifications.

Increases for "management" and "supervisory" employees might be determined, at least to some extent, on the basis of standard percentages by which their salaries should exceed salaries of those they supervise.

In order for the Legislature to have at least *some* basis for (1) evaluating negotiated increases for employees covered by collective negotiations and (2) determining appropriate increases for other state employees, we are recommending that the SPB:

1. Propose alternative methods by which salaries of managers and supervisors might be adjusted including, but not limited to, standard percentage differentials by which their salaries should exceed the salaries of employees they supervise.
2. Provide to the Legislature, upon its request, the following information:

a. For each bargaining unit and also for "confidential" employees:

(1) The calculated salary lag for each major occupational group and the funds required to eliminate the lag.

(2) The nature and extent of recruitment or retention problems with respect to each classification.

b. For "managers" and "supervisors" in each major occupational group:
   (1) The calculated increase necessary for maintaining the percentage differential in 1, above, based on negotiated increases (and increases proposed by the SPB for employees not covered by collective negotiations).
   (2) The funds required for such increases.

EMPLOYEE BENEFITS

Health Benefit Cost Data Should be Provided for Legislative Decision-Making

We recommend that the PERS, in cooperation with the Department of Finance, report annually to the Legislature, beginning June 1, 1980, the cost of:

(a) Maintaining the current state contribution rate for health insurance benefits for civil service and related employees and employees of the CSUC.

(b) Providing comparable benefit improvements for University of California employees.

(c) Providing corresponding benefit improvements for state annuitants.

We recommend, further, that these cost estimates identify the additional amounts required to provide:

(a) New benefits, if any, mandated by state or federal law.

(b) Additional or increased benefits negotiated by the PERS.

The state pays the major portion of premiums for health insurance provided to active and retired civil service and related employees and employees of the CSUC. Legislative intent, as expressed in Section 22825.1 of the Government Code, is for the state to pay 100 percent of the premium cost for coverage of these employees and annuitants and an average of 90 percent for coverage of their dependents.

Annual premium increases, which take effect in August, depend on:

1. *Inflation:* The additional amount required for providing the same coverage.
2. *New mandated benefits:* The cost of providing a new benefit required by federal or state law. (For example, last year maternity benefits were added because they were mandated by federal law.)
3. *Benefit enhancements:* The cost of providing an additional or increased benefit. (For example, last year the Kaiser Health Plan was changed to require the covered individual to pay only $1 per prescription for outpatient drugs. Formerly, the price was based on the wholesale cost of the drug.)

Changes in the coverage of and premiums for state employee health insurance result from negotiations between PERS staff and the insurance carriers. These annual negotiations typically are completed late in May and are subject to approval by the PERS Board. Funding for the state portion of the increased costs resulting from these negotiations is included in the annual budget bill.

Changes in coverage and premiums for annuitants correspond with those made for active civil service and related employees and employees

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

of the CSUC. Because most UC employees are not eligible for health insurance coverage under the PERS, traditionally funds are appropriated to provide them with comparable benefit improvements.

Table 5 shows the amounts by which the monthly state contribution was increased, effective August 1979, and the portion of the increase attributable to (1) enhanced coverage and (2) maintaining existing coverage and mandated new benefits.

Benefit enhancement alone increased the monthly state contribution by $1 for coverage of the employee only and by $2 for coverage of employees with one or more dependents. On an annual basis, the total cost of increasing the monthly state contribution rate for affected employees and annuitants (and for providing for comparable benefit improvements for UC employees) is approximately $16.4 million ($10.8 million General Fund). Of this amount, approximately $4 million ($2.6 million General Fund) is attributable to the benefit enhancements.

Because the Legislature was not told how much of the funds requested to *maintain* health benefit coverage actually was intended to *enhance* these benefits, *the Legislature provided funds in the 1979 Budget Act for enhancing health benefit coverage of state employees without making a conscious decision to do so.* In order for the Legislature to receive information necessary for making informed decisions regarding employee health insurance, we recommend that the PERS, in cooperation with the Department of Finance, annually report to the Legislature for its consideration the additional cost required to provide (1) the same level of coverage, (2) new benefits, if any, mandated by law, and (3) benefit enhancements negotiated by the PERS.

Table 5
Increase in State Contribution Rate for Employee Health Insurance Effective August 1979

	State Monthly Contribution		*Increase Effective August 1979*		
Coverage	*August 1978 through July 1979*	*August 1979 through July 1980*	*Total Increase*	*For Existing Coverage and Mandated New Benefits*	*For Enhanced Coverage*
Employee only	$38	$43	$5	$4	$1
Employee and one dependent	72	79	7	5	2
Employee and two or more dependents	92	102	10	8	2

Source: Public Employees' Retirement System.

POSTSECONDARY EDUCATION SALARIES

Academic Salaries

A decision on 1980–81 faculty salary increases for the University of California (UC) and the California State University and Colleges (CSUC) should be deferred until the California Postsecondary Education Commission (CPEC) publishes its final projections in April. These projections will show the academic salary increases necessary for UC and CSUC to achieve parity with faculty in their comparison institutions.

Comparison Institutions

Senate Concurrent Resolution No. 51 of the 1965 General Session directed the Coordinating Council for Higher Education (CPEC since April 1, 1974) to submit annually to the Governor and the Legislature a faculty salary and fringe benefit report. The report compares California faculty salaries to those in a group of postsecondary education institutions selected on the basis of similar function.

The UC comparison institutions since 1972–73 have been:

1. Harvard University
2. Stanford University
3. Yale University
4. State University of New York (Buffalo)
5. Cornell University
6. University of Illinois
7. University of Michigan (Ann Arbor)
8. University of Wisconsin at Madison

The CSUC comparison institutions since 1973–74 have been:

1. State University of New York (Albany)
2. State University of New York College (Buffalo College of Arts and Science)
3. Syracuse University
4. University of Southern California
5. University of Hawaii
6. University of Wisconsin (Milwaukee)
7. University of Nevada
8. University of Oregon
9. Portland State University
10. University of Colorado
11. Illinois State University
12. Northern Illinois University
13. Southern Illinois University
14. Indiana State University
15. Iowa State University
16. Wayne State University
17. Western Michigan University
18. Bowling Green State University
19. Virginia Polytechnic Institute and State University
20. Miami University (Ohio)

CPEC Preliminary Report

A preliminary report on faculty salaries was prepared by CPEC in December 1979 for use in formulating the Governor's Budget. A second report, corrected for actual current year salaries at comparison institutions, will be published in April 1980.

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

The preliminary report indicates that faculty salaries must be increased by 3.88 percent for UC and 0.77 percent for CSUC in order to maintain salary parity in 1980–81.

Table 6

Average Salary Required at the UC and CSUC to Equal the Comparison Institution Projections for 1979–80 and 1980–81 (All Ranks)

Institution	*California Salaries 1979–80*	*Comparison Institutions' Salary Projections 1979–80*	*1980–81*	*Projected Percentage Difference 1979–80*	*1980–81*
University of California	$29,301	$28,823	$30,438	−1.63%	+3.88%
California State University and Colleges	$25,859	$24,650	$26,059	−4.68%	+0.77%

Table 7

University of California Average Salary Change Required to Equal the Comparison Group Projections for 1979—80 and 1980–81

Academic Rank	*UC Average Salaries 1979–80*	*Comparison Group Projected Salaries*[a] *1979–80*	*1980–81*	*Percent Change Required in UC Salaries 1979–80*	*1980–81*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Professor	$34,668	$34,246	$36,216	−1.22%	+4.47%
Associate Professor	23,377	23,091	24,299	−1.22	+3.94
Assistant Professor	19,314	18,370	19,343	−4.89	+0.15
All Ranks Average[b]	$29,301	$28,823	$30,438	−1.63%	+3.88%

[a] Based on five-year compound rate of increase in comparison group salaries. Weighted by total faculty by rank in all comparison institutions.

[b] Based on CSUC 1978–79 staffing: Professor, 5,489; Associate Professor, 3,438; Assistant Professor, 2,221; Instructor, 218. Staff Total: 11,366.

Table 8

California State University and Colleges Average Salary Change Required to Equal to Comparison Group Projections for 1979–80 and 1980–81

Academic Rank	*CSUC Average Salaries 1979–80*	*Comparison Group Projected Salaries*[a] *1979–80*	*1980–81*	*Percent Change Required in CSUC Salaries 1979–80*	*1980–81*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Professor	$30,381	$29,438	$31,149	−3.10%	+2.53%
Associate Professor	23,504	22,426	23,696	−4.59	+0.82
Assistant Professor	19,218	17,953	18,891	−6.58	−1.70
Instructor	16,776	14,134	14,918	−15.75	−11.08
All Ranks Average[b]	$25,859	$24,779	$26,188	−4.18%	+1.27%
Less Turnover and Promotions		−129	−129	−0.50	−0.50
Adjusted Total		$24,650	$26,059	−4.68%	+0.77%

[a] Based on five-year compound rate of increase in comparison group salaries. Weighted by total faculty by rank in all comparison institutions.

[b] Based on CSUC 1978–79 staffing: Professor, 5,489; Associate Professor, 3,438; Assistant Professor, 2,221; Instructor, 218. Staff Total: 11,366.

In addition, CPEC estimates that in the current year (1979–80) California average faculty salaries exceed those paid by comparison institutions. The differentials are shown in Table 6. The detailed calculations by academic rank are shown in Tables 7 and 8.

Segmental Requests and Governor's Budget

Table 9 compares the 1980–81 salary increase proposals made by the two segments of higher education, CPEC and the budget.

Table 9
Faculty Salary Data Comparisons
(amount in millions)

	UC		*CSUC*	
	Percent	*Amount*	*Percent*	*Amount*
Segment's request	10.48%	$44.2	11.0%	$51.3
Governor's Budget[a]	9.0	37.9	9.0	42.0
CPEC report	3.88	16.4	0.77	3.6

[a] Contains an average increase of nine percent.

UC's Salary Request Based on a More Elite Comparison Group

As noted earlier, since 1972–73 CPEC has used the average salaries paid by a group of eight nationally prominent institutions as the basis for analyzing salary levels at UC. These institutions were selected in consultation with UC. While UC has in recent years requested total salary increases in excess of what was needed to achieve parity (usually in order to compensate faculty for the effects of inflation), it has always supported the reasonableness of the comparison group for salary-setting purposes.

This year, UC is seeking to discontinue basing salary comparisons on the traditional eight institutions. UC maintains that these institutions are merely a "broadly representative group of institutions" which UC is "academically at the very top of". Instead, UC seeks to compare its salaries to those paid by only "the nation's most distinguished universities" which are similar in quality to UC. Four of the traditional eight comparison institutions—Harvard, Stanford, Yale and Michigan—are placed in this category because they "best reflect the academic quality of the University of California". UC also places M.I.T., Princeton and C.I.T. in the same category, and has provided salary data for these seven institutions to support its salary request. These data are shown in Table 10.

Based on these data, UC is requesting a 1980–81 faculty salary increase of 10.48 percent ($44.2 million) consisting of:

- 7.98 percent ($36.7 million) to achieve rank-by-rank parity with *just* Harvard, Stanford, Yale and Michigan, and
- 2.5 percent ($7.5 million) to assist in meeting projected inflation in 1980–81 and to recoup real earnings.

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

Table 10

Average Salaries of UC Selected Comparison Institutions[a] (in thousands)

Professor		*Associate Professor*		*Assistant Professor*	
1. Harvard	$39.2	1. Stanford	$25.3	1. C.I.T.	$20.4
2. Stanford	36.8	2. Michigan	24.8	2. Michigan	20.0
3. Yale	36.8	3. C.I.T.	24.8	3. Stanford	19.8
4. M.I.T.	36.3	4. M.I.T.	24.2	4. U.C.[b]	19.3
5. C.I.T.	35.3	5. U.C.[b]	23.4	5. Harvard	19.2
6. Michigan	35.0	6. Princeton	23.4	6. M.I.T.	19.2
7. U.C.[b]	34.7	7. Harvard	23.1	7. Princeton	18.1
8. Princeton	34.6	8. Yale	22.6	8. Yale	17.2

[a] UC average salaries after July 1, 1979, range adjustment. Because actual 1979–80 salaries for other institutions are not yet available, these salaries were arbitrarily adjusted by 7% from 1978–79 levels.
[b] Berkeley, UCLA, Riverside, Davis, Santa Cruz, Santa Barbara, San Diego and Irvine averaged.

Analysis of UC's Proposal

UC's proposed change in the reference group to be used for salary-setting purposes has important policy and fiscal implications.

A. *Policy Implications.* Current salary-setting policy is based on the principle that UC should be able to compete with its peers for high quality faculty members. Consequently, the main issue facing the Legislature in deciding whether or not to change the reference group is: Who should UC's peers be? Our analysis indicates that the following considerations are relevant to this issue:

- The four institutions selected by UC (Harvard, Stanford, Yale and Michigan) are among the most elite, and also among the most highly paid, in the United States.
- The people of California are justifiably proud of the academic reputation achieved by the Berkeley and UCLA campuses. These campuses are generally recognized as being on a par with the four elites.
- The same is not true of some of the other UC campuses. Santa Cruz and Riverside, for example, are generally not considered to be on a par with Harvard, Yale, Stanford and Michigan.
- Yet because all eight UC campuses are given the status of a single institution for salary setting purposes, UC's proposal would raise faculty salaries at these campuses to the top rung at the same time it was raising faculty salaries at Berkeley and UCLA.
- Even if California had sufficient resources to put *each* of the eight campuses on a par with the four elite institutions, there would still be a basic policy issue of whether California should seek to have nine (Stanford and the eight UC campuses) of the 12 most elite (and most highly paid) institutions in the country. We cannot determine a public policy purpose for establishing such a monopoly of educational capital in one state.

B. *Fiscal Implications.* Even if California sought to establish eight public institutions with the status of Harvard, the question remains: can the state afford to do so and what would be the cost impact in terms of other legislative priorities and program objectives?

Traditional Methodology Recommended

We recommend that the Legislature reject UC's proposed change in the traditional reference group for UC salary comparisons, and continue using the traditional group of eight institutions.

The traditional salary comparison methodology benefits California's less nationally distinguished institutions (such as Riverside, Santa Barbara, Irvine and Santa Cruz) because it treats all eight UC campuses as one institution. On this basis, parity with UC's peers was achieved—and even exceeded in 1979–80 (Table 7).

As noted above, UC proposes a change in policy wherein its salaries would be compared to those paid by the four most select, highest paid institutions in the country (Harvard, Stanford, Yale and Michigan). Our analysis suggests that it is neither academically justified nor fiscally sound policy to endorse UC's concept that "the University of California can and should be a leader with regard to compensation." We are unaware of any objective evidence which places all of the UC campuses at academic parity with Harvard, Stanford, Yale and Michigan. From a cost standpoint, it would require a high priority fiscal commitment for California to upgrade the total UC system to this level.

As shown in Table 10, UC salaries currently exceed those paid by Harvard and Yale at the associate professor and assistant professor levels. Consequently, the traditional methodology insures that UC is able to offer a competitive salary. Moreover, the UC Board of Regents have the authority to establish a policy wherein the Berkeley and UCLA faculty could be paid at higher rates than other UC faculty. For these reasons, we conclude that the traditional salary setting methodology should be continued.

CSUC Request Based on Inflation

CSUC has not requested a change in the group of comparison institutions used as a reference point for salary setting. However, as in recent years, CSUC's salary increase request of 11 percent (Table 9) includes a factor based on an inflation adjustment concept. CSUC has *exceeded* parity in 1979–80 and needs only an increase of 0.77 percent in 1980–81 to *maintain* parity. Again, a change from the parity concept is not warranted.

Problems with Inflation Approach

Our analysis indicates that basing salary adjustments on the principle of maintaining real income could have several adverse effects:

- It would prevent faculty members from bettering their standard of living through increased real income.
- It could result in California faculty members being paid more- or less-than their counterparts at comparable institutions. If they are paid more, it would mean that the taxpayers were paying more than necessary to attract and retain faculty. If they are paid less, California would have difficulty competing for high quality faculty.
- It would prevent society from attracting more- or fewer-people to a teaching career, and thus undermine one of the key functions of the labor market. It ignores significant changes in the economic environment, except to the extent they are reflected in salaries paid by comparable institutions.

CIVIL SERVICE, EXEMPT, STATUTORY, ACADEMIC AND NONACADEMIC EMPLOYEES AND JUDGES—Continued

Moreover, any attempt to base faculty salary increases on inflation encounters a major technical problem: over what time period should changes in salaries and prices be measured? Use of different periods would yield different conclusions. This is illustrated in Table 11 which shows changes in the purchasing power of faculty and civil service salaries over several different time intervals. There is no objective basis for selecting one time period over another.

Table 11
Changes in Purchasing Power of Faculty and Civil Service Salaries [a]

	Base Year through 1977–78			
	1959–60	*1964–65*	*1968–69*	*1971–72*
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.

Finally, as pointed out in one CPEC report, if parity had been maintained as indicated by the figures reported by the Coordinating Council and the Postsecondary Education Commission, there would not only have been no erosion in real income, but a significant gain—11.6 percent for the University and 7.7 percent for the State University and College system. It is therefore interesting to note that, in spite of the fact that the figures reported over the past 10 years have never taken any direct account of the annual increase in the cost of living, the comparison method has been quite successful in reflecting general economic conditions.

Thus, inflation is inherently recognized in the process of adjusting salaries to achieve parity.

Table 12
UC and CSUC Faculty Salary Increases as Requested, Required to Attain Parity, Granted by Legislature and Governor, and Compared to the U.S. Consumer Price Index
1970–71 to 1979–80

	Segmental Requests		*CCHE/CPEC Reports*		*Increases Granted*		*Percent Changes in CPI*
	UC	*CSUC*	*UC*	*CSUC*	*UC*	*CSUC*	
1970–71	7.2%	7.0%	7.2%	7.0%	0.0%	0.0%	5.2%
1971–72	11.2	13.0	11.2	13.0	0.0	0.0	3.6
1972–73	13.2	13.0	13.1	13.0	9.0	8.9	4.0
1973–74	5.4	7.5	6.4	8.8	5.4	7.5	9.0
1974–75	4.7	5.5	4.5	4.2	4.5	5.5	11.1
1975–76	10.8	10.4	11.0	9.7	6.7	6.7	7.1
1976–77	4.6	7.2	4.6	4.6	4.3	4.3	5.8
1977–78	6.8	8.5	6.8	5.3	5.0	5.0	6.7
1978–79	9.3	9.9	8.0	3.3	0.0	0.0	9.5
1979–80	16.0	14.4	12.6	10.0	14.5	14.5	12.5 (est.)
TOTALS	N/A	N/A	N/A	N/A	60.6% [a]	65.3% [a]	104.4% [a]
Average					4.9%	5.2%	7.5%

[a] Compounded.

Salary Data

Table 12, from the recent CPEC report, shows a 10-year composite of higher education salary data, including segmental requests, reports from the Coordinating Council and the Commission, amounts approved by the Governor and the Legislature, and changes in the CPI.

Table 13 shows the cost of various percentage increases in faculty and nonfaculty salary, and are provided for the Legislature's reference:

Table 13
Funding Needed for Salary Increases
(in thousands)

Salary Increase	*UC*		*CSUC*	
	Academic	*Nonacademic*	*Academic*	*Nonacademic*
1.0%	$4,221	$4,083	$4,667	$2,920
5.0	21,105	20,415	23,335	14,600
6.0	25,326	24,498	28,002	17,520
7.0	29,547	28,581	32,669	20,440
8.0	33,768	32,664	37,336	23,360
9.0	37,989	36,747	42,003	26,280
10.0	42,210	40,830	46,670	29,200
CPEC Report:				
3.88%	16,377	—	—	—
0.77%	—	—	3,594	—
UC Request:				
10.48%	44,236	NA	—	—
	—	—	—	—
CSUC Request:				
11.0%	—	—	51,337	32,120
	—	—	—	—
Governor's Budget: [a]				
9.0%	37,989	36,747	—	—
9.0%	—	—	42,003	26,280

[a] Shown for illustration only—budget contains an average salary increase of 9 percent.

RESERVE FOR CONTINGENCIES OR EMERGENCIES

Item 491 from the General Fund and Items 492–493 from special and nongovernmental cost funds — Budget p. GG 193

Requested 1980–81	$4,500,000 [a]
Appropriated by the Budget Act of 1979	4,500,000 [a]

[a] In addition, there is a $2,500,000 appropriation for temporary loans (Item 491).

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
491	Reserve for Contingencies or Emergencies	General	$1,500,000
492	Reserve for Contingencies or Emergencies	Special	1,500,000
493	Reserve for Contingencies or Emergencies	Nongovernmental cost	1,500,000
	Total		$4,500,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Budget Items 491, 492 and 493 appropriate $1,500,000 each from the General Fund, special funds and nongovernmental cost funds respectively for allocation to the Department of Finance. The department is authorized to allocate these funds to state agencies for expenses resulting from unforeseen contingencies and emergencies not covered by specific appropriations.

Item 491 appropriates an additional $2,500,000 to provide for temporary *loans* to state agencies whose operations are in danger of being curtailed because of delayed receipt of reimbursements or revenue. The loans are to be repaid or accrued for repayment by the end of the fiscal year in which they are made.

Legislature Strengthened Control and Reporting Provisions

Prior to 1978–79, the annual Budget Act contained a single item which appropriated $1.5 million from the General Fund to enable the Department of Finance to allocate funds to state agencies for unforeseen contingencies and emergencies. The Legislature strengthened control and reporting provisions regarding such expenditures by adding language to the 1978 Budget Act which:

1. Separately defined emergencies as those situations which, in the judgement of the Director of Finance, require immediate action to avert undesirable consequences, or to preserve the public peace, health or safety.
2. Required that the Legislature be notified within 10 days of such an emergency expenditure.
3. Separately defined contingencies as situations which, in the judgment of the Director of Finance, constitute cases of actual necessity.

4. Established a new 30-day prior legislative notification procedure for contingency expenditures.

The Legislature also added two separate items to the 1978 Budget Act in order to apply the same definitions, procedures and appropriation limits to special and nongovernmental cost funds. As a result, for the first time, special and nongovernmental cost funds were subject to the same legislative oversight regarding emergency and contingency expenditures as the General Fund.

Last year, the Legislature further strengthened its fiscal controls by adding control language to the 1979 Budget Act prohibiting General Fund loans under provisions of the Reserve for Contingencies or Emergencies which would require repayment from a future legislative appropriation.

The improved control and reporting provisions are contained in the 1980 Budget Bill.

The $1.5 million appropriation from the General Fund (Item 491) is a token amount which has been significantly less than actual deficiencies in every year since 1959–60. To satisfy actual requirements, a deficiency appropriation must be enacted toward the end of each fiscal year.

Table 1 displays the amounts budgeted and allocated for contingencies or emergencies, along with the deficiency appropriations from the General Fund since 1970–71. The table shows that the Department of Finance anticipates a deficiency appropriation of $2.6 million for the current year. This amount would supplement the $1.5 million appropriated for the current year for contingencies and emergencies in the 1979 Budget Act. Current year allocations to state agencies made and anticipated by the department as of January 1980 totaled $3,000,387, leaving a balance of $1,099,613 to satisfy unforeseen contingencies and emergencies for the remainder of 1979–80.

Table 2 displays corresponding information with respect to special and nongovernmental cost funds since 1978–79, the first year in which legislative control and oversight was extended to these funds.

Table 1
Emergency Fund, Appropriations and Allocations from General Fund
1970–71 to 1980–81

	Appropriated	*Allocated to Agencies*	*Deficiency Appropriation*
1970–71	1,000,000	4,919,594	4,375,000
1971–72	1,000,000	4,993,871	4,918,009
1972–73	1,000,000	8,076,724	7,500,000
1973–74	1,500,000	5,644,554	10,900,000
1974–75	1,500,000	15,112,367	14,700,000
1975–76	1,500,000	24,918,959	30,520,089
1976–77	1,500,000	11,200,217	11,550,000
1977–78	1,500,000	18,969,869	17,500,000
1978–79	1,500,000	12,192,578	11,000,000
1979–80	1,500,000	3,000,387 [a]	2,600,000 [b]
1980–81 (Proposed)	1,500,000		

[a] Total amount of current year allocations made and anticipated by the Department of Finance as of January 1980.
[b] Estimated.

RESERVE FOR CONTINGENCIES OR EMERGENCIES—Continued

Table 2
Emergency Fund Appropriations and Allocations from Special and Nongovernmental Cost Funds
1978–79 to 1980–81

	Special funds			*Nongovernmental cost funds*		
	Appropriated	*Allocated to agencies*	*Deficiency appropriation*	*Appropriated*	*Allocated to agencies*	*Deficiency appropriation*
1978–79	$1,500,000	$253,817	—	$1,500,000	$675,711	—
1979–80	1,500,000	114,599[a]	—	1,500,000	570,360[a]	—
1980–81 (Proposed)	1,500,000			1,500,000		

[a] Total amount of current year allocations made and anticipated by the Department of Finance as of January 1980.

Other Deficiencies

As indicated in Table 1, the budget proposes a deficiency appropriation of $2.6 million to supplement the amounts appropriated in the 1979 Budget Act for defraying contingency or emergency expenses. The budget proposes additional deficiency appropriations totaling $28,636,408 ($25,593,687 General Fund) for 1979–80 in the budgets of various individual state agencies. These deficiencies are detailed on page GG 196 of the Governor's Budget.

AUGMENTATIONS FOR PRICE INCREASES

Item 494 from the General Fund, Item 495 from special funds and Item 496 from nongovernmental cost funds — Budget p. GG 198

Requested 1980–81	$13,146,000
Estimated 1979–80	12,400,000
Actual 1978–79	10,650,000
Requested increase $746,000 (+6.0 percent)	
Total recommended reduction	None

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
494	Price Increase Augmentation	General	$6,218,000
495	Price Increase Augmentation	Special	2,919,000
496	Price Increase Augmentation	Nongovernmental cost	4,009,000
	Total		$13,146,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

These items provide $13,146,000 for price increases not included in the budget requests of individual agencies. The funds would be allocated to individual department budgets by the Department of Finance based on demonstrated need. Table 1 shows the distribution of the money appropriated by these items by fund and use.

Table 1
Augmentations for Price Increases
(in thousands)
1980–81

	Total Requested	*General Fund*	*Special Funds*	*Nongovernmental Funds*
Increase in unemployment insurance coverage	$8,717	$4,123	$1,935	$2,659
Increase in state contribution to PERS	3,139	1,485	697	957
Extension of disability payment period for pregnancies	1,290	610	287	393
Totals	$13,146	$6,218	$2,919	$4,009

Compliance with Federal Unemployment Insurance Law

In late 1976, federal law was changed to, in effect, require each state to pay the costs of unemployment compensation for state employees. Chapter 2, Statutes of 1978 (AB 644), was enacted by the California Legislature to bring California into compliance with the requirement.

Prior to the change in federal law, funding was provided by the federal government to support the full cost of unemployment compensation for state employees not covered by California law. The 1976 amendments provided for federal support to be phased out by May 1, 1979. Thus, California has now assumed full obligation for the cost of unemployment compensation provided to its employees. Chapter 357, Statutes of 1978, (AB 1471) also extended unemployment compensation coverage to employees of county and district fairs.

Because there is not adequate experience on which to base department budget requirements for these programs, the Department of Finance has provided $8.7 million in Items 494, 495 and 496 for the estimated cost of the coverage required by these two measures. This amount has been distributed among the General Fund and special and nongovernmental cost funds based on the number of employees paid from each of these sources.

Disability Insurance Benefit Period for Pregnancies is Extended

Chapter 663, Statutes of 1979 (AB 1353), extended the maximum period for which disability benefits may be claimed for normal pregnancies from 6 weeks to 26 weeks.

To support the resulting estimated increase in payments of disability benefits to state employees, the Department of Finance has provided $1.3 million in Items 494, 495 and 496. This amount would be used to reimburse the State Unemployment Compensation and Disability Fund for the larger average payments made for pregnancy-related disability claims.

Cost of Living Increase for Retired Members of the Public Employees Retirement System (PERS)

Chapter 1036, Statutes of 1979 (SB 629), provided for a one-time increase in pension payments to retired members of the Public Employees Retirement System (PERS). In order to offset the resulting increased costs incurred by PERS, the measure also increased the level of contributions which employers are required to make to this system in behalf of its employees. The Department of Finance has included $3.1 million in Items 494, 495 and 496 to support the estimated increase in state costs resulting from the larger contributions that state agencies are required to make to PERS as a result of this measure.