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January 26, 2011

2011-12 Budget: The Governor's Employee Compensation Proposals

LEGISLATIVE ANALYST'S OFFICE

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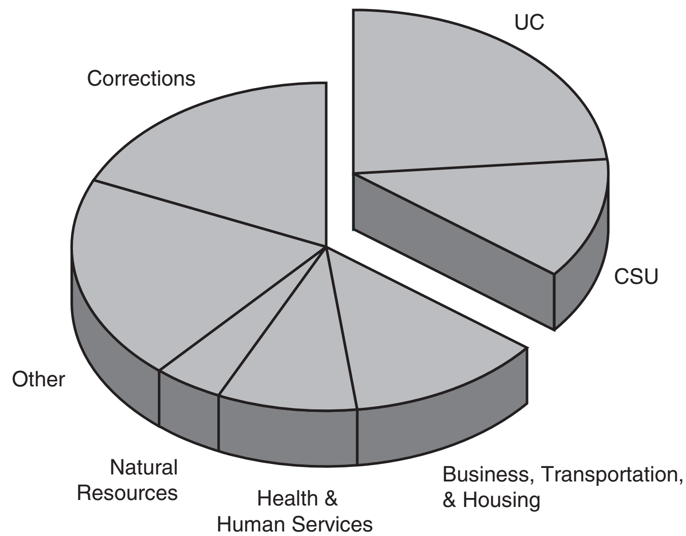
Employee Compensation Background

Higher Education Represents Over One-Third Of State Employment

2010-11



- ☑ ***Estimated Total State Employment.*** The state employs about 358,000 people at a salary cost of about $23.6 billion (all funds). About two-thirds of these employees work in the executive branch.

- ☑ ***223,000 Executive Branch Employees.*** California Department of Corrections and Rehabilitation (CDCR) accounts for about 30 percent of the executive branch workforce. About 83 percent of the executive branch is represented by one of the state's 21 bargaining units. Most of the remaining 17 percent of the workforce are managers, supervisors, and Governor appointees.

- ☑ ***Costs.*** Executive branch employee compensation accounts for about 12 percent of projected General Fund expenditures in 2011-12. It includes: $7 billion in salaries and $3.4 billion in benefits.

Memorandum of Understanding (MOU) Process

- ***Ralph C. Dills Act.*** With passage of the Dills Act in 1977, the Legislature authorized collective bargaining between unions representing rank-and-file state employees and the administration.

- ***Legislature and Employee Ratification.*** The Legislature and bargaining unit members must ratify the key provisions of MOUs in order for them to take effect. In addition, under the Dills Act, the Legislature annually may choose whether to appropriate funds in the budget to continue the financial provisions of each MOU.

- ***Fiscal Analysis Requirement.*** Section 19829.5 of the Government Code—approved by the Legislature in 2005—requires the Legislative Analyst's Office (LAO) to produce a fiscal analysis of tentative MOUs within ten days of receiving them and specifies that legislative ratification of MOUs should not occur until either the LAO has presented its review or ten days have passed from the time the LAO received the MOUs.

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Current Status of Bargaining Unit Contracts

Status of State Employee Collective Bargaining Agreements

	Percent of Workforce	MOU Ratification Bill
Bargaining Units With New Contracts		
1-Administrative, Financial, and Staff Services	21.1%	AB 1625 (J. Pérez)
3-Educators and Librarians (Institutional)	1.0	AB 1625 (J. Pérez)
4-Office and Allied	12.4	AB 1625 (J. Pérez)
5-Highway Patrol	3.0	SB 846 (Correa)
8-Firefighters	2.3	AB 1592 (Buchanan)
11-Engineering and Scientific Technicians	1.1	AB 1625 (J. Pérez)
12-Craft and Maintenance	4.8	SB 846 (Correa)
14-Printing Trades	0.2	AB 1625 (J. Pérez)
15-Allied Services (Custodial, Food, Laundry)	2.0	AB 1625 (J. Pérez)
16-Physicians, Dentists, and Podiatrists	0.8	AB 1592 (Buchanan)
17-Registered Nurses	2.2	AB 1625 (J. Pérez)
18-Psychiatric Technicians	2.7	SB 846 (Correa)
19-Health and Social Services/Professional	2.3	AB 1592 (Buchanan)
20-Medical and Social Services	1.5	AB 1625 (J. Pérez)
21-Education and Libraries (Noninstitutional)	0.3	AB 1625 (J. Pérez)
Percentage of Workforce With New Contracts	**57.7%**	
Bargaining Units With Expired Contracts		
2-Attorneys	1.6%	Expired
6-Correctional Peace Officers	13.8	Expired
7-Protective Services and Public Safety	3.0	Expired
9-Professional Engineers	4.9	Expired
10-Professional Scientific	1.2	Expired
13-Stationary Engineer	0.4	Expired
Percentage of Workforce With Expired Contracts	**25.0%**	
Supervisors and Managers	**17.3%**	Not Applicable

☑ ***Most Employee Bargaining Units Have Active Contracts.*** As indicated above, most bargaining units have active MOUs.

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Status of State Employee Cost Savings Policies

Major Employee Compensation Policies Resulting From Collective Bargaining and Administrative Actions

(Excludes Legislative, Judicial, and University Employees)

		Employees in Bargaining Units	
	Managers and Supervisors	With Current Collective Bargaining Agreements	With Expired Collective Bargaining Agreements
Unpaid Leave Days			
One per month for 12 months, "Personal Leave Program"	Yes	Yes, except Units 5 and 8	No
Three per month "furlough" pursuant to executive orders	No	No	Yes, with limited exceptions
Retirement			
Increased employee contributions	Yes	Yes	No
New formula for new state employees	Yes	Yes	Yes
Other			
Two floating paid leave days annually	Yes	Yes, except Units 5, 8, 12, 16, 18, and 19[a]	No
Employees at top step get a pay increase in 2012 or 2013	Yes	Yes	No
During collective bargaining agreement, salaries continuously appropriated during late budgets	No	Yes	No

[a] Unit 19 receives one floating paid leave day annually.

☑ ***State Employee Cost Savings Policies.*** The above figure summarizes the recently adopted cost savings policies that apply to: managers and supervisors, employees in bargaining units with active MOUs, and employees in bargaining units with expired MOUs.

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2010-11 Budget Assumed $1.5 Billion in General Fund Savings

- ☑ ***Collective Bargaining and Administrative Actions: $896 Million General Fund ($661 Million Other Funds).*** The budget assumed that the state would reduce General Fund employee compensation costs through (1) new contracts and (2) administrative actions that affect employees with expired contracts and employees not represented by unions.

- ☑ ***5 Percent Workforce Cap: $450 Million General Fund ($353 Million Other Funds).*** The budget assumed additional General Fund savings resulting from an unallocated cut to personnel costs across all departments.

- ☑ ***Operating Expenses and Equipment (OE&E): $130 Million General Fund.*** Associated with the workforce cap, the budget assumed that the state would capture $130 million in OE&E savings.

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Administration: One-Third of 2010-11 Budget Savings Unachievable

- ☑ ***Erosions in Collective Bargaining and Administrative Actions Savings: $166 Million General Fund ($764,000 Other Funds).*** The Governor assumes that the contracts negotiated in 2010 and the administrative actions to cut employee compensation will fail to achieve the targeted savings.

- ☑ ***Erosions in Workforce Cap: $281 Million General Fund ($48 Million Other Funds).*** The CDCR will miss its savings target by $272 million. Three other departments—Department of Developmental Services, Department of Social Services, and Department of Veterans Affairs (DVA)—also are unable to cut personnel costs to achieve their full workforce cap savings.

- ☑ ***Erosions in OE&E Savings: $100 Million General Fund.*** The administration assumes the state will only capture $30 million of the anticipated OE&E savings.

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Governor's Proposal for 2011-12: $580 Million General Fund ($405 Million Other Funds) in New Solutions

- ☑ ***Collective Bargaining and Administrative Actions.*** The budget assumes that the state will save $308 million General Fund ($207 million other funds) through administrative actions and collective bargaining with the six bargaining units with expired contracts. This estimate assumes that the new MOUs will reduce salary costs for these bargaining units by 10 percent.

- ☑ ***Core Health Care Plan Option.*** The state's contribution to employee health care is based on the average cost of the four health plans with the most enrolled state employees. Beginning in the 2012 calendar year, the administration proposes adding a new health plan that provides somewhat less coverage at a lower premium. The budget assumes that this plan will attract enough employees so that the state will realize $72 million in General Fund savings ($36 million other funds) in the budget year.

- ☑ ***$200 Million Unallocated Cut.*** The Governor proposes an unallocated $200 million cut in General Fund state operations ($163 million other funds) to improve efficiency. The budget suggests that the cut will focus on (1) reorganizing programs and departments to reduce duplication and inefficiencies; (2) reviewing state peace officer and safety classifications; and (3) reducing costs in other areas like contracting, fleet operations, and cell phone use.

- ☑ ***Workforce Cap.*** The budget assumes that the departments that were unable to achieve their full workforce cap savings in 2010-11 will achieve these savings in 2011-12. (The DVA, however, is given a partial exemption from the workforce cap.)

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LAO Assessment: Half of New Savings Not Likely

- ☑ ***Collective Bargaining.*** The 15 MOUs negotiated in 2010 achieved 8 percent to 10 percent savings in employee compensation. Unless the contracts with the remaining six bargaining units achieve savings at the top end of this spectrum, the state will not realize the savings anticipated in the budget. If the contracts provide 8 percent savings, for example, over $60 million in assumed General Fund savings ($40 million other funds) would not be realized.

- ☑ ***New Health Plan.*** A plan that is less expensive than the current health plans will likely have less coverage. Because the state workforce is aging, we are cautious in assuming that many employees would be attracted to a plan with fewer benefits.

- ☑ ***Unallocated Cuts.*** It is unclear how departments would achieve these additional proposed reductions. Further, unallocated reductions effectively remove the Legislature from the decision-making process—leaving departments to make reductions based upon the administration's priorities rather than the Legislature's priorities.

- ☑ ***Full Workforce Cap Savings Unlikely.*** The administration assumes the three departments—including CDCR—that were unable to fully achieve their workforce cap savings in 2010-11 will do so in the budget year. The CDCR has a significant structural shortfall and, to our knowledge, has no plan to achieve these workforce cap savings.

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Alternatives for Legislature's Consideration for 2011-12

- ☑ ***Enhance Savings Through Collective Bargaining and Administrative Actions.*** The Legislature could increase the level of proposed savings associated with employees with expired contracts. For example, approving MOUs or authorizing administrative actions that continue the current level of savings associated with these employees (14 percent of employee compensation cost) could reduce General Fund costs by over $100 million in 2011-12.

- ☑ ***Authorize Furloughs at End of Personal Leave Program (PLP).*** The Legislature could authorize administrative actions that impose a one-day per month furlough at the conclusion of the 12-month PLP for employees represented by Bargaining Units 1, 3, 4, 11, 12, 14, 15, 16, 17, 20, 21, and for employees not represented by a union. (This option is not authorized under the MOUs for other bargaining units.) This solution could save the state $147 million General Fund ($175 million other funds) in 2011-12.

- ☑ ***Reduce Employee Salary.*** Reducing employee salary offers the greatest legislative flexibility. Collective bargaining is largely a process of quid pro quo, and right now the state has little or nothing to give employees in exchange for large cuts. Under the Ralph C. Dills Act, the Legislature has reserved for itself its constitutional powers to appropriate funds and, therefore, the right to set salary levels for represented employees at the level it desires. The Legislature could vary the size of pay reductions by bargaining unit or classification. This would give the Legislature some ability to prioritize certain employment classifications. Conversely, the Legislature could reduce pay for employees who are compensated at higher levels than similar government or private sector employees. We note that any pay reduction should be applied equally across all employees in a given classification.