AUGUST 29, 2023

Initial Assessment of Proposed Labor Agreements: Units 1, 3, 4, 6, 11, 12, 14, 15, 17, 19, 20, and 21

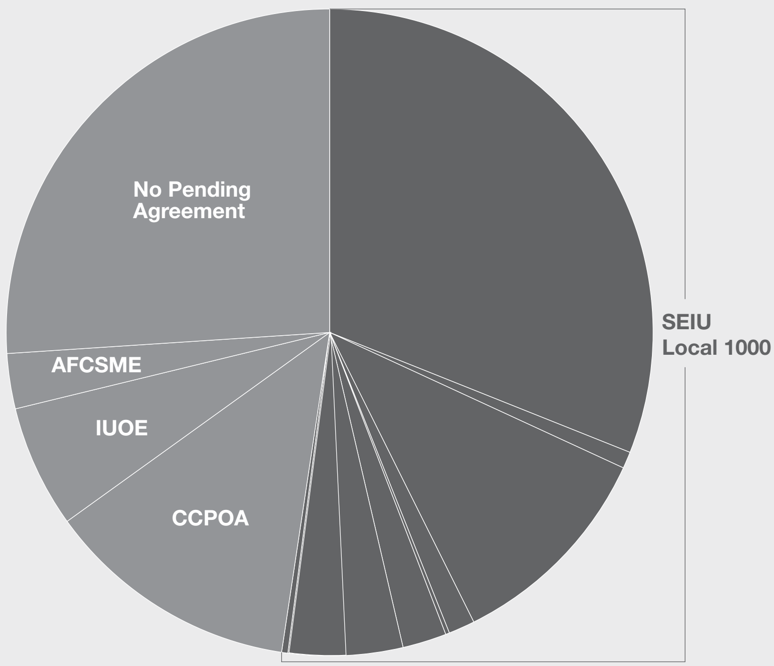
LEGISLATIVE ANALYST'S OFFICE

LAO Role in Collective Bargaining Process

- Section 19829.5 of the Government Code specifies that our office has a minimum of ten calendar days to produce an analysis of proposed memoranda of understanding (MOUs) between the state and represented state employees. Our analysis informs the Legislature's deliberation of these proposed agreements.
- At the time of this publication, we are reviewing labor agreements with 12 bargaining units. These agreements represent three-fourths of the state's rank-and-file workforce and 80 percent of the state's General Fund payroll costs.
  - We received two agreements earlier in the summer: the agreements for Unit 12 (Craft and Maintenance, represented by International Union of Operating Engineers [IUOE]) on July 24, 2023 and Unit 19 (Health and Social Services, Professional, represented by American Federation of State, County, and Municipal Employees [AFSCME]) on August 15, 2023. We plan to release our complete analyses of these two bargaining units' tentative agreements in the coming days.
  - On Saturday, August 26, 2023, we received the agreements for ten bargaining units. Specifically, the nine bargaining units (Units 1, 3, 4, 11, 14, 15, 17, 20, and 21) represented by Service Employees International Union, Local 1000 (Local 1000) and Unit 6 (Corrections, represented by California Correctional Peace Officers Association [CCPOA]).
- This handout is intended to assist the budget committees in their review of these agreements. This handout is not our analysis as required under state law. We plan to release those analyses in the coming weeks.

Bargaining Unit Profiles

Legislature Considering MOUs for Three-Fourths of Rank-and-File State Employees

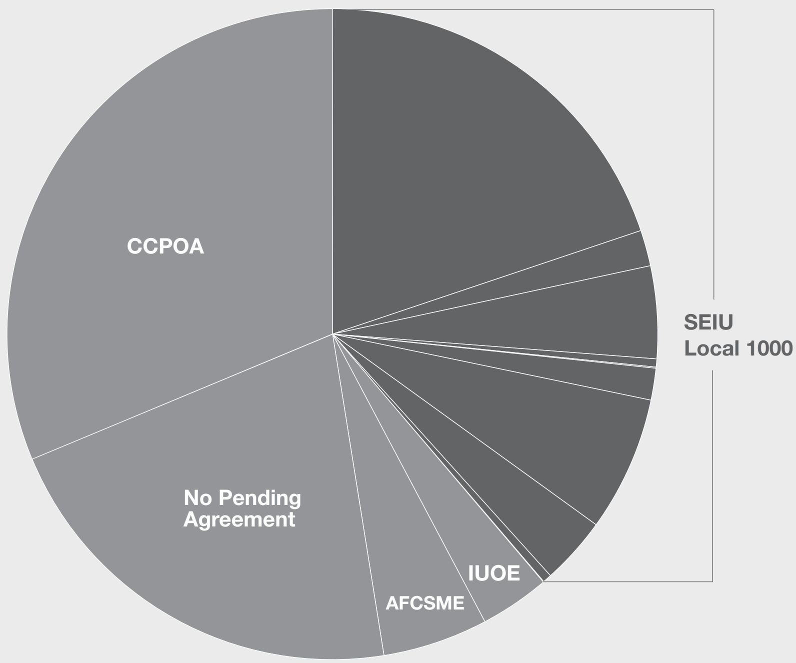


MOU = memorandum of understanding; SEIU Local 1000 = Service Employees International Union, Local 1000; CCPOA = California Correctional Peace Officers Association; IUOE = International Union of Operating Engineers; and AFSCME = American Federation of State, County, and Municipal Employees.

Bargaining Unit Profiles

(Continued)

Agreements Establish State Compensation Policy For 80 Percent of State General Fund Payroll Costs



SEIU Local 1000 = Service Employees International Union, Local 1000; IUOE = International Union of Operating Engineers; AFSCME = American Federation of State, County, and Municipal Employees; and CCPOA = California Correctional Peace Officers Association.

- ***Unit 1: Administrative, Financial, and Staff Services (Local 1000).*** The largest of the state's 21 bargaining units. Employees perform many different types of jobs across numerous state departments. These employees include accounting officers, auditors, analysts, and other professional classifications.

- ***Unit 3: Professional Educators and Librarians (Local 1000).*** Employees are teachers, education specialists, and librarians in state institutions. Two-thirds of these employees work for the California Department of Corrections and Rehabilitation (CDCR).

Bargaining Unit Profiles

(Continued)

- ***Unit 4: Office and Allied (Local 1000).*** Employees work in many state departments in a variety of classifications. Employees include office technicians, Department of Motor Vehicle field representatives, office assistants, and program technicians.
- ***Unit 6: Corrections (CCPOA).*** The second largest of the state's 21 bargaining units, accounting for one-third of the state's General Fund payroll costs. Most employees work at CDCR as correctional officers, correctional counselors, and parole agents.
- ***Unit 11: Engineering and Scientific Technicians (Local 1000).*** Employees work across many state departments. The largest classifications include California Department of Transportation (Caltrans) engineering technician and scientific aid. About two-thirds of the unit work for either the Department of Fish and Wildlife or Caltrans.
- ***Unit 12: Craft and Maintenance (IUOE).*** Employees operate and maintain state equipment, facilities, and roads. Nearly two-thirds of the unit work for either Caltrans or CDCR. The largest classifications include Caltrans equipment operators and highway maintenance workers.
- ***Unit 14: Printing and Allied Trades (Local 1000).*** Employees work as printing trade specialists, graphic designers, and bookbinders. While some employees work in various departments, most work for the Department of General Services (DGS) at the Office of State Publishing where the state budget, bills and laws, and other state documents are printed.
- ***Unit 15: Allied Services (Local 1000).*** Employees include custodians employed by DGS who work in various state buildings, laundry workers, supervising cooks, and food services workers in state prisons and other institutions. More than one-half of these employees work for the Department of State Hospitals (DSH), DGS, or CDCR.

Bargaining Unit Profiles

(Continued)

- ***Unit 17: Registered Nurses (Local 1000).*** Employees include nursing staff who work in state prisons, state hospitals, and veterans homes.
- ***Unit 19: Health and Social Services, Professional (AFSCME).*** Employees are health and social services professionals such as psychologists, rehabilitation therapists, pharmacists, adoption specialists, community care licensing analysts, social workers, dieticians, and prison chaplains. About 60 percent of these employees work for either CDCR or DSH.
- ***Unit 20: Medical and Social Services (Local 1000).*** Employees include various medical and social services specialists who work in state prisons, veteran's homes, developmental centers, and state hospitals. The largest Unit 20 classifications include licensed vocational nurse, self-help sponsor, dental assistant, certified nursing assistant, and pharmacy technician.
- ***Unit 21: Educational Consultants and Library (Local 1000).*** Employees are educational consultants who work for state education programs within the California Department of Education or other noninstitutional settings. The largest Unit 12 classifications include education programs consultant, special education consultant, and education fiscal services consultant.

Tools to Assess Compensation Levels

There are a number of metrics that can be used to assess whether the state's compensation structure is sufficiently competitive to attract and retain workers. While not all of these metrics are available to the Legislature in every instance, and a single metric often is not enough to determine an appropriate level of compensation conclusively, the below metrics are useful for the Legislature to assess the state's compensation levels.

- ***Compensation Studies.*** A compensation study aggregates and analyzes internal and external data so that an employer can compare the compensation it offers to employees with that provided by similar employers to similar employees. A well-structured compensation study can be a valuable tool for the Legislature to assess whether a proposed pay increase is justified. Section 19826 of the Government Code requires the Department of Human Resources (CalHR) to produce regular compensation studies of all 21 bargaining units. Later in this handout, we discuss the recent CalHR compensation studies for the 12 bargaining units with agreements now before the Legislature.

- ***Vacancy Rates.*** Through the budget process, the Legislature approves funding and position authority for departments. The departments then use funds appropriated by the Legislature to recruit, hire, and compensate employees. At any point in time, not all authorized positions are filled. There are a number of reasons as to why a position might be vacant. For example, the position authority might be new and the department has not had sufficient time to complete the hiring process. Alternatively, a department might rely on vacant positions to free up appropriated funds to pay for things not regularly funded through separate appropriations (for example, rising costs of doing business). However, when a large share of authorized positions are vacant, this can be a sign that a department is struggling to hire and retain workers, perhaps because the state's compensation is not sufficient.

Tools to Assess Compensation Levels

(Continued)

- ***Number of Qualified Applications to Jobs.*** A hiring department receiving few qualified applications for a job can be an indicator that the posted compensation for the position is insufficient. Alternatively, a very large number of qualified applications can indicate that the state's compensation package might be higher than is necessary to attract workers.
- ***Turnover.*** Understanding why employees separate from state service can provide insights into the state workforce and the competitiveness of compensation levels. Common reasons for turnover include voluntary separations, involuntary separations, and retirements.
- ***Tenure.*** The length of service employees have with the state can indicate whether they generally are satisfied with their compensation levels, duties, and working conditions.

The next few sections of this handout summarize the findings of recent compensation studies, provide an overview of vacancy rates across bargaining units, and highlight key provisions of the proposed agreements. The remainder of the handout provides our initial assessment of key elements of the agreements and questions for legislative consideration during its deliberation. Where applicable, we include some of the other metrics noted above as well.

Compensation Study: Local 1000

Most Local 1000 Occupation Groups to Be Compensated Above Market (Total Compensation)

Bargaining Unit	Occupation Group	Lead (+) or Lag (-)		Share of Unit
		Wage Only	Total Compensation	
20	Medical Assistants	-54.9%	-42.9%	6.8%
11	Transportation Inspectors	-35.8	-20.3	3.7
1	Management Analysts	-33.5	-17.2	35.0
1	Urban and Regional Planners	-24.5	-13.4	1.6
4	Legal Secretaries and Administrative Assistants	-19.5	-10.9	4.4
4	Court, Municipal, and License Clerks	-8.2	-3.8	22.8
4	Bookkeeping, Accounting, and Auditing Clerks	-12.9	-3.5	3.7
11	Civil Engineering Technologists and Technicians	-17.6	-2.4	38.2
1	Computer Systems Analysts	-19.9	-0.3	13.5
17	Nurse Practitioners	-15.0	1.0	1.6
1	Accountants and Auditors	-8.3	6.0	10.9
20	Nursing Assistants	-0.3	7.4	24.0
17	Registered Nurses	-5.3	8.5	87.2
4	Office Clerks, General	2.3	8.8	49.9
1	Compensation, Benefits, and Job Analysis Specialists	-3.1	9.1	1.2
1	Payroll and Timekeeping Clerks	5.7	9.4	1.9
21	Librarians and Media Collections Specialists	-1.5	9.4	13.6
1	Eligibility Interviewers, Government Programs	9.8	10.6	3.6
1	Claims Adjusters, Examiners, and Investigators	-0.7	10.8	3.0
1	Tax Examiners and Collectors, and Revenue Agents	6.9	11.2	5.0
11	Architectural and Civil Drafters	-4.2	13.2	7.7
15	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	0.3	15.2	45.0
20	Pharmacy Technicians	-2.3	16.7	8.2
3	Adult Basic Education, Adult Secondary Education, and English as a Second Language Instructors	24.1	20.6	60.2
20	Licensed Practical and Licensed Vocational Nurses	5.5	22.0	39.3
14	Printing Press Operators	14.7	22.2	26.2
14	Graphic Designers	5.8	22.5	32.9
21	Instructional Coordinators	23.3	27.1	86.4
15	Cooks, Institution and Cafeteria	17.7	28.3	3.6
20	Dental Assistants	27.9	33.2	10.3

Local 1000 = Service Employees International Union, Local 1000; Lead = compensation is above market; and Lag = compensation is below market.

Source: 2020 California State Employee Total Compensation Report performed by the California Department of Human Resources.

Compensation Study: Unit 6

- ***2013 Compensation Study Found Correctional Officers Compensated Far Above Market.*** The most recent Unit 6 compensation study that was based on the same methodology as other bargaining units used data from 2013 and found that state correctional officers were compensation 40.2 percent above their local government counterparts and 28.1 percent above their federal government counterparts.

- ***2022 Unit 6 Study Uses Flawed Methodology.*** Nearly a decade after the last Unit 6 compensation study, CalHR submitted the 2022 study. The methodology used in the study was agreed to by the administration and CCPOA through a Joint Labor and Management Committee. There are several notable shortcomings with this methodology including: (1) the study omits overtime, which is equivalent to roughly 24 percent of gross regular pay in 2022; (2) the employers surveyed are not representative of where correctional officers work as demonstrated by the fact that only 18 percent of Unit 6 members work in one of the six counties surveyed and *zero* state correctional officers work in two of the surveyed counties; (3) the employers surveyed represent regions with much higher cost of living than where most correctional officers work as demonstrated by the fact that the 2022 median housing price in the six surveyed counties (where 18 percent of Unit 6 work) was $952,000—72 percent higher than the median housing price ($554,000) across the six counties where more than 50 percent of Unit 6 members work; (4) the study mischaracterizes the value of pension and retiree health benefits by using the same employer contribution rate for both new hires and senior employees despite their benefits being substantially different; and (5) the study uses data from a year when the state's pension costs were temporarily low due to a shifted use of a previous supplemental pension payment to, instead, temporarily supplant pension payments, lowering the state's contribution rate to 33 percent of pay (the rate is 50 percent in 2023-24).

Compensation Study: Unit 6

(Continued)

- ***2022 Compensation Study Found Correctional Officers Compensated Below Market, but Findings Are Not Representative of Unit 6 Workers.*** Based on the comparators and methodology used in the study, CalHR found that state correctional officer compensation lags the compensation provided to similar employees by the six counties. Specifically, the study found that (1) the state's salaries (not including benefits) lag 28 percent for entry-level employees and 10 percent for full journey-level employees and (2) the state's total compensation (salary plus benefits) lags 34 percent for entry-level employees and 24 percent for full journey-level employees. However, we recommend the Legislature not use this study to evaluate whether or not the state's compensation for correctional officers is appropriate. As noted above there are notable methodological shortcomings, including only relying on comparable employers in higher-cost jurisdictions where only 18 percent of Unit 6 members work, whereas more than 50 percent of state correctional officers are employed in lower-cost inland areas.
- ***Future Unit 6 Compensation Studies Likely to Be Similarly Unhelpful.*** The administration asserts that the methodology used for the 2022 compensations study will be the methodology used for future Unit 6 compensation studies. This means that future Unit 6 compensation studies likely will not be helpful in determining if the state's compensation for correctional officers is appropriate.

Compensation Study: Unit 6

(Continued)

- ***In Absence of Helpful Compensation Study, Look to Other Metrics.*** Without a compensation study, we look to other metrics to assess the state's ability to recruit and retain correctional officers. On the whole, we do not see indications of serious recruitment and retention issues for Unit 6.
  - ***Vacancy Rate Lower Today Than in 2013.*** Compared with the time of the last compensation study, the share of state correctional officer positions that are vacant has decreased from 14.5 percent in January 2014 to 12.9 percent in July 2023.
  - ***Correctional Officer Academy Turns Away More Than 90 Percent of Qualified Applicants.*** Between 2013-14 and 2021-22, CDCR accepted about 6 percent of *qualified* applicants to enroll in the academy to receive training to become a correctional officer. The high level of interest in the job despite its challenging working conditions likely reflects that, compared with other jobs that have similar education requirements, the state provides correctional officers competitive salaries and benefits as well as job security.
  - ***Some Evidence of Turnover Among Staff.*** Turnover seems to be slightly higher among correctional officers than it was in 2013. For example, the average Unit 6 member has fewer years of service today, fewer employees are at the top step of the salary range today, and the average Unit 6 member is younger today than they were in 2013. To some extent, this may reflect recent rates of retirement.

Compensation Study: Unit 12

Large Portion of Unit 12 Compensated Below Market (Total Compensation)

	Lead (+) or Lag (-)		
	Wage Only	Total Compensation	Share of Unit
Highway Maintenance Worker	-18.1%	-9.6%	29.6%
Mobile Heavy Equipment Mechanics, Except Engines	-13.9	-4.8	4.9
Electricians	-4.1	5.9	4.4
Painters, Construction, and Maintenance	6.6	15.0	2.7
Landscaping and Groundskeeping Workers	6.2	15.8	2.3
Maintenance and Repair Workers	11.7	19.2	7.7
Stockers and Order Fillers	35.9	41.8	7.1

CalHR = California Department of Human Resources; Lead = compensation is above market; and Lag = compensation is below market.

Source: 2020 California State Employee Total Compensation Report performed by the California Department of Human Resources.

Compensation Study: Unit 19

State Compensation for Most Unit 19 Classifications Lead Market (Total Compensation)

Occupation Group	Lead (+) or Lag (-) Wage Only	Lead (+) or Lag (-) Total Compensation	Share of Bargaining Unit
Pharmacists	-15.6%	-13.1%	9%
Dietitians and Nutritionists	-6.7	-5.1	4
Healthcare Social Workers	11.7	14.5	15
Clinical, Counseling, and School Psychologists	17.6	17.9	25
Recreational Therapists	18.2	18.5	11
Rehabilitation Counselors	22.1	18.9	10

CalHR = California Department of Human Resources; Leads = compensation is above market; and lag = compensation is below market.

Source: 2020 California State Employee Total Compensation Report performed by the California Department of Human Resources.

Vacancies

Vacancy Rates Across Bargaining Units Growing

Unit	Union	Unit	2018[a]	2019[a]	2020[a]	2021[a]	2022[a]	2023[b]
1	Local 1000	Administrative, Financial, and Staff Services	17.5%	15.5%	16.3%	17.9%	20.2%	20.7%
3	Local 1000	Professional Educators and Librarians (Institutional Settings)	13.6	14.4	15.8	18.5	22.4	26.1
4	Local 1000	Office and Allied	17.7	17.5	19.1	20.2	22.7	24.2
6	CCPOA	Corrections	7.9	8.2	7.8	9.0	11.1	12.9
11	Local 1000	Engineering and Scientific Technicians	14.8	17.7	19.0	20.5	25.5	25.8
12	IUOE	Craft and Maintenance	17.3	19.4	20.0	23.5	25.0	24.8
13	Local 1000	Stationary Engineers	19.7	19.1	19.0	21.4	21.6	23.6
14	Local 1000	Printing and Allied Trades	16.0	15.0	15.2	19.1	23.3	30.1
15	Local 1000	Allied Services	23.6	21.6	26.7	27.3	30.0	30.4
17	Local 1000	Registered Nurses	17.3	15.3	16.0	18.9	22.2	22.6
19	AFSCME	Health and Social Services/Professional	13.4	14.6	16.7	18.4	24.0	26.8
20	Local 1000	Medical and Social	13.5	14.1	15.9	20.1	27.5	31.5
21	Local 1000	Educational Consultants and Library	15.1	15.0	19.1	18.6	24.4	19.9

[a] Average monthly vacancy rates throughout calendar year.
[b] Vacancy rate reported by State Controller's Office as of July 31, 2023.

Local 1000 = Service Employees International Union, Local 1000; CCPOA = California Correctional Peace Officers Association; IUOE = International Union of Operating Engineers; and AFSCME = American Federation of State, County, and Municipal Employees.

- ***Vacancy Rates Have Grown for All 12 Bargaining Units.*** A decade or so ago, the average state vacancy rate hovered between 10 percent and 15 percent. While there is a significant range of vacancy rates across the bargaining units, the share of vacant positions has grown significantly for all 12 of the bargaining units. This trend could be indicative of a number of factors including challenges in backfilling a rise in retirements, insufficient compensation, noncompetitive working conditions, or broader issues in the labor market.

Local 1000: Overview of Proposed Agreement

- ***Duration: Three Years.*** The agreement would be in effect from July 1, 2023 through June 30, 2026. This means the agreement would be in effect for three fiscal years: 2023-24, 2024-25, and 2025-26.
- ***Three Established General Salary Increases (GSIs): 3-3-3.*** The agreement would provide 3 percent GSIs on three occasions during the term of the agreement: July 1, 2023, July 1, 2024, and July 1, 2025. The administration estimates that these three GSIs will increase annual state costs by $1 billion by the end of the agreement.
- ***Higher GSI in 2025-26, if Conditions Are Met.*** If the Director of the Department of Finance determines that there are sufficient funds at the time of the 2025-26 May Revision, the agreement would provide Local 1000 members a 4 percent GSI effective July 1, 2025 rather than 3 percent. The administration estimates that, if approved, this GSI would increase state annual costs by $125 million.
- ***Numerous Special Salary Adjustments (SSAs) for Specified Classifications.*** The agreement would provide numerous SSAs of varying amounts to specified classifications. The administration estimates that these SSAs would increase annual state costs by more than $200 million.
- ***Monthly $165 Payment to Each Employee.*** All employees who are eligible to receive state health benefits would receive a monthly payment of up to $165. The administration estimates that this provision would increase annual state costs by $144 million.
- ***Various Other Payments.*** The agreement would provide various other payments that the administration estimates would increase annual state costs by $13 million.

Unit 6: Overview of Proposed Agreement

- ***Duration: Two Years.*** The agreement would be in effect from July 3, 2023 through July 2, 2025. This means that the agreement would be in effect for two fiscal years: 2023-24 and 2024-25.
- ***Two GSIs: 3-3.*** The agreement would provide a 3 percent GSI on July 1, 2023 and another 3 percent GSI on July 1, 2024. The administration estimates that these provisions would increase annual state costs by $259 million.
- ***One-Time $1,200 Payments in 2023 and Again in 2024.*** The agreement would provide employees a $1,200 payment in November 2023 and another $1,200 payment in November 2024. The stated purpose of this payment is to support employees' health and well-being. However, there is no requirement that the money be used to further this purpose. The administration estimates that this provision would increase state costs by $59 million over the course of the agreement.
- ***Recruitment and Retention Payments.*** The agreement would provide specified payments related to recruiting and retaining employees. Specifically, new and current Unit 6 members who work at Salinas Valley State Prison, California State Prison Sacramento, or R.J. Donovan would be eligible to receive a $5,000 payment on July 1, 2024 and another $5,000 payment on July 1, 2025. In addition, cadets who accept or choose to work at one of 13 facilities would be eligible to receive a $5,000 bonus payment payable in two payments ($2,500 upon graduating from the academy and $2,500 30 days after reporting to the institution). The administration estimates that these provisions will increase state costs by $33 million over the course of the agreement.

Unit 6: Overview of Proposed Agreement

(Continued)

- ***Creation of Employer Funded Contribution to 401(k) Plan.*** Effective with the November 2024 pay period, the agreement would provide that the state make a one-time contribution of $475 to a Savings Plus 401(k) plan on behalf of all permanent full-time employees who are active as of November 1, 2024. Effective with the January 2025 period, the agreement would require the state to make a monthly contribution equivalent to 1 percent of the base pay to a Savings Plus 401(k) plan. The administration estimates that the provision will increase state annual costs by $23 million.
- ***Health Benefits.*** The agreement would increase state contributions towards employee health benefits to maintain the current proportion of average premiums paid by the state. The administration estimates that this provision would increase annual state costs by $57 million by the end of the agreement.
- ***Increased Pay Differentials.*** The agreement would increase various Unit 6 pay differentials, including the night/evening shift differential, weekend shift differential, and bilingual pay differential. By the end of the agreement, the administration estimates that these provisions would increase annual state costs by $38 million.
- ***One-Time Leave Cash Out.*** Under the proposed agreement, all Unit 6 members would be eligible to cash out up to 80 hours of compensable leave in 2023. The administration estimates that this provision could increase state costs by as much as $25 million. The actual cost will depend on how many employees cash out leave and how much leave they choose to cash out.

Unit 12: Overview of Proposed Agreement

- ***Duration: Three Years.*** The agreement would be in effect from July 1, 2023 through June 30, 2026. This means that the agreement would be in effect for three fiscal years: 2023-24, 2024-5, and 2025-26.
- ***No GSIs.*** Unlike the other agreements, the Unit 12 agreement would not provide any GSIs to its members.
- ***SSAs for All in 2023-24.*** The proposed agreement would provide all Unit 12 members specified SSAs effective July 1, 2023. Most Unit 12 members would receive either a 3 percent or 4 percent SSA. The administration estimates this provision would increase state annual costs by $47 million.
- ***2024-25 Pay Increases: SSAs for Foundation Drillers, Top Step Increases for Other Classifications.*** Effective July 1, 2024, (1) employees in three foundation driller classifications would receive a 5 percent SSA and (2) the top step of the salary ranges for all other classifications would be increased by 4 percent. The administration estimates that this provision would increase annual state costs by $27.5 million.
- ***2025-26 Pay Increases: Top Step Increases for All Unit 12 Classifications.*** Effective July 1, 2025, the agreement would increase the top step of all Unit 12 classifications' salary ranges by 4 percent. The administration estimates that this provision would increase annual state costs by $28 million.
- ***Employees Who Work Through August 2026 Eligible to Receive Payments Totaling Up to $3,600.*** The agreement would provide six payments, each up to $600, over the course of the term of the agreement. The payments would be made in January 2024, August 2024, January 2025, August 2025, January 2026, and August 2026. Over the course of the agreement, employees could receive up to $3,600 from these payments. To be eligible for the full payment, employees would need to work for the six months preceding each payment date and be employed by the state at the time of payment. For the average Unit 12 member, $1,200 per year is equivalent to 1.9 percent of base pay. The administration estimates that this provision would increase state costs by $44.3 million over the course of the agreement.

Unit 12: Overview of Proposed Agreement

(Continued)

- ***One-Time Payment of $1,500 for Specified Past Work.*** In 2023-24, the agreement would provide a one-time payment of $1,500 to eligible Unit 12 members. To be eligible for this payment, employees would need to have been (1) employed by the state on January 1, 2022 and remained in employment through the first day of the pay period following ratification and (2) working more than 50 percent of the time in a correctional facility, correctional health care facility, Veteran's Home, state hospital, developmental services, or formally deployed and reassigned to work on emergency wildfire response efforts. The administration estimates that this provision would increase state costs by $4.4 million.
- ***Recruitment and Retention Differentials and Other Provisions Related to Pay.*** The agreement would provide various "recruitment and retention" payments to Unit 12 members who perform specific jobs and would provide various other provisions related to pay. The administration estimates that these provisions would increase annual state costs by a few million dollars each year.
- ***Increased State Contribution to Health Benefits.*** The agreement would increase the state's contribution towards employee health benefits to maintain the proportion of the average premium paid by the state for the duration of the agreement. The administration estimates that this provision would increase annual state costs by $29 million by the end of the agreement.

Unit 19: Overview of Proposed Agreement

- ***Duration: Two Years.*** The agreement would be in effect from July 2, 2023 through June 30, 2025. This means that the agreement would be in effect for two fiscal years: 2023-24 and 2024-25.
- ***GSIs: 3-2.5.*** The agreement would provide two GSIs. Effective July 1, 2023, all Unit 19 employees would receive a 3 percent salary increase. Effective July 1, 2024, all Unit 19 employees would receive a 2.5 percent salary increase. The administration estimates that this provision would increase annual state costs by $46.5 million.
- ***2023-24 Top Step Increases for Specified Classifications.*** The proposed agreement would increase the top step of specified classifications' salary ranges. The top step of specified psychologist classifications would increase 10 percent. The top step of specified clinical social worker classifications would be increased by a specified amount, ranging from 2.65 percent to 3 percent. The administration estimates that this would increase annual state costs by $25.3 million.
- ***2023-24 SSAs for Specified Classifications.*** Effective either July 1, 2023 or August 2, 2023, the agreement would provide various classifications a specified SSA ranging from 2.5 percent to 9.66 percent. The administration estimates that these provisions would increase annual state costs by $40 million.
- ***Additional Caseload Differential for Psychologists.*** Effective the first day of the pay period following ratification by both parties, but expiring June 30, 2025, psychologists would be compensated at their base salary hourly rate hour-for-hour for additional caseload responsibilities assigned to them beyond the normal psychologist caseload. The administration estimates that this provision would increase annual state costs by $5 million.
- ***Retention Bonus for Specified Classifications.*** The agreement would amend and expand the classifications eligible to receive Pay Differential 324, which provides retention payments to specified classifications during the first few years of employment. The administration estimates that this provision would increase state costs by $7.7 million in 2023-24 and $2 million annually thereafter.

Unit 19: Overview of Proposed Agreement

(Continued)

- ***Monthly Pay Differentials for Specified Jobs.*** The agreement would provide employees in specified psychologist, audiologist, and dietitian classifications who work at Porterville Developmental Center a monthly payment of either $400 per month (in the case of dietitians), $800 per month (in the case of unlicensed psychologists), or $1,000 per month (in the case of audiologists and psychologists). The agreement also would provide occupational therapists who work for the California School for the Deaf (Riverside) a monthly payment equal to 10 percent of base pay. Lastly, the agreement would increase the monthly differential paid to employees who provide clinical supervision to unlicensed individuals from $100 to $500.

Fiscal Effects of Agreements

Agreements Increase State Annual Costs by More Than $2 Billion by 2025-26

Bargaining Unit	All Funds Costs of Proposed Agreement[a] (in Millions)			State Costs as Share of 2023 Unit Payroll Costs[b]		
	2023-24	2024-25	2025-26	2023-24	2024-25	2025-26
SEIU Local 1000[c]	$637.0	$1,074.3	$1,578.6	5.5%	9.2%	13.6%
6	231.5	411.8	390.6	5.5	9.7	9.2
12	68.7	111.5	126.9	5.6	9.1	12.4
19	77.7	96.1	96.8	9.3	11.5	11.6
Totals	**$1,014.9**	**$1,693.7**	**$2,217.9**			

[a] Fiscal estimates provided by administration.

[b] Based on annualized April 2023 salary and salary-driven benefit costs.

[c] Includes the nine bargaining units represented by Services Employees International Union, Local 1000.

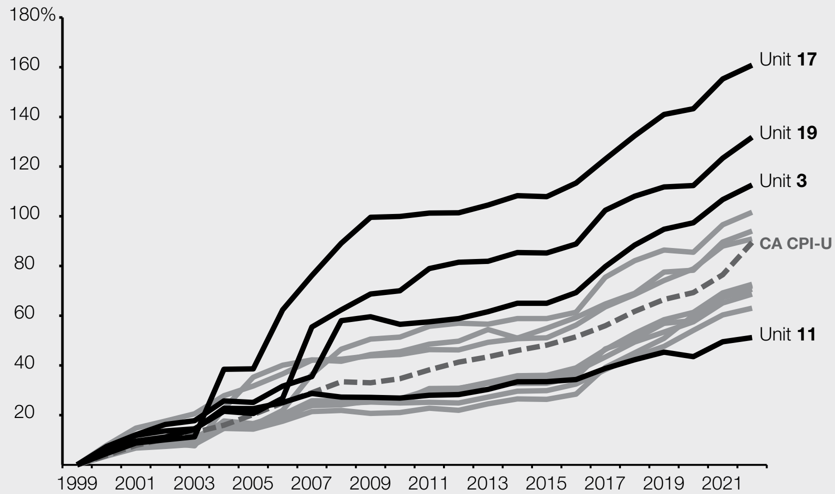
SEIU = Service Employees International Union.

LAO Initial Assessment: Duration of Agreements

- ***Standing LAO Recommendation: Do Not Approve Agreements Longer Than Two Years.*** Since 2007, we have recommended that the Legislature not ratify labor agreements with durations longer than two years in order to maintain legislative flexibility to respond to changing economic situations (both improving and deteriorating economic conditions). An MOU establishes the state's employee compensation policies and locks in state expenditures for the duration of the agreement. Though the Legislature has authority to modify economic provisions of ratified MOUs through its appropriation authority, in practice, exercising this authority is difficult.
- ***Uncertainty Makes Legislative Flexibility Even More Important Today.*** By 2025-26, General Fund revenues could be tens of billions of dollars higher or lower than current estimates. Inflation may remain elevated or reach the Federal Reserve's 2 percent target. Labor markets could remain tight or soften. While we cannot say with certainty how these economic conditions will unfold, we have advised the Legislature to remain cautious as key economic indicators—such as the treasury bond yield curve—have signaled an economic and revenue slowdown could be forthcoming.
- ***Most Agreements Before Legislature Longer Than Two Years.*** The proposed agreements with Unit 12 and the nine bargaining units represented by Local 1000 would be in effect for three fiscal years: 2023-24, 2024-25, and 2025-26. The agreements with Units 6 and 19 would be in effect for two fiscal years: 2023-24 and 2024-25.

LAO Initial Assessment: GSIs and Inflation

Growth in Basepay Since 1999[a]



[a] Base pay does not reflect reductions in a take home pay resulting from furloughs or augmentations in take home pay from policies like pay differentials over time.

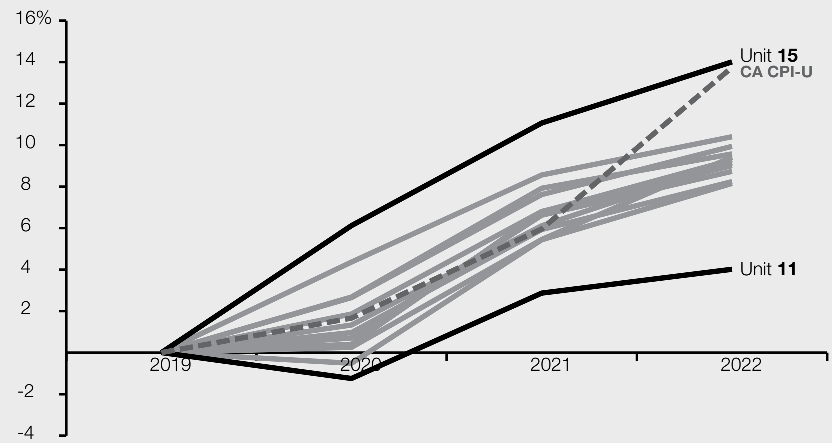
CA CPI-U = California Consumer Price Index for All Urban Consumers.

- ***Long-Term Real Wages Vary by Bargaining Unit.*** The very long-term annual rate of inflation in California since 1955 has averaged 3.8 percent. We have data on the average base salary of the 12 bargaining units back to 1999. Over the years since 1999, the average base salary for (1) Bargaining Units 3, 6, 17, 19, and 20 grew at levels above inflation; (2) Unit 14 kept pace with inflation; and (3) Units 1, 4, 11, 12, 15, and 21 grew at levels below inflation.

LAO Initial Assessment: GSIs and Inflation

(Continued)

Growth in Basepay Since 2019[a]



[a] Base pay does not reflect reductions in a take home pay resulting from furloughs or augmentations in take home pay from policies like pay differentials over time.

CA CPI-U = California Consumer Price Index for All Urban Consumers.

- ***Near-Term, All Units' Wages Either Below or Kept Pace With Inflation.*** Inflation has been at elevated levels in recent years. Comparing the growth in average base salaries with the rate of inflation in California since 2019—the year before the pandemic—shows that the average base pay for most of the bargaining units have not kept up with inflation. Specifically, while inflation increased 14 percent during this period, base pay for Unit 11 increased only 4 percent while base pay for Units 1, 3, 4, 6, 12, 14, 17, 19, 20, and 21 increased in the range of 8 percent and 10 percent. Only one bargaining unit, Unit 15, kept pace with inflation during this period; however, it had risen much faster than inflation in the early years of the period.

LAO Initial Assessment: GSIs and Inflation

(Continued)

- ***Proposed GSIs Close to Most Recent Inflation Levels.*** The most recent (July) California Consumer Price Index was 3.1 percent higher compared to the prior year. Since 2020, however, prices have risen 17 percent. GSIs provided by prior agreements did not keep pace with these increases, as noted above. Although the tentative agreements' GSIs would maintain wages, they do not catch up to prior price increases. Moreover, if inflation remains elevated, state employees' purchasing power likely will be further eroded by 2025-26. Alternatively, if inflation continues to fall, the state could provide GSIs above the rate of inflation, thereby potentially paying more than might be necessary at the time. If the agreements had shorter terms, the state could consider GSIs that reflect the economic conditions in a few years.

LAO Initial Assessment: SSAs

- ***Agreements Rely Heavily on SSAs.*** Typically, the state provides a GSI to all workers in a bargaining unit to account for inflation, whereas SSAs are provided to ensure wages for specific classifications are competitive with other employers. The agreements rely more heavily on SSAs than past agreements. (In the case of Unit 12, there are no GSIs.) These SSAs combined with the GSIs and other pay increases could make it so that many employees would not experience a loss in purchasing power if inflation were to persist at elevated levels.
- ***Administration Offers No Justification for SSAs.*** While there is some evidence to support SSAs for some of the classifications, many of the classifications that would receive SSAs under the agreements are part of occupation groups that were found to be compensated above market. It is not clear what methodology was used to identify which classifications should receive SSAs and at what levels. The administration does not provide a justification for the various SSAs, but states they are the result of the bargaining process. The significant use of SSAs with no justification from the administration is unnecessarily convoluted and creates a lack of transparency for the Legislature and the public to understand why some state employees should receive higher pay increases than others.

LAO Initial Assessment: Compensation Studies

- ***Compensation Studies Remain Principal Tool for Assessing Competitiveness.*** Before this year, state statute required CalHR to submit a compensation study to the Legislature six months prior to the expiration of a MOU. The most recent budget package amended this language such that CalHR must conduct compensation studies every two years for all bargaining units. This change ensures the Legislature receives timely information regarding the competitiveness of state employment.
- ***Methodology of Compensation Studies Critical.*** In order for the compensation studies to inform legislative deliberation of employee compensation, they must evaluate similar employees to those in state employment. This includes reflecting the geographic distribution of workers and accounting for total compensation accurately. If compensation studies do not accurately reflect the state workforce, they may over or understate differences in compensation.
- ***SSAs Should Reflect Compensation Study Findings.*** A compensation study can support a proposal to increase a classification's salary range. In the case of these agreements, numerous SSAs would be provided to classifications that are not included in recent compensation studies. Ideally, the administration would only propose pay increases for classifications included in its compensation studies. In the absence of a compensation study, we recommend the Legislature direct the administration to demonstrate that proposed SSAs would address some specific and identified problem with recruiting and retaining employees in the affected classification.
- ***Compensation Study for Unit 6 Likely to Remain Problematic.*** As noted earlier, we do not find the Unit 6 compensation study methodology sufficient for evaluating the state's competitiveness as an employer of correctional officers. In particular, we find the comparison employers to be geographically skewed to high-cost areas compared to state correctional officers. Absent better information and data, we do not anticipate the Unit 6 compensation studies to provide much basis for compensation adjustments. To address this issue, the Legislature could consider amending statute to specify the methodology that is used for compensation studies for Unit 6 and other bargaining units.

LAO Initial Assessment: Unit 6 Employer Contribution to 401(k) Reflects Major Policy Change

- ***Historically, Pension Has Served as State Employer-Funded Retirement Income Benefit.*** The state long has provided employees a defined benefit pension designed to provide employees a guaranteed income in retirement. This benefit is funded through contributions from both the employer and employee to the normal cost. However, the state is responsible to pay for any unfunded liabilities that emerge. In the case of correctional officers, while they are not eligible to receive Social Security, the employer defined benefit pension is among the most generous pensions available to state employees.
- ***Savings Plus Historically an Optional Retirement Benefit.*** Since 1974, the state has provided employees with an optional deferred compensation plan. The plan today is known as Savings Plus. Through Savings Plus, employees can open a 401(k) and/or a 457(b) savings account and can choose to make contributions on a pre-tax or post-tax basis to these accounts. Employees can then choose from a variety of investment options, including indexed and managed funds and target-date funds. The state has never made regular contributions to rank-and-file employees' Savings Plus accounts. (CalHR informs us that the state briefly contributed a small specified dollar amount to excluded employees' Savings Plus accounts in the early 2000s.)
- ***Agreement Fundamentally Enhances Unit 6 Retirement Benefits.*** By expanding the scope of employer-funded retirement income benefits to include both defined benefit pension and defined contribution, the Unit 6 agreement fundamentally changes the state's retirement benefit. Such a change warrants serious and extensive deliberation to work through issues such as what problem is this proposal trying to address, should there be any vesting requirements, whether the defined benefit should be reduced for future employees if the state now expects defined contribution benefits to provide a larger income source to retirees, and whether employees should have the option to have the contribution go towards a 457(b) account rather than a 401(k) account in Savings Plus.

Legislature's Role in Bargaining Process

- ***Legislature Is Ultimate Authority of Any Labor Agreement.*** Under the Ralph C. Dills Act, while the Governor negotiates terms and conditions of employment with bargaining units, the Legislature retains the ultimate authority to approve or reject agreements. The Legislature can reject an agreement either by (1) rejecting a tentative agreement that is submitted to the Legislature for ratification or (2) not appropriating sufficient funds to pay for the terms of an MOU that the Legislature has already ratified.
- ***Administration's Delivery of Agreements Does Not Allow Sufficient Time for Legislative Review.*** The administration gave the budget committees only three days to review thousands of pages of documents before the committees plan to hear the agreements. The administration shows no deference to the deliberative nature of the legislative process or to the Legislature's authority with this constrained review. Moreover, the agreement ignores that the Legislature has the constitutional power of the purse when it specifies that the Director of the Department of Finance has sole discretion to determine if a pay increase goes into effect. Whatever the Director of the Department of Finance determines, the Legislature always will have the authority to reject, reduce, or augment an appropriation item.
- ***Insufficient Opportunity for Public Scrutiny of Agreements.*** These agreements are long and complex. The public—including the members of the bargaining units—also should have opportunity to review the provisions of the agreements and provide input to the Legislature. The administration also shows no deference to the public's role in and oversight of the legislative process.
- ***Any Budget Change Proposal of Comparable Size Would Require Justification From Administration, Legislative Deliberation, and Public Scrutiny.*** As a whole, these agreements would increase state costs by $2 billion beginning in 2025-26. In effect, the agreements represent a multibillion-dollar ongoing budget proposal. When budget proposals of far lesser value are submitted to the Legislature by the Governor during the budget process, they are subject to public and legislative review for a period of weeks or months, not days.

Legislature's Role in Bargaining Process

(Continued)

- ***Recommend Requiring Bargaining Cycle to Consider Legislative Calendar.*** The parties regularly submit labor agreements to the Legislature with a legislative deadline looming only days away. This is a long-standing problem and is not unique to this administration. In the case of these agreements, the parties reached agreement a week before the administration transmitted any documents to the Legislature—only days before the scheduled August 30 hearings. This time constraint is unnecessary. The legislative calendar is public and known far in advance. The legislative calendar and deadlines should be built into the administration's planning such that the Legislature has sufficient time to consider labor agreements. As we have recommended in the past, we recommend that the Legislature adopt a standing policy to reject (1) any agreement that affects the compensation of state employees in the July pay period that is submitted to the Legislature after June 2 and (2) any agreement that is submitted to the Legislature fewer than two weeks before the end of session.