OCTOBER 1998

UPDATE

CALIFORNIA

LEGISLATIVE ANALYST'S OFFICE

Status of Collective Bargaining Negotiations

Background

For collective bargaining purposes, approximately 157,000 state employees are represented by 21 bargaining units. The Department of Personnel Administration represents the administration in the negotiations for memoranda of understanding (MOUs) on the terms of employment with the bargaining units. The terms of any new MOU that have a fiscal effect or require a change to existing law cannot become effective until ratified by the Legislature. In general, the terms of an expired agreement remain in effect until changed by a new MOU.

Figure 1 (see page 2) identifies the 21 bargaining units and the current status of MOUs for each unit. As shown in the figure, the administration recently reached agreement on, and the Legislature ratified, MOUs with four units (Units 6, 8, 16, and 19) covering about 32,000 employees. The MOUs for the remaining units expired June 30, 1995, except Unit 5, whose MOU expired in September 1997. Presumably, negotiations between the administration and these 17 units are proceeding.

Funding for Increases in Employee Compensation. The Legislature appropriated $706 million (all funds) in the *1998-99 Budget Bill* to provide state employees a 6 percent salary increase effective July 1, 1998, and another 3 percent effective January 1, 1999. In signing the budget, the Governor reduced this funding to $279 million ($141 million General Fund and $138 million other funds)–the amount he proposed in January. This amount is sufficient for a 3 percent salary increase. The availability of these funds is subject to collective bargaining.

Terms of Four New MOUs

One-Year MOUs Ratified for Four Bargaining Units. As mentioned above, the administration has reached agreement on, and the Legislature ratified, MOUs for four bargaining units—Unit 6 (California Correctional Peace Officers Association), Unit 8 (California Department of Forestry Firefighters), Unit 16

Figure 1

State Collective Bargaining Units

	Bargaining Unit	Number of Employees Represented[a]	Effective Dates of Current MOUs (Effective/Expired)
1	Administrative, Financial, and Staff Services	34,358	7/1/92 to 6/30/95
2	Attorney and Administrative Law Judges	2,900	9/1/92 to 6/30/95
3	Education and Library	2,759	11/1/92 to 6/30/95
4	Office and Allied	33,136	7/1/92 to 6/30/95
5	Highway Patrol	5,585	7/1/95 to 9/12/97
6	California Correctional Peace Officers' Association	24,314	7/1/98 to 6/30/99
7	Protective Services and Public Safety	6,148	7/1/92 to 6/30/95
8	California Department of Forestry Firefighters	3,223	7/1/98 to 6/30/99
9	Professional Engineers	7,345	9/1/92 to 6/30/95
10	Professional Scientific	2,215	7/1/92 to 6/30/95
11	Engineering and Scientific Technicians	3,307	7/31/92 to 6/30/95
12	Craft and Maintenance	10,579	7/1/92 to 6/30/95
13	Stationary Engineers	798	7/1/92 to 6/30/95
14	Printing Trades	593	1/1/94 to 6/30/95
15	Custodial and Services	4,043	7/1/92 to 6/30/95
16	Physicians, Dentists, and Podiatrists	1,090	7/1/98 to 6/30/99
17	Registered Nurses	3,278	7/1/92 to 6/30/95
18	Psychiatric Technicians	5,716	7/1/92 to 6/30/95
19	Health and Social Services/ Professional	3,255	7/1/98 to 6/30/99
20	Medical and Social Services	2,229	7/1/92 to 6/30/95
21	Educational Consultants, Library, and Maritime	547	7/1/92 to 6/30/95
	Total	**157,418**	

[a] As of March 1998, except for Units 6, 8, 16, and 19 that are as of July 1998.

(Physicians, Dentists, and Podiatrists), and Unit 19 (Health and Social Services/Professional). These MOUs are effective for the one-year period of July 1, 1998 to June 30, 1999.

Figure 2 provides a summary of the major salary, retirement, health, and holiday benefit changes adopted in the four MOUs. A brief discussion of the new retirement plans and changes in health benefits follows.

New Retirement Plans. The Unit 6 MOU creates a *defined contribution* retirement plan, to which the state contributes 2 percent of an employee's base salary. Based on an average salary of about $45,000, the state would contribute $900 annually for a correctional officer. Similar to contributions to the other retirement plans, this amount (as well as any contribution by the employee) is not taxable income for the employee until money is withdrawn from the plan. Total contributions to this plan and other savings programs (such as 401[k] and the State's Saving Plus program) cannot exceed 25 percent of compensation, as specified in the federal Internal Revenue Code.

The Unit 6 and 8 MOUs create a new retirement option under the current *defined benefit* plan that allows an employee to receive a

Figure 2

Major Salary and Benefit Changes in New MOUs[a]

Salary Increase	Retirement Benefits	Health Benefits[b]	Holidays
Unit 6—Corrections			
• 5 percent across-the-board. • 5 percent coupled to increasing work period by about 8 hours per month (effective October 1, 1998). • Merit and longevity salary increases to be based on performance (effective January 1, 1999).	• 2 percent employer contribution to a new defined contribution retirement plan (effective October 1, 1998). • Increase retirement benefit cap from 80 percent to 85 percent of final compensation. • Option to receive up to 50 percent of retirement benefit as a lump-sum payment.	• Establishes total maximum state contribution for health, dental, and vision benefits at $200 for 1-party coverage, $384 for 2-party, and $505 for 3-party.	• No changes.
Unit 8—CDF Firefighters			
• 5 percent across-the-board. • Additional longevity pay of 1 percent to 7 percent for 17 to 25 years of service (effective October 1, 1998). • Merit and longevity salary increases to be based on performance.	• 2 percent state "pick-up" of employees? retirement contribution. • Increase retirement benefit cap from 80 percent to 85 percent of final compensation. • Modified First Tier option (see Figure 3). • Option to receive up to 50 percent of retirement benefit as a lump-sum payment.	• Same as Unit 6 except an employee enrolling in all three plans receives maximum, keeping any balance not spent.	• 12 additional vacation accrual hours per month in lieu of all 13 state holidays for a net benefit of 40 hours vacation per year.
Unit 16—Physicians, Dentists, and Podiatrists			
• 3 percent general. • Additional 5 percent for *non-institutional* physicians and dentists at maximum salary. • Additional 10 percent for *institutional* physicians and dentists at maximum salary. • All salary increases to be based on performance.	• Modified First Tier option (see Figure 3). • Certain classifications eligible for State Safety retirement.	• Same as Unit 8 except total maximum state contribution for health, dental, and vision benefits is $201/$365/$477.	• Increases vacation or annual leave accrual rates in lieu of three holidays (requires agreement of all unions).
Unit 19—Health and Social Services/Professional			
• 3 percent general. • Additional 5 percent for certain classifications at maximum salary. • All salary increases to be based on performance.	• Same as Unit 16.	• Same as Unit 8.	• Same as Unit 16.

[a] All changes effective July 1, 1998 unless otherwise noted.
[b] Changes effective January 1, 1999, except Unit 16, which is effective July 1, 1998.

portion of accumulated benefits in a lump-sum payment when the employee retires. The payment could be up to 50 percent of the present value of the actuarial amount necessary to fund the member's monthly retirement allowance. For example, an employee who would otherwise receive $3,000 per month on retirement could reduce the monthly amount to $1,500 and receive a lump-sum payment equal to the present value of the other $1,500 over the expected life of the employee.

The MOUs for Unit 8, 16, and 19 include a retirement option for existing and future employees in the Miscellaneous Second Tier retirement plan to enroll in a new Modified First Tier retirement plan. Figure 3 compares the features of these two plans. The new plan provides more benefits but requires the employee to contribute to the plan.

Health Benefits. The state makes monthly payments toward employees' health, dental, and vision benefits. These payments vary based on the number of individuals covered for the employee and the health provider the employee selects. As shown in Figure 4, the new MOUs for Units 6, 8, and 19 increase the total maximum state contribution for health, dental, and vision benefits for 2- and 3-party coverage (2.5 percent and 4.6 percent, respectively) and reduce 1-party coverage by 3.4 percent. Under all four MOUs, if the total cost of insurance exceeds the maximum state contribution, the employee pays the difference. Under the Unit 6 MOU, when the total cost is less than the state maximum, the state saves on health benefits costs. Under the other MOUs, if total costs are less, the employee is paid the difference as taxable income.

Figure 3

Modified First Tier Compared to Second Tier Retirement Plan

	Modified First Tier	Second Tier[a]
Employee contribution	5 percent of monthly pay in excess of $133.33	None
Employer contribution	7.260 percent of monthly salary	6.437 percent of monthly salary
Salary for benefit calculation	Highest 36-consecutive month salary	Highest 12-consecutive month salary
Minimum work requirement	Five years	Ten years
Minimum retirement age	50	55
Full benefit retirement age	60	65
Full benefit (per year of service)	2 percent	1.25 percent

[a] Most state employees hired since July 1991 must enroll in the Miscellaneous Second Tier retirement plan.

Employees who choose not to enroll in certain insurance programs would instead receive additional taxable income. For example, an employee who decides not to enroll in health insurance will be paid an additional $130 per month. Also, an employee who does not enroll in health *and* dental insurance will be paid $155 per month. Employees receive no cash back for declining dental insurance only, and vision insurance is automatic and cannot be declined.

Figure 4

State Maximum Contributions for Health Benefits Programs

(In Dollars)

	Expired MOUs[a]			New MOUs[b]		
	1-party	**2-party**	**3-party[c]**	**1-party**	**2-party**	**3-party[c]**
Benefit Components						
Health	$174	$323	$410	—	—	—
Dental	24	43	64	—	—	—
Vision	9	9	9	—	—	—
Totals	**$207**	**$375**	**$483**	**$200**	**$384**	**$505**

a The 17 units without new MOUs are still subject to this health benefits schedule.
b Under the Unit 16 MOU, the maximum state contribution is $201/$365/$477.
c 3-party covers 3 or more individuals.

Civil Service Changes. The MOUs also include several changes to the civil service process. Some of the major changes include:

- ***Pay for Performance.*** This provision requires an employee's department director to certify successful job performance by the employee before the State Controller can increase the employee's salary. As shown in Figure 2, the effective date and the applicability of the pay for performance process varies among the MOUs. For example, the process applies to merit and longevity salary adjustments for Unit 6 beginning January 1, 1999, while it applies to general and merit salary adjustments for Units 16 and 19 beginning July 1, 1998.

- ***Layoff Process.*** Modifications include elimination of (1) prior service in the University of California and California State University systems for calculating seniority, (2) State Personnel Board analysis of layoffs and demotions for disparate treatment and discrimination when no allegations have been made, and (3) payment of relocation expenses when employees are transferred in lieu of a financially driven layoff.

- ***Disciplinary Actions.*** The Unit 6 MOU (1) makes rejections on probation no longer appealable to the State Personnel Board except in cases of discrimination, fraud, or political patronage; and (2) allows an employee either to appeal a disciplinary action to the State Personnel Board or file a grievance to be decided by a labor/management committee (or an arbitrator if the committee cannot reach a majority decision). The other three MOUs (1) replace the evidentiary hearing for suspension with a 15-minute oral presentation and review of the record, (2) eliminate appeal rights for rejections on probation, and (3) change letters of reprimand from a formal to an informal disciplinary action.

Estimated Cost of Four New MOUs

According to the Department of Personnel Administration, the four MOUs will cost a total of $161 million in 1998-99 and $191 million in 1999-00. These costs are summarized in Figure 5. As shown in the figure, the current-year cost of $161 million consists of about $154 million from the General Fund and about $7 million from other funds. As mentioned above, the Governor reduced the General Fund appropriation for employee compensation to $141 million. Thus, the estimated cost for the four MOUs exceeds the General Fund appropriation by $13 million.

However, the department did not include in its cost analysis several key items that will increase the cost of the MOUs. Some examples include increasing the retirement benefit cap for Unit 6 and 8 employees from 80 percent to 85 percent of final compensation, the state's higher contribution rate for the Modified First Tier retirement plan, and allowing employees to keep the balance of their Consolidated Benefits allowance that they do not spend on health care coverages.

Excluded Employee Salary Increases. The department recently approved a 3 percent salary increase effective July 1, 1998 for excluded employees (primarily managers and supervisors not represented by bargaining units) with a successful job performance. We estimate that this action will result in additional General Fund cost in the neighborhood of $30 million annually.

Contact—Todd Clark—
(916) 322-8402

Figure 5

Cost of New Memoranda of Understanding[a]

(In Millions)

	1998-99			Annualized		
Bargaining Unit	General Fund	Other Funds	Total	General Fund[b]	Other Funds[b]	Total
6—California Correctional Peace Officers Association	$124.5	$1.4	$125.9	$147.5	$1.6	$149.1
8—California Department of Forestry Firefighters	15.2	1.2	16.4	17.7	1.3	19.0
16—Physicians, Dentists, and Podiatrists	10.1	2.4	12.5	12.8	3.0	15.8
19—Health and Social Services/Professional	3.8	2.3	6.1	4.4	2.4	6.8
Totals	**$153.6**	**$7.3**	**$160.9**	**$182.4**	**$8.3**	**$190.7**

a Estimated costs provided by the Department of Personnel Administration.
b Legislative Analyst's Office estimate of total cost distribution between General Fund and other funds based on 1998-99 distribution.

Economic and Revenue Developments

U.S. and California Economies Slowing

Recent developments suggest that, although the U.S. and California economies continue to grow, this pace of expansion is clearly moderating.

At the national level, factory output, employment, personal income, and retail spending have slowed considerably in recent months, as international economic and financial developments have taken their toll on U.S. industries.

The national slowdown is being felt in California, which is also experiencing moderating growth in the second half of 1998. For example, California wage and salary employment increased at an annual rate of just over 2 percent during the third quarter of this year, compared to quarterly gains of well-over 3 percent during most of 1997 and early 1998. The slowdown is partly related to declines in computer and electronic manufacturing industries, which are experiencing slowing sales to Asia and certain other foreign markets.

On the positive side, California's real estate markets continue to improve, with permits for new residential construction activity increasing by 23 percent between August 1997 and August 1998. Similarly, nonresidential construction activity remains strong throughout the state, as business continue to expand activities in California.

Overall, California's economy still appears to be on a path toward moderate economic expansion in late 1998 and early 1999—an outlook which remains generally consistent with the *1998-99 Budget Act* forecast. At the same time, however, the risk of a more pronounced slowdown has risen over the past several months, and California remains vulnerable to further deterioration in the national and international economic environment. In November, we will be updating our economic and revenue projections to reflect recent developments, when we release *California's Fiscal Outlook*.

State General Fund Revenues Off Slightly

Despite concerns over the impacts of recent financial and economic developments on state tax receipts, General Fund receipts during the first quarter of 1998-99 were reasonably close to projections. Total receipts for July-through-September were down $138 million (1.1 percent) from the administration's forecast of $12.9 billion. The majority of the net shortfall is attributable to lower-than-expected personal income tax receipts, which were off $119 million (1.9 percent) during the quarter. This shortfall is due largely to lower-than-expected quarterly estimated payments made in September. The softness could be indicative of the declining stock market's effects on payments related to capital gains. However, given the normal volatility in these payments, the softness could also be due to normal quarterly fluctuations in estimated taxes. Other key revenue sources—including income tax withholding, sales taxes, and corporation tax prepayments—were generally on target during the first quarter of 1998-99.

Contact—Brad Williams—(916) 324-4942

About the LAO

California Update is published monthly—except January and February—by the Legislative Analyst's Office (LAO). The LAO is a nonpartisan office which provides fiscal and policy information and advice to the legislature. The Legislative Analyst's Office is located at 925 L Street, Suite 1000, Sacramento, CA 95814.

Need an LAO Report?

- **Call (916) 445-2375.**
- **Visit our web site at:**

www.lao.ca.gov

Want to Subscribe to LAO Publications?

- **Go to www.lao.ca.gov, click on "Subscribe," and fill in your name and e-mail address.**
- Once you've subscribed, you'll receive e-mail notification whenever a new LAO publication is released.