

August 25, 2006

MOU Fiscal Analysis: Bargaining Unit 7 (Protective Services and Public Safety)

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented To:

The Legislature

Pursuant to Chapter 499, Statutes of 2005

(SB 621, Speier)





Summary

- Extension of Unit 7 Agreement.** The agreement would amend the memorandum of understanding (MOU) set to expire in June 2007 and extend it to June 30, 2008.
- Major Provisions.** Major provisions include:
 - General salary increase of 3.5 percent in 2006-07 for all employees.
 - Additional pay for about two-thirds of Unit 7 members in specified classifications (many with recruitment and retention [R&R] difficulties) and a one-time \$1,000 bonus for other employees.
 - Inflation-based raise in 2007-08 mostly for those not receiving R&R increases.
 - Increases in required state health contributions in 2007 and 2008.
- DPA Cost Projections.** The Department of Personnel Administration (DPA) estimates that additional state costs would be \$33 million (\$11 million General Fund) in 2006-07 and an additional \$31 million (\$10 million General Fund) in 2007-08, including costs to extend comparable increases to supervisors and managers. In addition, some provisions would increase state costs further after the proposed expiration date.
- LAO Bottom Line.** The DPA estimates are reasonable, but we forecast a lower inflation rate than DPA assumes in estimating costs of 2007-08 pay increases. The accuracy of DPA's estimates may depend on whether departments are able to reduce vacancy rates significantly in classifications receiving the R&R increases. In some agencies, costs to substantially reduce vacancy rates could exceed DPA's estimates.



Bargaining Unit at a Glance

- What Is Unit 7?** Unit 7 consists of 5,600 protective services and public safety employees. Unit 7 members protect state lands and buildings, issue licenses or permits, conduct investigations, and, in some cases, arrest individuals. About 16 percent of authorized positions covered by this bargaining unit are vacant (a rate just over the state average).
- Where Do Unit 7 Members Work?** Among the largest classifications in Unit 7 are California Highway Patrol (CHP) dispatchers, Department of Motor Vehicles (DMV) licensing-registration examiners, Department of Justice (DOJ) special agents, Department of Mental Health (DMH) hospital police officers, park rangers, and Department of Consumer Affairs (DCA) automotive repair program representatives. Figure 1 lists the eight departments with the most Unit 7 positions. Vacancy rates are under 10 percent only in DMV and DCA. Vacancies exceed 20 percent in DOJ and the Department of Insurance, as well as at DMH's new Coalinga State Hospital (which is not operating at capacity).

Figure 1
Unit 7 Full-Time Equivalent Positions by Department

Department	Authorized Positions	Percent of Unit
Justice	1,200	18%
California Highway Patrol	971	14
Motor Vehicles	772	11
Consumer Affairs	641	10
Mental Health	525	8
Parks and Recreation	515	8
Insurance	361	5
Fish and Game	290	4
Other	1,441	21
Total	6,718	100%

- What Union Represents Unit 7?** Unit 7's representative is CAUSE—The Statewide Law Enforcement Association (originally the California Union of Safety Employees).



Current MOU

- Term.** Chapter 70, Statutes of 2005 (AB 1373, Umberg), approved provisions of the current Unit 7 MOU, which expires June 30, 2007.

- Pay Increases.** The MOU increases the minimum and maximum salaries of around 70 percent of the bargaining unit by one or two steps (with one step equal to 5 percent of salary). Employees earning less than the new minimum salary level move up to the new minimum. Employees who have been at the prior maximum salary level for 12 months move up one step.
 - **Dispatchers and Communications Operators.** A two-step increase took effect on July 1, 2005. Over 600 CHP dispatchers were the largest group affected.
 - **Automotive Repair Program Representatives.** A one-step increase took effect on January 1, 2006. About 300 representatives work in DCA.
 - **Criminalists and Selected Non-Sworn DOJ Staff.** A one-step increase took effect on July 1, 2006. Over 200 DOJ positions were affected.
 - **Peace Officers.** A one-step increase takes effect on January 1, 2007. Over 3,000 DOJ special agents, park rangers, DMH hospital police officers, Fish and Game wardens, and other officers are affected.

- Health Costs.** Under the MOU, the state agreed to pay a fixed amount toward employee health premiums equal to about 80 percent of the average premium in 2005. In 2006, this rose to the amount provided under the state's "85/80 formula" for health contributions: 85 percent of the average employee premium plus 80 percent of the average additional premiums for dependents. Under the current MOU, state health premium contributions do not increase in 2007 or thereafter. The existing MOU also provides for new employees to receive the full health premium contributions from the state for their dependents only after two years of employment.



Current MOU

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- Retirement.** Over 50 percent of Unit 7 members are in the “2.5 percent at 55” safety retirement category of the California Public Employees’ Retirement System (CalPERS). About 40 percent are in the “3 percent at 50” peace officer and firefighter category of CalPERS. The rest are in other CalPERS retirement categories. In general, retirement benefits for these employees are calculated based on the employee’s highest annual salary.



Proposed MOU— Pay Adjustments



Summary of Pay Adjustments. Figure 2 shows the pay increases that various groups of Unit 7 employees would receive under the current MOU and the proposed MOU, as described on the following pages. These increases include R&R adjustments, general salary increases, and one-time bonuses.

Figure 2 Unit 7 Pay Adjustments Under Current and Proposed MOU^a			
Classification	Current MOU	Proposed MOU	
		2006-07	2007-08
Dispatchers and Operators	2 steps in 2005-06	3.5% COLA 6.5% R&R increase	2 steps
Special Agents, Rangers, Fish and Game Wardens	1 step in 2006-07	3.5% COLA 6.5% R&R increase	2 steps
Other Peace Officers and DOJ Non-Sworn	1 step in 2006-07	3.5% COLA	1 step plus Inflation COLA
Automotive Repair Program Representatives	1 step in 2005-06	3.5% COLA	Inflation COLA
Other	—	3.5% COLA \$1,000 one-time	Inflation COLA

^a Some increases occur in July and others in January of the fiscal year listed. A step increase equals 5 percent of salary.



Proposed MOU— Recruitment and Retention

- R&R Salary Increases.*** In addition to the pay raises included in the current MOU, for classes affected by R&R issues, the proposed MOU would:
 - Increase salaries for DOJ special agents, Fish and Game wardens, park rangers, and other park peace officers by 6.5 percent effective July 1, 2006.
 - Increase salaries for CHP dispatchers and communications operators in DMH and the Department of Parks and Recreation by 6.5 percent effective January 1, 2007.

- Step Increases.*** In addition to the pay range modifications in the current MOU, the proposal adds one or two steps to the top of the pay ranges for several classes. Many classifications in these groups are affected by R&R issues.
 - Criminalists and selected other non-sworn DOJ classifications: one step, effective July 1, 2007.
 - Dispatchers and communications operators: two steps, effective July 1, 2007.
 - Special agents, Fish and Game wardens, park rangers, and other park peace officers: two steps, effective January 1, 2008.
 - All other peace officer classes: one step, effective January 1, 2008.



Proposed MOU— Salary Increases and Bonuses

- Salary Increases.** In addition to the increases in the current MOU and the R&R increases, the agreement would provide the following salary increases:

 - 3.5 percent increase effective July 1, 2006 for all Unit 7 employees.
 - Inflation-based increase of no less than 2 percent and no more than 4 percent effective July 1, 2007, for about 80 percent of Unit 7 employees. Classifications which receive R&R salary increases (DOJ special agents, Fish and Game wardens, rangers, dispatchers, and operators) would not receive this increase.

- One-Time Bonus.** According to summaries of the proposal by DPA and CAUSE, about one-third of employees would receive a one-time \$1,000 bonus within 90 days following legislative approval. Some part-time and intermittent employees would receive a \$500 bonus. The summaries indicate that classes not eligible for the bonuses would be (1) those receiving R&R increases under the proposed MOU and (2) DCA automotive repair program representatives (who received a step increase under the existing MOU).

 - **Text of Agreement Not Clear.** The text of the tentative agreement presented to the Legislature would provide the bonuses to employees who have not received a “special salary adjustment” during the amended period of the agreement. The term “special salary adjustment” is not defined in the text of the agreement. As described above, DPA and CAUSE summaries of the MOU have similar descriptions of eligibility for the bonuses.



Proposed MOU— Health and Retirement

- Health Benefits.** Under the proposal, state health premium contributions in 2007 and 2008 would be equal to those provided under the state's "80/80 formula": 80 percent of average premiums for employees and dependents. With CalPERS health premiums increasing an average of 12 percent in 2007, the 80/80 formula will produce higher state costs in 2007 than the 85/80 formula did in 2006 for Unit 7 employees. State contributions would increase in 2008 under the 80/80 formula. In 2009 and thereafter, the proposed MOU would provide for no increases in state contributions.

- Retirement.** For non-peace officer employees hired beginning in 2007, retirement benefits would be based on the highest average salary received in three consecutive years instead of the current benefit, which is based on the highest single year's salary.



Proposed MOU— Other Significant Provisions

- Mileage Reimbursement.*** The current MOU provides for employees to be reimbursed for use of their privately owned vehicles while on state business, generally at a rate of 34 cents per mile. This rate has not been increased for several years, despite significant increases in gasoline prices. The proposed MOU would instead provide reimbursement at the Federal Standard Mileage Rate (FSMR), which is set by the Internal Revenue Service and typically rises or falls annually based on changes in fuel prices. Currently, the FSMR is 44.5 cents per mile.



Proposed MOU— DPA Estimates

- 2006-07.** The *2006-07 Budget Act* includes around \$25 million for (1) pay and benefit increases required under the current MOU and (2) newly authorized CHP dispatchers, DOJ special agents, and criminalists. The DPA estimate for the proposed MOU addresses only the costs that would be required in addition to the amounts already budgeted. The DPA estimates that these costs would be \$26 million (\$9 million General Fund) for rank and file employees and \$7 million (\$3 million General Fund) for related supervisors and managers. The 3.5 percent salary increase would produce about 60 percent of these additional costs.
- 2007-08.** The DPA indicates that ongoing costs would increase \$27 million (\$9 million General Fund) for rank and file employees and \$6 million (\$2 million General Fund) for supervisors and managers. The inflation-based increase (which DPA assumes will be at the maximum 4 percent level) would produce one-half of these costs. Taking into account the one-time nature of the \$1,000 bonuses, the net budgetary increase required would be about \$31 million (\$10 million General Fund).
- 2008-09 and 2009-10.** The DPA estimates that several of the step adjustments would produce ongoing cost increases after 2007-08. Costs would go up an additional \$14 million in 2008-09 and \$3 million in 2009-10.



LAO Comments

- DPA Estimates Reasonable.*** The DPA's estimates of additional costs for the proposed agreement are reasonable. Our estimate of inflation, however, is 3 percent—which likely means that DPA's costs for the 2007-08 inflation-based pay increase are too high. If all other assumptions in the estimate hold, this lower rate of inflation would reduce costs below the DPA figure by \$4 million in 2007-08.

- Departmental Budgets and R&R Problems.*** The proposed agreement seeks to address the serious R&R issues with some Unit 7 classifications through substantial pay increases, but it may be difficult for departments to significantly reduce vacancy rates in the short term. For example, departments will continue to compete with local governments for candidates interested in or suited for these positions. In addition, despite prior legislative action to augment departmental budgets for the costs of newly authorized positions, subsequent unallocated reductions or other decisions may have caused personnel-related funding to be eliminated from the budget. In these cases, it may be difficult for some departments to reduce current vacancy levels with the amount of funds assumed in the DPA estimates. Given the severity of R&R issues in many Unit 7 classifications, vacancy rates in these areas probably will remain high in 2006-07.



LAO Comments

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☑ **Total Compensation Costs.** Figure 3 shows our estimate of total compensation costs (including benefits) for Unit 7 rank and file employees. We estimate that Unit 7 costs equaled about \$460 million in 2005-06. Under the proposed MOU, we estimate that costs would total about \$515 million (up 11 percent) in 2006-07 and \$540 million (up 5 percent) in 2007-08. About 55 percent of the increased costs over the term of the agreement result from the proposed MOU. The remainder results from additional hiring authorized by the Legislature in the budget or state health premium contributions required under the current MOU.

