

July 28, 2006

**MOU Fiscal Analysis:
Bargaining Unit 12 (Craft and Maintenance)
Bargaining Unit 13 (Stationary Engineers)**

LEGISLATIVE ANALYST'S OFFICE

Presented To:

The Legislature, Pursuant to Chapter 499,
Statutes of 2005 (SB 621, Speier)





Summary

- ☑ **Agreements With Units 12 and 13.** The proposed memoranda of understanding (MOUs) with Units 12 and 13 extend through June 30, 2008. Unit 12 consists of about 9,400 full-time equivalent (FTE) employees and Unit 13 consists of about 900 FTEs. Several locals of the International Union of Operating Engineers (IUOE) represent the two units. A single bill—yet to be identified—is expected to be the vehicle for legislative action concerning both these MOUs.

- ☑ **Major Provisions.** Significant provisions in both agreements include:
 - A 3.5 percent salary increase effective July 2006 and an inflation-based increase in July 2007.
 - A one-time bonus of \$1,000 upon ratification.
 - Additional increases for classifications including 31 percent of Unit 12 positions and 13 percent of Unit 13 positions.
 - Specified reductions in new employees' retirement and health benefits starting with hires in 2007.

- ☑ **DPA Cost Projections.** In the estimate submitted to the Legislature, the Department of Personnel Administration (DPA) projects that state costs will increase by \$48 million (\$18 million General Fund) in 2006-07 and by an additional \$30 million (\$10 million General Fund) in 2007-08 if the MOU is approved.

- ☑ **LAO Bottom Line.** We believe that DPA's estimate for 2006-07 is reasonable, but that the estimate for 2007-08 likely overstates costs by around \$7 million due primarily to a high estimate of inflation.



Bargaining Units at a Glance

- What Is Unit 12?*** Unit 12 members operate and maintain state equipment, facilities, building, grounds, and roads. Among the largest classifications in the unit are Department of Transportation (Caltrans) equipment operators and Caltrans highway maintenance workers.

- What Is Unit 13?*** Unit 13 members maintain and operate heating, cooling, water, wastewater, and other major mechanical systems at state facilities. Among the largest classifications are stationary engineers and water and sewage plant supervisors.

- Which Unions Represent Units 12 and 13?*** Locals 3, 12, 39, and 501 of IUOE jointly represent Unit 12 employees. Locals 39 and 501 represent Unit 13 employees.

- Where Do Unit Members Work?*** Of the established positions in Unit 12, 46 percent are in Caltrans, 25 percent are in the California Department of Corrections and Rehabilitation (CDCR), and 5 percent are each in the California Highway Patrol and the Department of Parks and Recreation. Of Unit 13's positions, 55 percent are in CDCR, 16 percent are in the Department of General Services, and 6 percent are each in the Department of Developmental Services and the Department of Mental Health.



Previous MOUs

- Term.** The term of Unit 12's last MOU was July 3, 2001 to July 2, 2004. Unit 13's last MOU had a term of July 1, 2002 to July 2, 2003.
- Pay Increases.** The prior MOUs provided for a general salary increase of 5 percent, effective July 1, 2003.
- Health Benefits.** The last increase in the state's contribution for employees' health, dental, and vision premiums took effect in 2003 for Unit 13 members and in 2005 for Unit 12 members. Pursuant to those agreements, the state increased its contributions to roughly 80 percent of average premium costs as of those dates.
- Retirement.** About 65 percent of Unit 12 positions and 40 percent of Unit 13 positions are in the Miscellaneous Tier I membership category of the California Public Employees' Retirement System (CalPERS), generally making them eligible for "2 percent at 55" retirement benefits. About 20 percent of Unit 12 positions and more than one-half of Unit 13 positions are in the Safety membership category of CalPERS, and generally they are eligible for "2.5 percent at 55" retirement benefits. The Safety members generally are not subject to Social Security. The remaining employees are in other retirement categories. Benefits for retired members of these units have been based on the highest pay received during a year of employment.



Proposed MOUs— Pay Increases and Bonuses

- General Salary Increases.** The agreements provide for two general salary increases for employees in Units 12 and 13:
 - 3.5 percent increase effective July 1, 2006.
 - Inflation-based increase of no less than 2 percent and no more than 4 percent effective July 1, 2007.

- One-Time Bonus.** Employees would receive a one-time \$1,000 bonus upon ratification of the MOUs. We estimate that this equals about 2 percent of the average annual salary for employees in Units 12 and 13.



Proposed MOUs— Retirement and Health Benefits

- ☑ ***Increase State Contributions for Health and Dental Premiums.*** Effective July 1, 2006, the state's contributions for health and dental premiums of the units' members would increase to 80 percent of current average premium costs. In addition, the state would increase contributions in 2007 and 2008 so that they are maintained at a dollar amount equal to 80 percent of average premiums in effect at that time.

- ☑ ***Changes in Benefits for New Employees.*** Employees hired on or after January 1, 2007, would be affected by several changes in retirement and health benefits.
 - Their retirement benefits would be based on the highest average annual pay received over any consecutive three years of state service, instead of the highest single year (the benefit level that continues in effect for previously hired employees).
 - New employees also would receive the full state health premium contribution for dependents only after two years of state employment. The state would contribute 50 percent of the full amount for dependents during a worker's first year and 75 percent during the worker's second year.



Proposed MOUs— Increases for Specific Classifications

- Additional Increases for Targeted Classifications.*** The MOUs provide additional targeted pay increases to selected employees. Positions in classifications affected by these changes comprise 31 percent of Unit 12 and 13 percent of Unit 13. According to DPA, the state has experienced difficulties with recruitment and retention of personnel in these classifications.

- Unit 12 Increases in Maximum Salaries.*** Effective January 1, 2007, the maximum salaries for certain equipment operator, telecommunications, and electronics classifications (about 90 percent of which are in Caltrans) would increase 5 percent by adding a step to the top of current pay ranges. Maximum salaries for several hydroelectric plant operator, electrician, and mechanic classifications in the Department of Water Resources would increase in this manner by 5 percent on January 1, 2007 and by an additional 2.5 percent on January 1, 2008.

- Unit 13 Pay Differentials.*** The state employs about 115 water and sewage plant operators, primarily at CDCR facilities. Prior MOUs provide for a 5 percent pay differential (paid in addition to regular pay) for personnel designated as chief plant operators. Effective January 1, 2007, the current 5 percent differential for chief operators would increase to 6 percent, and other water and sewage plant operators would become eligible for a new 4 percent differential. These workers would receive the 4 percent differential if they have a certification for Grade III or higher facilities (as measured by capacity and work complexity) and work at a facility where the department determines such an operator is needed.



Proposed MOUs— Other Significant Provisions

- Caltrans Special Duty Pay.*** In addition to the pay increases described above for specific classifications, the Unit 12 MOU would provide additional pay of \$6 per hour to Caltrans employees when they are assigned to perform duties outside their classification specifications that involve rock scaling, climbing, explosives transport, or work while suspended.

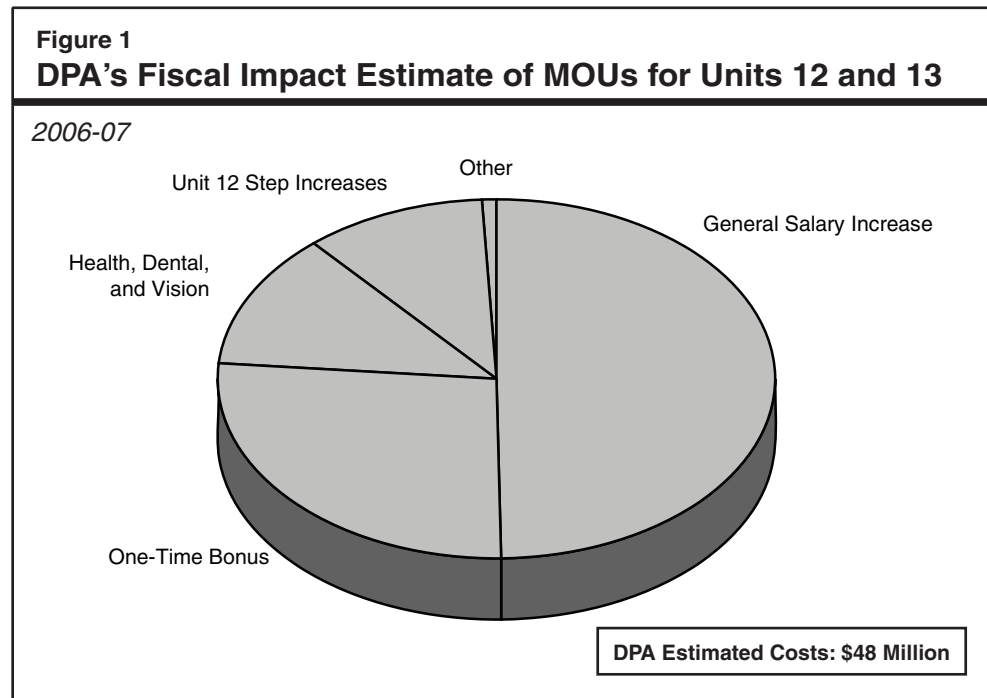
- Benefit for Survivors of Highway Maintenance Workers.*** In the Unit 12 MOU, the administration agrees to propose legislation for a new CalPERS benefit for survivors of Caltrans highway maintenance workers who die as a result of injuries sustained while working. The DPA reports that Caltrans had three work-related deaths in 2004 and one in 2005.

- Mileage Reimbursement.*** Prior MOUs provided 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 MOUs would instead provide reimbursement at the Federal Standard Mileage Rate (FSMR), which is set by the Internal Revenue Service and typically rises or falls based on changes in fuel prices. Currently, the FSMR is 44.5 cents per mile.



Proposed MOUs— DPA Cost Estimates

- ☑ **2006-07.** Figure 1 shows details of DPA’s estimate of new state costs that would result from the MOUs in 2006-07. The DPA estimates that these costs would be more than \$42.3 million (\$14 million General Fund) for Unit 12 and \$5.4 million (\$4 million General Fund) for Unit 13.
- ☑ **2007-08.** The DPA estimates that ongoing costs would increase by \$42 million (\$15 million General Fund) for the two units in 2007-08. Accounting for the one-time costs for the \$1,000 bonuses in 2006-07, the budgetary increase in 2007-08 would be less: \$27 million (\$8 million General Fund) for Unit 12 and \$3 million (\$2 million General Fund) for Unit 13.





LAO Comments

- ☑ **2007-08 Estimate Too High.** We believe that DPA's estimate for 2006-07 is reasonable, but that the estimate for 2007-08 is likely too high by around \$7 million due principally to a high estimate of inflation. While the administration's estimates assume that employees receive a 4 percent salary increase in 2007-08 (the highest level possible under the MOU), our estimates assume that there is a 3 percent increase, consistent with our forecast of inflation.

- ☑ **Costs of Filling Vacant Positions and Step Increases.** As of June 2006, about 11 percent of Unit 12 positions and 16 percent of Unit 13 positions were vacant. For purposes of calculating the additional annual costs resulting from this and other MOUs, DPA assumed that vacant positions are filled. (For example, DPA's estimated cost for the 3.5 percent increase in 2006-07 equals roughly the cost of providing this percentage increase to *all* positions, including the vacant ones.) The DPA also assumes that all employees in targeted classifications are at the top of their pay ranges and, therefore, would receive step increases. In fact, an average of 25 percent of employees in each classification are at a lower step and would not immediately benefit from step increases in the MOUs. These assumptions tend to overestimate costs—particularly for departments that are unable to fill currently vacant positions. (We have used DPA's estimates, however, because there is limited data to make more precise calculations.)

- ☑ **Retirement.** The changed retirement provisions for employees hired after January 1, 2007, will result in some savings to the state over the long term, but these will not begin to materialize until at least 2008-09. Compared to other factors, such as returns from CalPERS' investment portfolio, the changes under the proposed MOU will have only a modest fiscal effect, particularly in the shorter term.



LAO Comments

(Continued)

- ☑ **Supervisor and Manager Pay.** The DPA’s estimates for the costs of this MOU relate primarily to rank-and-file employees, but also include costs for a small portion of excluded employees. The administration determines whether to approve increased pay and benefits for supervisors and managers separately from the MOU process. We estimate that the costs to provide a 3.5 percent pay increase to all excluded personnel connected with workers in these two units could be roughly \$6 million (\$2 million General Fund) above the costs identified by DPA.

- ☑ **Total Costs Under the Proposed MOU.** We estimate that the total compensation costs (including benefits) for rank-and-file employees in Units 12 and 13 was around \$690 million in 2005-06, of which about 40 percent was paid from the General Fund. As shown in Figure 2, we estimate that 2006-07 costs would rise to about \$740 million under the proposed MOUs, for a cost increase of almost 7 percent. In 2007-08, we estimate that costs would increase to over \$760 million, or more than 3 percent above 2006-07.

