

# MOU Fiscal Analysis: Bargaining Unit 12

---

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
The California Legislature  
Pursuant to Section 19829.5 of the Government Code





## State Memorandum of Understanding (MOU) Process

---

- Ralph C. Dills Act Provides for State Employee Collective Bargaining.*** With passage of the Dills Act in 1977, the Legislature authorized collective bargaining between rank-and-file state employees organized into bargaining units and the Governor. About 180,000 full-time equivalent positions are represented by one of the state's 21 bargaining units in the collective bargaining process. In collective bargaining, bargaining units are represented by unions and the Governor is represented by the California Department of Human Resources (CalHR). The product of the collective bargaining process is an MOU that establishes the terms and conditions of employment for rank-and-file state employees.
  
- Legislature and Employees Must Ratify MOUs.*** An MOU must be ratified by the Legislature and bargaining unit members in order to take effect. In addition, under the Dills Act, the Legislature generally may choose whether to appropriate funds in each annual budget to continue the financial provisions of MOUs.
  
- Fiscal Analysis Required by State Law.*** Section 19829.5 of the Government Code—approved by the Legislature in 2005—requires the Legislative Analyst's Office (LAO) to issue a fiscal analysis of proposed MOUs.
  
- MOU for Bargaining Unit 12 Now Before Legislature.*** The Unit 12 MOU—after being extended by an MOU addendum—expired on July 1, 2013. Under the Dills Act, provisions of an expired MOU remain in effect until a new MOU is ratified by the Legislature and bargaining unit members. On August 21, 2013, CalHR submitted for legislative consideration a tentative agreement with Unit 12. The tentative agreement would expire July 1, 2015.



## Common Provisions of State MOUs Ratified in 2010-11

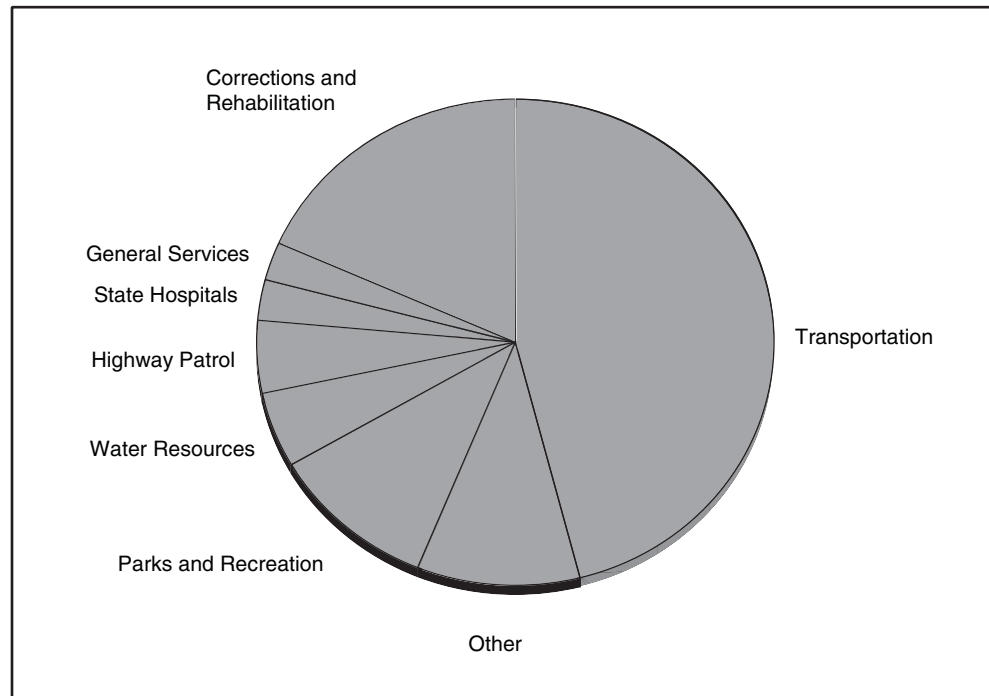
Bargaining Unit (Percent of Workforce)	Months of Personal Leave Program	Employee Pension Contribution			Professional or Personal Development Days	Top Step Increase in 2012 or 2013
		Miscellaneous and Industrial	Safety	Police Officer, Firefighter, and Patrol		
<b>MOUs That Expired July 2013</b>						
1, 3, 4, 11, 14, 15, 17, 20, and 21— SEIU Local 1000 (42.8%)	24	8%	9%	—	2	3%
2—Attorneys (1.8)	24	9	10	—	5	4
6—Correctional Peace Officers (12.3)	24	8	—	11%	2	3-4
7—Protective Services and Public Safety (3.3)	24	8	9	10	2	2-3
9—Professional Engineers (4.9)	12 <sup>a</sup>	8	9	—	2	3
10—Professional Scientific (1.2)	24	8	9	—	2	3
12—Craft and Maintenance (5.1)	24	10	11	—	2	5
13—Stationary Engineers (0.4)	12 <sup>a</sup>	10	11	—	2	5
16—Physicians, Dentists, and Podiatrists (0.7)	24	10	11	—	2	5
18—Psychiatric Technicians (2.7)	24	10	11	—	2	5
19—Health and Social Services/ Professionals (2.2)	24	10	11	—	2	5
<b>MOUs That Expire July 2017</b>						
8—Firefighters (1.7)	12	10	—	10	—	4-5
<b>MOUs That Expire July 2018</b>						
5—Highway Patrol (3.0)	12	10	—	10	—	2

<sup>a</sup> These employees also received 12 months of furlough.



**Common Elements in 2010-11 MOUs.** During fiscal year 2010-11, the Legislature ratified new MOUs for all 21 bargaining units. The figure compares similar major provisions from these MOUs. While the nine bargaining units represented by Service Employees International Union, Local 1000 (Local 1000) now work under new MOUs ratified by the Legislature in July 2013, all other state bargaining units work under the 2010-11 MOUs. With the exception of Units 5 and 8, all 2010-11 MOUs expired in July 2013. We discuss major provisions of the expired Unit 12 MOU later in this report. For additional information, refer to past MOU analyses posted on our website.

## Unit 12 at a Glance



**Craft and Maintenance Classifications.** Unit 12 consists of nearly 11,000 full time equivalent positions. These employees operate and maintain state equipment, facilities, and roads. Among the largest classifications in the unit are California Department of Transportation (Caltrans) equipment operators and highway maintenance workers. The figure shows the departments where most Unit 12 employees work. The International Union of Operating Engineers (IUOE) represents Unit 12.



## Expired Unit 12 MOU— Provisions Affecting Pay

---

- Personal Leave Program (PLP).*** In each month of PLP, employees received eight hours of unpaid leave, resulting in a 4.6 percent pay cut. The PLP is fundamentally the same policy as furloughs, except PLP is established through the collective bargaining process. The IUOE agreed to 24 months of PLP since 2010-11. June 2013 was the last scheduled month of PLP.
  
- Employee Pension Contributions.*** The expired MOU increased active and future employees' pension contribution rates by 5 percentage points. Most employees now contribute about 10 percent of their pay to cover a portion of pension expenses.
  
- Top Step Pay Increase.*** The MOU increased the level of the "top step" of employee pay ranges by 5 percent in January 2012. Most state employees are at or near the top step of their pay range.
  
- Continuous Appropriations.*** As part of the legislation ratifying the expired MOU and a subsequent addendum, the Legislature approved continuous appropriations of the economic terms of the agreement through July 1, 2013.



## Expired Unit 12 MOU— Other Fiscal Provisions

---

- Health Benefits.** Through the MOU and a subsequent addendum, the state pays a specified dollar amount towards employee health benefits that is about 80 percent of the average health premium costs. This “flat-dollar” employer contribution was last increased earlier this year to reflect rising health premium rates. Absent a new agreement, the state’s contribution for Unit 12 health care costs would not change when health premium costs increase in future years.
- Dependent Health Vesting.** Unit 12 is subject to a two-year dependent vesting schedule whereby employees must work for the state for two years before the state pays its full contribution towards dependent health premium costs.
- Professional Development Days (PDD).** Through an addendum to the expired MOU, Unit 12 employees are eligible for two days off each year that may be used at the employee’s discretion. Unused days do not carry over from one year to the next.
- Footwear Allowance.** Certain Unit 12 employees at Caltrans and the Department of Water Resources (DWR) are eligible to receive \$50 each year as an allowance for purchasing work footwear consistent with departmental policies. Employees are required to wear this footwear at all times while on duty.
- Uniform Reimbursement.** Employees at the California Department of Forestry and Fire Protection (CalFire) and Department of State Parks and Recreation (DSPR) who are required to wear a uniform receive reimbursement for the uniform’s cost up to \$450 each year.



## Proposed Unit 12 MOU— Bonus and General Salary Increase

---

- Pay Increase for All...*** The proposed MOU provides pay increases for all Unit 12 employees. Under the proposed agreement, employees could receive a one-time bonus, followed by an ongoing general salary increase. The general salary increase would be the first for Unit 12 employees since 2007-08.
  
- ...But Timing and Amount Depends on State's Fiscal Condition.*** The payment of the one-time bonus and the amount of the general salary increase would depend on whether the Department of Finance (DOF) determines in May 2014 that there are sufficient revenues “to fully fund existing statutory and constitutional obligations, existing fiscal policy and the costs of providing [...] pay increases to all eligible employees.” The agreement specifies that “determination of funding availability [...] shall be at the sole discretion of the Director of the Department of Finance.” The DOF’s 2014-15 May Revision submitted to the Legislature will reflect its conclusion. If DOF determines that there are sufficient revenues, scenario A (described below) takes effect; otherwise, scenario B takes effect.

  - ***Scenario A—Sufficient Revenues.*** On July 1, 2014, all employees would receive a one-time payment of \$1,200—approximately 2.5 percent of the average Unit 12 employee’s salary. On July 1, 2015, all employees would receive a 3 percent general salary increase.
  - ***Scenario B—Insufficient Revenues.*** On July 1, 2015, all employees would receive a 3.25 percent general salary increase.



## Proposed Unit 12 MOU—Additional Provisions Dependent on DOF Review

---



***Timing of Four Fiscal Provisions Depend on DOF Review.***

If DOF determines there are sufficient revenues pursuant to its review discussed earlier, the following Unit 12 provisions take effect July 1, 2014; otherwise, they take effect July 1, 2015.

- ***Shortened Dependent Health Vesting Period.*** The state would make the full contribution to dependent health premiums after an employee worked for one year.
- ***Increased Footwear Allowance.*** The footwear allowance given to Caltrans and DWR employees would be increased by \$32 to \$82 per year. In addition, the agreement specifies that the state shall provide footwear in instances when the state requires a Unit 12 employee to wear specialized footwear for a specific work activity (for example, tree-climbing boots).
- ***Increased Uniform Reimbursement.*** The uniform reimbursement available to CalFire and DSPR Unit 12 employees would be increased by \$20 to \$470 per year.





## Proposed Unit 12 MOU— Health Benefits

---

- Increased State Contributions for Health Premiums.*** The flat-dollar state contribution towards monthly health premiums for Unit 12 employees and their dependents would be increased to the equivalent of about 80 percent of health premium costs for the term of the contract. The state's contribution would be adjusted to reflect any premium cost increases effective January 1, 2014 and January 1, 2015.



## Proposed Unit 12 MOU— Other Fiscal Provisions

---

- Cash Out of Vacation and Annual Leave.*** Upon separation from state service, departments compensate employees for any unused vacation or annual leave based on their final salary level. This is known as “cashing out” leave balances. The agreement would give current employees the opportunity to cash out up to 20 hours of vacation or annual leave each year at their current salary level provided that the department director determines that “the department has funds available for the purpose of cashing out accumulated Vacation/Annual Leave.”
  
- Meal and Lodging Expenses.*** State employees may be reimbursed for specified costs related to travel and other business expenses. The proposed agreement would increase the maximum reimbursement rates available to employees for costs related to meals and lodging while traveling on state business. Employees would be eligible for reimbursement for:
  - Up to \$40 for meals (up from \$34) in a 24-hour period of travel.
  - Between \$90 and \$150 each night (up from between \$84 and \$140 each night) for necessary in-state lodging, depending on location.
  
- Retirement Benefits.*** Employee retirement benefits outlined in the agreement—including employee contributions to the California Public Employees’ Retirement System (CalPERS) and pension formulas—would reflect current law established by last year’s pension legislation (AB 340). Assembly Bill 340 largely affects retirement benefits for *future* state employees. Conforming the MOU to AB 340 generally does not change current or future employees’ retirement benefits from what is already established in current law.



## Administration's Fiscal Estimate of Proposed MOU—Scenario A

(In Millions)

Proposal <sup>a</sup>	2013-14		2014-15		2015-16	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
3 percent general salary increase	—	—	—	—	\$6.7	\$21.0
\$1,200 bonus	—	—	\$4.5	\$13.8	—	—
Increased contributions to health premiums	\$0.5	\$1.6	2.2	6.9	3.2	9.8
Shortened dependent health vesting	—	—	0.2	0.5	0.2	0.5
Increased travel reimbursement rates	0.1	0.2	0.1	0.2	0.1	0.2
Increased footwear allowance	—	—	0.0	0.1	0.0	0.1
Increased uniform allowance	—	—	0.0	0.0	0.0	0.0
<b>Totals</b>	<b>\$0.6</b>	<b>\$1.8</b>	<b>\$7.0</b>	<b>\$21.5</b>	<b>\$10.2</b>	<b>\$31.6</b>

<sup>a</sup> Estimates assume the Department of Finance determines there are sufficient revenues to implement various fiscal provisions in 2014-15. Does not include costs associated with current law.  
Note: 0.0 indicates an estimated cost of less than \$50,000.



**Assumption of Sufficient Revenues in 2014-15.** The administration's estimates displayed on this page assume that DOF will determine that there are sufficient revenues for various fiscal provisions (including the 2014 one-time bonus) to go into effect in 2014-15.



## Administration's Fiscal Estimate of Proposed MOU—Scenario B

(In Millions)

Proposal <sup>a</sup>	2013-14		2014-15		2015-16	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
3.25 percent general salary increase	—	—	—	—	\$7.2	\$22.8
Increased contributions to health premiums	\$0.5	\$1.6	\$2.2	\$6.9	3.2	9.8
Shortened dependent health vesting	—	—	—	—	0.2	0.5
Increased travel reimbursement rates	0.1	0.2	0.1	0.2	0.1	0.2
Increased footwear allowance	—	—	—	—	0.0	0.1
Increased uniform allowance	—	—	—	—	0.0	0.0
<b>Totals</b>	<b>\$0.6</b>	<b>\$1.8</b>	<b>\$2.3</b>	<b>\$7.1</b>	<b>\$10.7</b>	<b>\$33.4</b>

<sup>a</sup> Estimates assume the Department of Finance determines there are not sufficient revenues to implement various fiscal provisions in 2014-15. Does not include costs associated with current law.  
 Note: 0.0 indicates an estimated cost of less than \$50,000.



**Assumption of Insufficient Revenues in 2014-15.** The administration's estimates displayed on this page assume that DOF will determine that there are insufficient revenues for various fiscal provisions (including the 2014 one-time bonus) to go into effect in 2014-15.



## LAO Comments— Administration's Fiscal Estimates

---

- Estimates Reasonable.*** Our fiscal estimates generally are similar to those of the administration.
  
- In the Long Run, Higher Costs if DOF Determines the State Has Insufficient Revenues.*** Over the course of the three-year contract, scenario A would result in about \$4 million (General Fund) in higher costs relative to scenario B. Most of these costs stem from payment of the \$1,200 one-time bonus in 2014. Beginning in 2015, however, the higher general salary increase provided for under scenario B would result in higher ongoing costs for the state. Specifically, relative to scenario A, the scenario B general salary increase would result in about \$600,000 (General Fund) higher annual state costs. As a result, the 2014-15 General Fund savings under scenario B would be eroded in about seven years.
  
- Leave Cash Out Provision Increases Short-Term Costs, Reduces Long-Term Liabilities.*** The administration's fiscal estimates do not reflect the fiscal effect of Unit 12 employees cashing out up to 20 hours of vacation and annual leave each year. This provision could cost departments as much as a few million dollars in any given year. Although this provision increases the state's short-term costs, it reduces the state's long-term liabilities. At the end of 2011-12, the state's liability associated with Unit 12 employees' vacation/annual leave balance was about \$65 million. This liability grows as employees receive pay increases. Allowing employees to cash out leave before they separate from state service reduces these long-term liabilities.



## LAO Comments— DOF Role in 2014 Pay Increase

---

- DOF Given Broad Powers.** As is the case with the recently ratified Local 1000 MOUs and the Units 16, 18, and 19 tentative agreements now before the Legislature, the proposed Unit 12 agreement gives DOF the authority to determine whether various fiscal provisions go into effect in 2014-15. Specifically, DOF alone would determine:
- **Estimated 2014-15 Revenues Used in the Bonus and Pay Increase Calculation.** Typically, when the Legislature develops the state budget, it considers revenue forecasts prepared by the administration, this office, and others. These revenue forecasts invariably differ, reflecting each organization's independent assessment of the economy and other factors. Under the proposed MOU, DOF would determine which revenue projections would be used to determine whether employees receive a one-time bonus in 2014.
  - **Estimated Costs to Fully Fund State Obligations and Fiscal Policies.** The MOU requires DOF to (1) estimate the cost of all existing state statutory and constitutional obligations and fiscal policies and (2) not approve the one-time bonus if the state's costs exceed its projected state revenues. It is important to note that there is no commonly accepted comprehensive list of state financial obligations and policies—or consensus as to amounts needed to fully fund them. Thus, DOF would have broad discretion to include or exclude certain major costs—such as amounts that the state owes local governments for unpaid mandate claims or amounts needed to address the California State Teachers' Retirement System's unfunded pension obligations.



## LAO Comments—Salary Compaction

---

- Managers and Supervisors Do Not Necessarily Receive Pay Increase.*** The administration has broad authority over supervisory and managerial salaries. When rank-and-file employees negotiate pay increases, managerial employees do not automatically receive a comparable increase in pay. When rank-and-file pay increases faster than managerial pay, “salary compaction” can result.
  
- Difficult for Legislature to Determine Where Compaction Exists.*** Salary compaction can be a problem when the differential between management and rank-and-file pay is too small to create an incentive for employees to accept the additional responsibilities of being a manager. To date, there has not been a consistent or coordinated process for the administration to analyze compaction issues and inform the Legislature where such problems exist.
  
- Consider Extending Pay Increases to Managers and Supervisors.*** If the pay increases provided for in the proposed MOU are not extended to these employees’ managers and supervisors, any salary compaction that currently exists between these classifications will increase. We estimate that extending the 2014 and 2015 pay increases to managers and supervisors of rank-and-file employees represented by Unit 12 could increase state costs by several millions of dollars (General Fund) over the course of the agreement.



## Selected Features of Summer 2013 MOUs

Bargaining Unit	Expires	Maximum Compounded GSI	Some Provisions Contingent on DOF Fiscal Estimates	One-Year Dependent Health Vesting	Increased Flat-Dollar Health Contribution	Leave Cashout
<b>Units With Agreements Before Legislature</b>						
12—Craft and Maintenance	2015	3.3%	Yes	Yes	Yes	Yes
16—Physicians, Dentists, and Podiatrists	2016	4.0 <sup>a</sup>	Yes	No	N/A	No
18—Psychiatric Technicians	2016	4.3	Yes	Yes	Yes	No
19—Health and Social Services Professionals	2016	3.0 <sup>b</sup>	Yes	Yes	N/A	No
<b>Agreements Ratified by Legislature</b>						
1, 3, 4, 14, 15, 17, 20, and 21—SEIU Local 1000	2016	4.6	Yes	Yes	Yes <sup>c</sup>	No
<sup>a</sup> Listed GSI applies to most Unit 16 employees. Specified classifications eligible for up to 8.1 percent GSI. <sup>b</sup> Listed GSI applies to most Unit 19 employees. Specified classifications eligible for up to 8.2 percent GSI. <sup>c</sup> Only applies to Unit 3. State contributions for other Local 1000 bargaining units automatically increase when health premiums increase. GSI = General Salary Increase and DOF = Department of Finance.						



**Common Provisions in New MOUs.** At the time this report was published, our office had completed its analysis of tentative agreements for Units 12, 16, 18, 19, and the nine bargaining units represented by Local 1000. The figure compares certain provisions of these agreements. Tentative agreements for Units 6 and 7 are pending review from our office.