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CALIFORNIA STATE SENATE
COMMITTEE ON BUDGET AND FISCAL REVIEW
STATE CAPITOL – ROOM 5019
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Agenda

September 11, 2015

9:30 a.m. - Room 4203

BILL

A.B. 131

AUTHOR

Committee on Budget

SUBJECT

State Public Employment

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator Mark Leno, Chair

2015 - 2016 Regular

Bill No:	AB 131	Hearing Date:	September 11, 2015
Author:	Committee on Budget		
Version:	September 8, 2015	Fiscal:	Yes
Urgency:	Yes		
Consultant:	Anita Lee		

Subject: State public employment.

Summary: This bill provides legislative ratification for memoranda of understanding (MOU) agreements between the state and various state bargaining units (BU), and provides for statutory changes to the state civil service system.

Background:

Retiree Health Benefit

Currently, the state and state employees do not make contributions to prefund retiree health care costs for most state employees. The state has already established at least partial prefunding agreements with three of its labor unions, BU 5 (Highway Patrol), BU 12 (Operating Engineers—Craft and Maintenance), and BU 16 (Physicians, Dentists, and Podiatrists). For BU 5 (Highway Patrol), contributions are made by the state in lieu of salary increases. For BU 12 (Operating Engineers—Craft and Maintenance) and BU 16 (Physicians, Dentists and Podiatrists), only the employees are making contributions.

Currently, fully vested state retirees (i.e., with 20 or more years of state employment) are entitled to an employer contribution for retiree health care equal to 100 percent of the weighted average premium of the four health plans most highly utilized by all members. Dependents are eligible for a contribution based on 90 percent of the average additional premiums paid for dependents during the benefit year in which the formula is applied. This is referred to as the 100/90 formula. Currently, there is no formula based solely on the most highly utilized Medicare-coordinated health plans.

Currently, most state employees (those first hired after 1985 or 1989, depending on class) must work for 10 years to receive 50 percent of the 100/90 formula. They then add 5 percent per year of service until, after 20 years, they are vested to receive 100 percent of the 100/90 formula. Individuals hired prior to 1985 or 1989 could be subject to either 5 year or 10 year vesting for full coverage of the 100/90 formula. One bargaining unit, BU 12 (Operating Engineers—Craft and Maintenance), agreed via collective bargaining, beginning in 2011, to be subject to a 15/25 year vesting schedule.

Current law requires that Medicare-eligible retirees enroll in Medicare and choose a Medicare-coordinated health plan. These plans may be cheaper than non-Medicare (or “Basic” plans) and, as a result some portion of the employer contribution goes unused. Current law requires that any unused portion of the 100/90 formula contributions may be applied to reimburse retirees for the costs of Medicare Part B premiums. These

reimbursements are made in the form of an additional payment to the retiree on the retirement warrant up to the cost of the Part B premium. Whether or not a retiree receives the Medicare Part B reimbursement in full or in part depends upon the cost of that retiree's health plan.

State Civil Service System: Ranking of Civil Service Employees and Applicants

In general, state employment is based on a system of merit achieved through competitive examination. Applicants for promotion or employment are ranked based on exam scores and employers may promote or hire from either the top three names or ranks, as specified. An employee may receive a passing score on an exam, but not score high enough to place in the top three ranks, and therefore, may not be eligible for hire or promotion. As people in the top three ranks are hired, promoted, or otherwise fall off the hiring list, individuals who have passed the exam may move up into the top three ranks and become eligible for hire or promotion.

Career Executive Assignments (CEA)

CEAs are state employees in high-level managerial positions that serve at the top levels in a department. Their responsibility includes developing and implementing policy, and may serve in a department director's cabinet or form a department's executive staff.

In general, CEAs in state employment must be hired from among individuals with permanent civil service status. In addition, CEA applicants can include legislative employees, executive branch appointees (i.e., exempt employees), or former military, as specified. CEAs are not subject to the same job protections or hiring and disciplinary standards as apply to non-executive state civil service employees. CEAs may be terminated "at will." CEAs must be hired or promoted via a competitive process that is overseen by the State Personnel Board (SPB). Former civil service employees who become CEAs and are subsequently terminated have certain rights to return to civil service positions following termination, as specified.

Proposed Law: This bill provides legislative approval of the MOUs entered into between the state and BU 9, (Professional Engineers), on August 31, 2015 and the state and BU 10, (Professional Scientists) on September 4, 2015. The BU 9 MOU shall be effective from July 2, 2015 through June 30, 2018, and BU 10 MOU shall be effective from July 2, 2015 through July 1, 2018. Specifically, this bill enacts the following:

Retiree Health Benefit Reforms

1. Prefunding of Other Post-Employment Benefits. Applicability to all BU 9 (Professional Engineers) and BU 10 (Professional Scientists) employees, including related excluded and exempt employees.
 - a. The state and all Unit 9 members will prefund retiree healthcare with the goal of each reaching 50 percent cost-sharing of actuarially-determined total normal cost for employer and employees by July 1, 2019. The state and employees will each make the following contributions:
 - i. Effective July 1, 2017, 0.5 percent of pensionable compensation.

- ii. Effective July 1, 2018, an additional 0.5 percent for a total of 1.0 percent of pensionable compensation.
 - iii. Effective July 1, 2019, an additional 1.0 percent for a total of 2.0 percent of pensionable compensation.
 - b. The state and all Unit 10 members will prefund retiree healthcare with the goal of each reaching 50 percent cost-sharing of actuarially-determined total normal cost for employer and employees by July 1, 2019. The state and employees will each make the following contributions:
 - i. Effective July 1, 2017, 0.7 percent of pensionable compensation.
 - ii. Effective July 1, 2018, an additional 0.7 percent for a total of 1.4 percent of pensionable compensation.
 - iii. Effective July 1, 2019, an additional 1.4 percent for a total of 2.8 percent of pensionable compensation.
 - c. All employees eligible for health care benefits shall contribute in proportion to their working time-base.
 - d. Any contributions made by the employee shall not be recoverable under any circumstances by the employee or the employee's beneficiary or survivor (e.g., if the employee should retire, die, or separate from service before becoming eligible for a health care benefit).
2. Employer Contribution for Future Retirees' Health Care. 80/80 formula applicability to all new BU 9 and BU 10 employees first hired on or after January 1, 2016, including related excluded and exempt employees.
 - a. For non-Medicare-eligible retirees, the employer contribution for retiree health benefits shall be an amount equal to 80 percent of the weighted average premiums of the four health benefit plans most highly utilized by active state employees.

The employer contribution for a non-Medicare-eligible retiree's dependent shall be an amount equal to 80 percent of the weighted average of the additional premiums required for enrollment of those family members during the benefit year in which the formula is applied.
 - b. For Medicare-eligible retirees, the employer contribution for retiree health benefits shall be an amount equal to 80 percent of the weighted average premiums of the four Medicare-coordinated plans most highly utilized by Medicare eligible retirees.

The employer contribution for a Medicare -eligible retiree's dependent shall be an amount equal to 80 percent of the weighted average of the additional premiums required for enrollment of those family members during the benefit year in which the formula is applied.

The contribution for a Medicare-eligible retiree shall not exceed the formula whether or not the individual is enrolled in Medicare.

- c. A retiree shall not be able to use any portion of the employer's retiree health care contribution toward the payment of Medicare Part B premiums.
3. Post-Employment Health Benefit Vesting Schedule. All BU 9 and BU 10 employees first hired into state employment on or after January 1, 2016, will be subject to an extended vesting schedule for retiree health benefits.

Specifically, BU 9 and BU 10 retirees first hired into state employment on or after January 1, 2016 will receive 50 percent of the employer contribution upon completion of 15 years of state service, increasing 5 percent for each additional year of service, until the employee is vested for 100 percent of the employee contribution after 25 years of state service.

4. Additionally, the MOU agreements provided the following General Salary Increases (GSI) to BU 9 and BU 10:
 - a. Effective July 1, 2016, all Unit 9 represented classifications shall receive a five percent GSI.
 - b. Effective July 1, 2017, all Unit 9 represented classifications shall receive a two percent GSI.
 - c. Effective July 1, 2016 through July 1, 2018, all Unit 10 represented classifications shall annually receive a five percent GSI.

Civil Service Reform. This bill makes the following statutory changes to laws governing the civil service system for state employees. Specifically, this bill impacts two key areas of law governing 1) the competitive ranking of state civil service employees and applicants, and 2) eligibility and hiring of state employees in "Career Executive Assignments (CEA).

1. Eliminates the "Rule of Three Names," which requires hiring managers to consider only the top three individuals on promotional hiring eligibility lists whose examination scores result in them being in the top three names.
2. Eliminates the "Rule of Six Ranks," which requires all managerial hiring eligibility lists to be organized into six ranks, depending on the scores applicants receive on the classification's exam, and limits a department's hiring manager to only consider applicants whose examination scores result in them being in the top three ranks.
3. Eliminates the "Rule of One Rank," which requires departmental hiring managers to only consider individuals whose examination scores result in them being in the first rank for supervisory positions.
4. Consolidates various hiring eligibility list requirements into a single process, the "Rule of Three Ranks", which would apply to all promotional or open state jobs. This change will allow hiring managers to consider eligible persons whose examination scores result in them being in the top three ranks for rank and file and managerial lists, as specified.

This bill expands the pool of CEA candidates by making the following changes:

1. Eliminates the requirement that a former legislative or non-elected exempt employee be separated from employment for no more than 12 months prior to applying for the CEA position.
2. Expands the pool of eligible candidates that can be appointed to a CEA position to include individuals from the private sector who meet the requirements of the applicable position.
3. Provides terminated CEAs hired from outside state civil service the right to appeal to the SPB for restoration of their assignment.
4. Clarifies that terminated CEAs who were previously employed by the state and had permanent civil service status, have return rights to a (non-CEA) civil service position, with at least the same salary level as the last position they held. If the employee had a minimum of five years of state service, he or she may return to a position that has the same salary level as the last position or at least the same salary level that is at least two steps lower than the CEA position from which the employee is being terminated. These provisions are consistent with existing law.
5. Additionally, this bill states that terminated CEAs hired from outside civil service would be eligible for deferred examination for any open position at the department they were employed at and meet the minimum qualifications.
6. Eliminates rules prohibiting a CEA applicant from competing in multiple civil service promotional exams at more than one department in the same class.
7. Provides \$300,000 one-time General Fund for the Department of Finance (DOF) to post all budget requests included as a part of the Governor's Budget on DOF's website. The funds will be used to purchase high-speed industrial scanners and additional software programming.

Fiscal Effect:

BU 9 and BU 10 MOU Fiscal Impact

Fiscal Year 2015-16: \$0

Estimated Total Incremental Cost from 2016-17 through 2019-20: \$190.9 (\$14.2 million General Fund)

Estimated Budgetary Cost from 2016-17 through 2019-20: \$617.7 million (\$43 million General Fund)

Support: None received.

Opposed: None received.