

---

# SENATE COMMITTEE ON SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator Mark Leno, Chair  
2015 - 2016 Regular

---

<b>Bill No:</b>	AB 1620	<b>Hearing Date:</b>	June 13, 2016
<b>Author:</b>	Committee on Budget		
<b>Version:</b>	June 13, 2016 As amended		
<b>Urgency:</b>	No	<b>Fiscal:</b>	Yes
<b>Consultant:</b>	Anita Lee		

**Subject:** State Employment

**Summary:** Makes necessary statutory and technical changes to the labor-related provisions of the Budget Act of 2016. Additionally, provides legislative ratification for the memoranda of understanding (MOU) agreed to by the state and bargaining unit (BU) 12 represented exclusively by International Union of Operating Engineers (IUOE).

**Existing Law:**

- 1) Establishes the Ralph C. Dills Act, which requires the state to collectively bargain with the exclusive representatives of employee groups (i.e. bargaining units) regarding wages and working conditions, and to define negotiated agreements in MOUs.
- 2) Establishes the California Department of Human Resources (CalHR) as the official representative of the Governor in all matters related to collective bargaining with state employees.
- 3) Requires that any MOU between the state and an exclusive representative must be ratified by the Legislature.
- 4) Establishes the California Public Employees' Retirement System (CalPERS), which administers health and retirement benefits for state employees.
- 5) Requires the Legislative Analyst's Office (LAO) to analyze all state MOUs and to provide analyses of an MOU and its fiscal impact to the Legislature within 10 days of receipt of an MOU from CalHR.
- 6) Provides that fully vested state retirees (e.g., 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.
- 7) Requires that Medicare-eligible retirees enroll in Medicare and choose a Medicare-coordinated health plan. Since these plans may be cheaper than non-Medicare (or "Basic" plans), thus resulting in some portion of the employer contribution going

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.

- 8) Provides that most state employees (those hired after 1985 or 1989, depending on class) must work for 10 years to receive 50 percent of the 100/90 formula, with an additional 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.
- 9) Provides that retirees who were covered in certain bargaining units while actively employed will receive an employer retiree health contribution based on the 80/80 formula (i.e., 80 percent of the weighted average premium of the four health plans most highly utilized by all members).
- 10) Provides that the employer contribution for active state employee health care shall be determined through collective bargaining. In its MOU effective 2013 to 2015, BU 12 (IUOE) agreed to a flat dollar amount, as specified.

**Proposed Law:** Bargaining Unit 12 Memorandum of Understanding: the following information summarizing the general provisions of the MOU was provided by CalHR.

*Number of Employees:* The BU 12 agreement affects approximately 10,778 full-time equivalents, and includes the following agreements.

#### HEALTH BENEFITS

- 1) Employer Contribution for Active State Employees. Effective the pay period following ratification, the state's monthly health benefit contribution for each employee shall continue to be a flat dollar amount equal to 80 percent of the weighted average of the basic health benefit plan premiums of the four largest enrolled basic health plans. For each employee with enrolled family members, the employer shall continue to contribute an additional flat dollar amount equal to 80 percent of the weighted average of the additional premiums. The flat dollar amounts shall be increased as appropriate, pursuant to the formulas on January 1, 2017, January 1, 2018, and January 1, 2019.
- 2) Employer Contribution for Future Retirees. Employees first hired on or after January 1, 2017, will receive an employer contribution for retiree health benefits based on an "80/80" formula. Retirees and their dependents enrolled in a basic health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest basic health benefit plans based on state active employee enrollment. Retirees and their dependents enrolled in a Medicare health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest Medicare health benefit plans based on state retiree enrollment.

- 3) Prefunding of Other Post-Employment Benefits. The state and Bargaining Unit 12 members will prefund retiree healthcare with the goal of 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:
  - a. Effective July 1, 2017, 1.4 percent for a total of 1.9 percent of pensionable compensation.
  - b. Effective July 1, 2018, an additional 1.4 percent for a total of 3.3 percent of pensionable compensation.
  - c. Effective July 1, 2019, an additional 1.3 percent for a total of 4.06 percent of pensionable compensation.
- 4) Post-Employment Health and Dental Benefit Vesting Schedule. All employees first employed by the state on or after January 1, 2017, will be subject to an extended vesting schedule providing 50 percent of the employer contribution upon completion of 15 years of state service, increasing five percent for each additional year of service, until the employee is 100 percent vested at 25 years of state service.
- 5) Medicare Part B Supplemental Benefit. All employees first hired on or after January 1, 2017, will no longer be eligible to use the employer contribution for retiree health benefits for Medicare Part B premiums.

## COMPENSATION

- 6) General Salary Increase (GSI)
  - a. Effective July 1, 2016, Unit 12 employees shall receive a three percent GSI.
  - b. Effective July 1, 2017, all Unit 12 employees shall receive a four percent GSI.
  - c. Effective July 1, 2018, all Unit 12 employees shall receive a three percent GSI.
- 7) Special Salary Adjustments
  - a. Effective July 1, 2016 and 2017, Unit 12 employees in specified heavy equipment mechanic classifications shall receive a special salary adjustment of five percent.
  - b. Effective July 1, 2016, Unit 12 employees in specified electrician classifications shall receive a special salary adjustment of five percent.
  - c. Effective July 1, 2016, and 2017, Unit 12 employees in specified telecommunications technician classifications shall receive a special salary adjustment of five percent.
- 8) Uniform Allowance
  - a. Increases the uniform reimbursement from \$470 to \$670 for full-time employees that work for the Department of Parks and Recreation, or the Department of Forestry and Fire Protection.

- b. Provides an annual footwear allowance of \$82 for specified permanent full-time employees that work for the Department of Corrections and Rehabilitation or the California Highway Patrol.

#### MISCELLANEOUS

9) Leave Cash Out, Additional Sick Leave, Overtime Meal Allowance, Monthly Payroll Cycle

- a. Increases the amount of leave that can be cashed out annually from 20 hours to 80 hours, depending on the available department funds effective May 1, 2017.
- b. Incorporates the Wounded Warriors Transitional Leave Act to provide up to 96 hours of additional sick leave for employees hired after January 1, 2016, who are military veterans and have a service connected disability rated 30 percent.
- c. Increases the Overtime Meal Allowance from \$6.00 to \$8.00, effective approximately three months after ratification, for employees that work for Caltrans.
- d. Converts all Caltrans employees to a monthly payroll cycle and provides a one-time supplemental payment equivalent to the employee's existing semi-monthly gross salary, not to exceed \$1,200 effective approximately three months after ratification.

#### DURATION

- July 1, 2015 through July 1, 2019.

#### JUDICIAL BRANCH EMPLOYEE BENEFITS

- 10) Post-Employment Health and Dental Benefit Vesting Schedule. A judicial branch employee first employed by the state on or after January 1, 2017, will be subject to a vesting schedule providing 50 percent of the employer contribution upon completion of 15 years of state service, increasing five percent for each additional year of service, until the employee is 100 percent vested at 25 years of state service.
- 11) Employer Contribution for Future Retirees. Employees first hired on or after January 1, 2017, will receive an employer contribution for retiree health benefits based on an "80/80" formula. Retirees and their dependents enrolled in a basic health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest basic health benefit plans based on state active employee enrollment. Retirees and their dependents enrolled in a Medicare health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest Medicare health benefit plans based on state retiree enrollment.
- 12) Prefunding of Other Post-Employment Benefits. The state and state employees in the judicial branch will prefund retiree healthcare with the goal of 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:

- a. Effective July 1, 2016, 1.4 percent of pensionable compensation.
  - b. Effective July 1, 2017, up to an additional 1.5 percent for a total employee contribution of up to three percent of pensionable compensation. The additional amount shall be determined by the Director of Finance no later than April 1, 2017.
- 13) Medicare Part B Supplemental Benefit. All employees first hired on or after January 1, 2017, will no longer be eligible to use the employer contribution for retiree health benefits for Medicare Part B premiums.
- 14) Employee Pension Contribution. Increases the employee pension contribution on or after July 1, 2017, from five percent to eight percent.
- 15) Judges Salary Survey. Clarifies the statutory methodology used to calculate the annual salary adjustment for state judges and justices to include both salary increases and decreases to be considered when calculating the average state wage growth for purposes of adjusting salaries of judges and justices.

#### CIVIL SERVICE IMPROVEMENT

- 16) Exempt Employee Reinstatement. Simplify the exempt appointee reinstatement guidelines by consolidating various periods which an employee is required to make a request for reinstatement. The new guidelines require no break in state service, and submittal of a request within 10 working days after the effective date of termination, regardless of exempt appointment type. If an employee seeks reinstatement after more than 10 working days after the effective date of termination, reinstatement is at the discretion of the appointing power. Provides exempt appointees who have at least five years of state service, within four years of termination, a right to obtain civil service appointment list eligibility by taking a deferred examination for any class that has a current eligible list and for which the employee meets the minimum qualifications of the class.
- 17) Leave Credit. Specifies that an overpayment of leave credits to state employees occurs when the employee receives compensation in exchange for leave erroneously credited to the employee for the purposes of an action to recover overpayment.
- 18) Training. Specifies managers, supervisors and career executive assignment (CEAs) employees will be required to complete various leadership training and development as prescribed by the department.

**Fiscal Effect:** According to CalHR, BU 12's MOU results in the following costs:

- Fiscal Year 2016-17: \$37.9 million (\$12.4 million General Fund)
- Total Incremental Cost: \$139.5 million (\$44.3 million General Fund)

- Total Budgetary Cost: \$396.9 million (\$126.5 million General Fund)

In addition, according to CalHR roughly \$5 million General Fund a year will be absorbed within departmental resources for costs associated with leave cash out.

Judicial Branch Employee Benefits will result in \$9.9 million General Fund costs.

**-- END --**