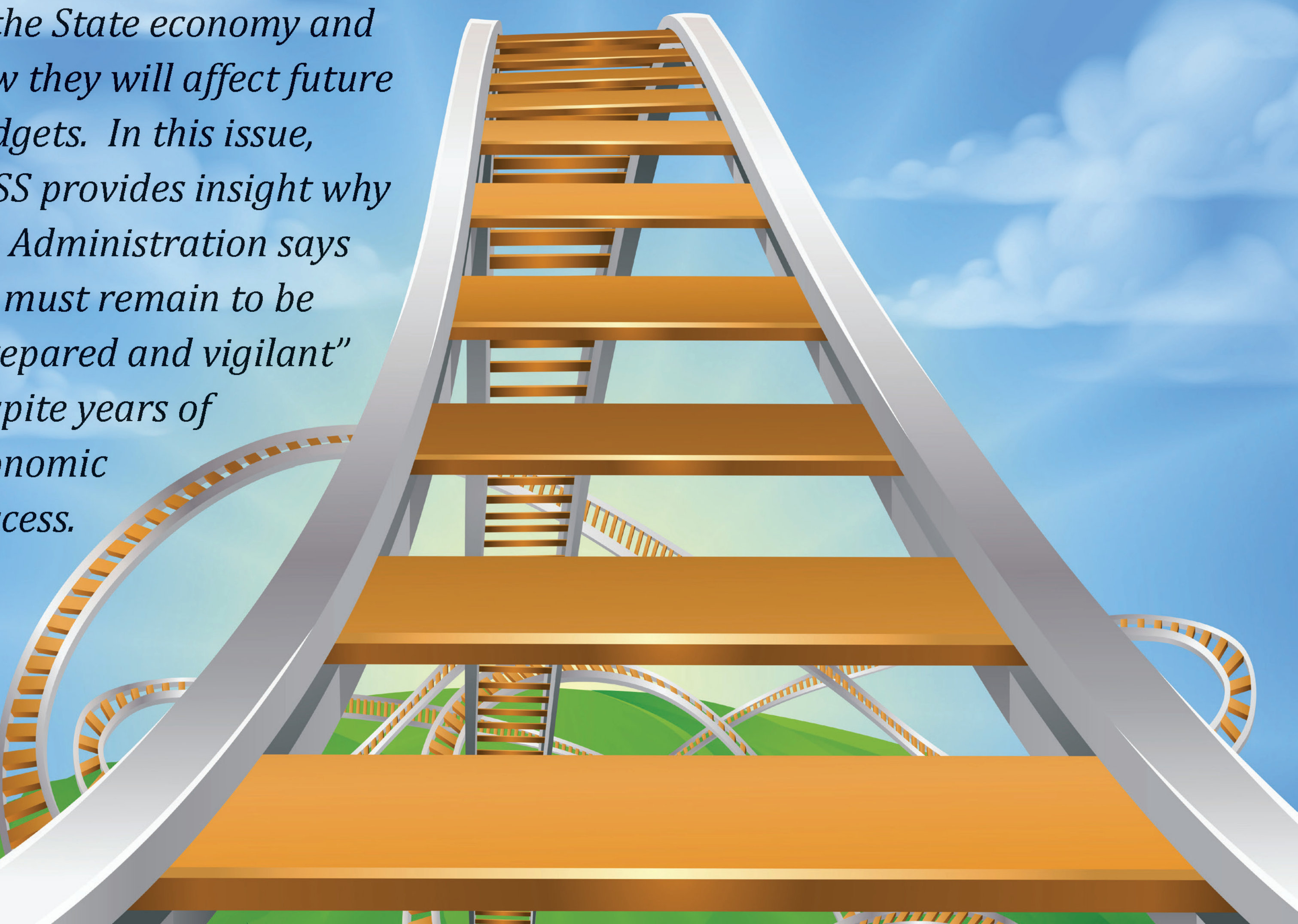
ACSS QUARTERLY

Q3 2016

State of the State

Governor Brown predicts fluctuations and downturns in the State economy and how they will affect future budgets. In this issue, ACSS provides insight why the Administration says we must remain to be "prepared and vigilant" despite years of economic success.

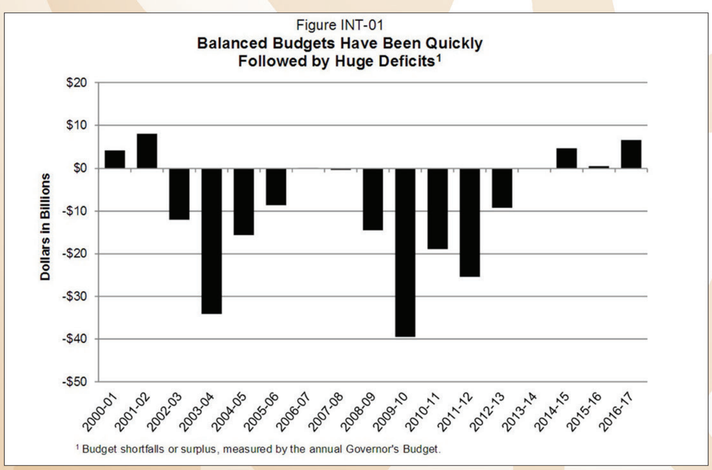


STATE OF THE STATE

Governor Jerry Brown opened the 2016 State of the State speech in January with the words, "We, who live here, love and know this land as a unique place which draws people from every part of the world because of the tolerance, the creativity, and the sheer openness. And yet, we live today in a world that is profoundly uncertain." Brown's speech, while uplifting and positive, also highlighted some of the more ominous aspects of the current state of affairs in California. Brown emphasized the continuing need to build up the Rainy Day Fund, focus on reinforcing current infrastructure projects and not introduce any new large state projects as ways that California can be "prepared and vigilant" when the next recession hits.

THE BUDGET – A BALANCING ACT (THE BAD NEWS)

According to some economists and the Brown Administration, another recession is imminent. During the unveiling of the May Revise, Brown presented data that showed how a recession ultimately follows years of balanced budgets. The 2015-16 fiscal year marks California's fourth steady year in the black - a fact that should instill both pride and some anxiety, based on historical trends. Brown's Budget data depicted the undulating cycle of budget shortfalls and surplus. He stated, "Right now, the surging tide of revenue is beginning to turn, as it always does." Brown's statements make it clear that it is the Administration's position that we are at the top of the proverbial roller coaster, and in the years ahead, we can expect the fluctuations and downturns that inevitably come with the cycles of the state's budget and economy.



Source: www.ebudget.ca.gov

The May Revise details how the passage of Proposition 2 in 2014 mandates placing 10 percent of tax revenues into the Rainy Day Fund. In both the State of the State address and the May Revise of the Budget, Brown again stressed the need to build up a savings to prepare for a future recession and the budgetary "unknowns". According to Brown, "fully funding the Rainy Day Fund by the time the next recession begins should be the primary fiscal goal of the state."

DEBTS, LIABILITIES, AND MORAL OBLIGATIONS

According to the Administration, California has a current liability of $72 billion in pension and retirement health benefits owed to state workers. The Administration is focused on paying down these debts and liabilities before accruing any new economic commitments. Even though the state chips away at this liability each year by contributing a small annual amount, the daunting task of actually adequately funding these massive debts in the next 10 or 20 years is nearly impossible at the current rate. The Administration's strategy for managing this liability moving forward includes:

- A proposed cost-sharing between employer and employee to pre-fund the retirement healthcare benefits
- Extending the length of service to qualify for benefits
- Reducing the employer subsidy for retiree health benefits

The Administration recognizes that pension and retirement benefits for all state employees are rightfully promised benefits and the state is morally obligated to pay these benefits in exchange for years of dedicated service by employees of the State. According to Michael Cohen, Director of the California Department of Finance, pre-funding retiree healthcare benefits could eliminate the unfunded liability in 30 years. It is Brown's position that state workers will have to contribute some amount of money out of their paychecks to pre-fund their earned retiree health benefits in the future.

MONUMENTAL ACHIEVEMENTS (THE GOOD NEWS)

Brown also listed many achievements accomplished by the Administration during his term. A few of the major achievements are:

- The $27 billion deficit has been eliminated and we are now experiencing a surplus
- Unemployment rate cut in half, down to 6%
- Minimum wage increased to $15 per hour by 2022

Managers and supervisors are asking whether the $15 per hour minimum wage increase will spur action on resolving salary compaction issues for excluded employees. For the first time even rank-and-file unions are growing concern about compaction in state service. Terrence McHale, Legislative Advocate and Union Spokesman for CalFire, says, "You can't have the people at the bottom making more than the people directing [them]." The minimum wage raise exacerbates compaction issues. Now, it is even more important for the State to tackle salary compaction issues before the situation worsens.

As a result of eliminating the $27 billion deficit and realizing a surplus, the May Revise set aside an additional $362 million in employee compensation and health care costs above the figure originally proposed in the January budget. That increase addressed recently negotiated raises and benefits for Peace Officers and Scientists (bargaining units 6 and 10). The state recognizes that the rest of the bargaining units may also receive compensation increases, and the May Revise sets aside an additional $500 million "to offset potential employee compensation and benefit cost increases subject to good-faith bargaining under the Ralph. C. Dills Act." Ultimately, salary raises for state employees are in the budget, but at this time we are not sure which bargaining units will receive the raises, how much those raises will be, or what will be extended to supervisors and managers. What is certain is that the task of resolving salary compaction continues.

BI-PARTISAN CRITICISM

Even though the State Budget was swiftly approved and passed on June 15, 2016, there was some criticism from both republicans and democrats.

Republicans are critical of Brown's Budget for emphasizing the need to continue temporary taxes from 2012 and for introducing a new tax to pay for transportation and healthcare. In order for this new tax to pass in November, Brown needs a super-majority vote in both houses of the legislature. He says that both Democrats and Republicans should simply "bite the bullet" and agree to the new revenues. However, Republican Assembly GOP Leader Chad Mayes of Yucca Valley argues that the premise is "fundamentally flawed" and new taxes are not a prerequisite.

Similarly, some democratic legislators aren't in complete agreement with Brown's excessively frugal approach. Social welfare advocates think California should spend more money on helping those who are not benefitting from the economy such as retired seniors, disabled citizens, low-income families, and first-time homebuyers. Los Angeles Democrat Sen. Holly Mitchell (SD 30) says "We are so far away from where we were five years ago when there was so little money that they were simply trying to levy cuts that did the least amount of harm. Now that there is money on the table, it gives us an opportunity to build upon – we have got to invest in people." Regardless of these well founded positions, Brown defends his frugal approach by saying "while the benefits of these programs [social services] are enormous, so, too, are the costs — both now and into the future."

THE ANT AND THE GRASSHOPPER

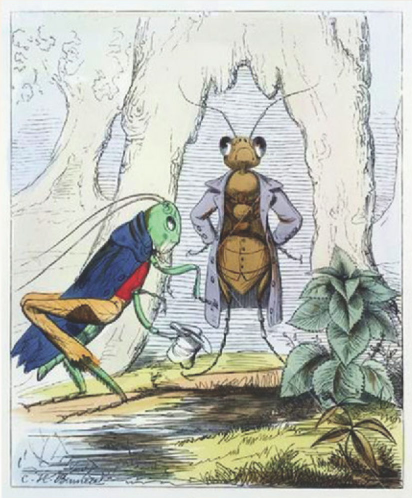


Illustration by Charles Henry Bennett, 1857. Commons.Wikimedia.org.

Brown compared the State of the State moving forward to Aesop's famous fable about the ant and the grasshopper. By preaching prudence, Brown wants California to be the ant who gathers and saves for winter and discourages grasshopper-like behaviors of spending too much now, only to suffer a shortage later down the road. "Like everything else, things don't last forever," Brown told reporters at the Capitol in response to the slowing economy.

So, what is the bottom line for ACSS Members? We are working closely with CalHR and the Administration to ensure that your pension and benefits are protected, you are fairly compensated, and your career is stable. ACSS aims to keep you informed about the details of the State Budget that matter to you. Brown closes his State of the State address by saying, "Finding the right path forward is formidable. But find it we will, as we have in the past and we will again – with courage and confidence."

If you are not a member of ACSS, visit <u>www.ACSS.org</u> and join today!

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Q3
2016

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GET INVOLVED!

Come to your local ACSS Chapter's next meeting:

507 - Aug. 16 (Moss Landing)

512 - Aug. 18
(TBD - Ventura, Santa Barbara, SLO area)

514 - Aug. 18 (Ontario)

513 - Aug. 19
(TBD - San Diego, Orange Co. area)

508 - Aug 25 (Stockton)

511 - Aug 25 (Monterey Park)

505 - Sept. 1 (San Francisco)

504 - Sept 6
(TBD - Solano, Napa & northern coast area)

502/503 - Sept. 28 (Sacramento)

For more info, visit www.ACSS.org/Events

Contact ACSS Headquarters:
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