FREQUENTLY ASKED QUESTIONS

Question #1: Does the State have a budget deficit?

The Governor estimates the deficit to be approximately $54 billion, and the Legislative Analyst's estimate is between $18 and $31 billion.

Question #2: Are we going to receive a 10% pay cut AND be furloughed?

The Governor has announced his intention to impose a 10% pay cut on all state employees. That will likely be achieved through a pay reduction accomplished by two unpaid furlough days per month. As we learned during the Schwarzenegger era of furloughs, each one day per month furlough carries with it a pay reduction of 4.62%. So if there are furloughs (whether they are agreed to or are unilaterally imposed by the Governor in absence of agreement), CASE anticipates that each furlough day per month would correspond to a 4.62% pay cut in exchange for the extra "day off." It is our understanding that the two unpaid furlough days would fulfill the required 10% pay cut. In other words, it is NOT contemplated that there be both furloughs and a pay cut.

Question #3: When would these pay cuts take effect?

The most recent conversations with the administration indicate that their desire is that these pay cuts take effect starting in the July 2020 pay period, meaning that the pay cuts would appear on the pay warrant issued at the end of July.

Question #4: How long would the pay cuts last?

Unfortunately, that is unclear. Generally speaking, the State operates on a year-to-year budget cycle, so it is conceivable that any pay cuts – including furloughs – would be limited, at least initially, to one year. However, it is also important to note that the LAO and other analyses have indicated that it could take several years to dig out of the COVID-19 recession. Thus, even if the initial period of pay cuts is for only 12 months, it is possible that the pay cuts could be extended, either by agreement or by unilateral action by the Governor with the approval of the Legislature.

Question #5: Would management be subject to these pay cuts?

Probably. During the Schwarzenegger era of furloughs, both management and rank and file were subject to the same salary reductions. In some cases, first line management was even worse off because they were not allowed to take their furlough days. While the current administration could theoretically exempt management from the pay cuts, that seems unlikely given that the Governor has publicly stated that the 10% pay cuts would apply to everyone across the board, including himself and his own staff.

Question #6: Are layoffs possible instead of furloughs?

Yes, layoffs are a possible means of achieving the Governor's goal of a 10% savings in employee compensation. However, the Governor has positioned it so that, in the absence of an agreement, he would unilaterally impose furloughs through legislative action rather than layoffs to achieve the pay cuts. In other words, if the Governor is to be taken at his word, any layoffs would be the result of unions negotiating for layoffs in lieu of furloughs.

Question #7: Would pay cuts impact promotions? If yes, why is the state still hiring?

It is unclear whether the proposed pay cuts would impact promotions. During the Schwarzenegger era of furloughs, CASE is aware of examples where members were promoted notwithstanding the furloughs. However, there is the practical reality that all departments will likely be facing budgetary hardship such that monies that might otherwise be allocated for promotions might be earmarked for other priorities. This will likely vary by department, but we are unaware of an executive ban on promotions per se. In regard to hiring, departments with vacant positions are looking to fill as many vacancies as possible before a possible hiring freeze is imposed.

Question #8: Would pay cuts affect pensions? If so, how?

Generally speaking, prior furloughs did not directly impact pensions, but there are some possible indirect effects depending on which CalPERS plan you are enrolled in. Pensions are determined using a formula that takes an age multiplier, multiplied by years of service, multiplied by final compensation, to derive a percentage of your compensation that will be your pension amount. Furloughs could impact your years of service due to the fact that in each given pay period, you would be working less than a full month (perhaps reduced by 2 days per month.) In the Schwarzenegger era, the Governor's furlough executive order specified that it was his intent that furloughs not impact pensions. Accordingly, to effectuate that intent CalPERS modified their payroll reporting system to reflect that reduction in pay WITHOUT causing a corresponding loss in service credit. It is unclear whether this administration would take the same approach, but presumably they would not be more anti-employee than the Schwarzenegger administration. Furloughs could also impact final compensation, depending on the retirement plan you are in. Generally speaking, CalPERS uses your HIGHEST annual compensation, as opposed to your FINAL compensation, so while furloughs would undeniably be a reduction in your current compensation, they would not affect your HIGHEST compensation, which could be the 12 months prior to furloughs. However, some members (especially those hired after 1/1/13) are subject to a 3-year average compensation for pension calculation rather than a 1-year average. For these members, if the 2020-21 budget year is used as one of the 3 highest years, then a furlough/pay reduction could impact pension calculations. For anyone considering retiring in the next year or so, CASE strongly recommends requesting an individual retirement calculation consultation with CalPERS.

Question #9: Would pay cuts affect merit salary adjustments (MSAs)?

Probably not. During the Schwarzenegger era of furloughs, Unit 2 members still received their MSAs on their anniversary dates. This is due in part to the fact that departments are budgeted at an average dollar amount for each position which is not necessarily reflective of where in the promotional ladder the incumbents for each class actually are. In any given year, a department's personnel cost may come in a little above, or a little below, the actual budgeted cost, but the belief is that over the long term, it is a wash. CASE has not seen anything in the Governor's budget proposals that would prohibit MSAs from being awarded as they have been in the past.

Question #10: Is the State going to discontinue the $260 monthly healthcare stipend?

Unclear. The stipend is currently set to expire after the June 2020 pay period. Whether it continues will depend on subsequent negotiations between CASE and CalHR.

Question #11: Would pay cuts affect healthcare contributions?

Not directly. The CoBen amounts that the State provides to employees would likely stay the same. However, each January, health care premiums for all plans are adjusted, and they always increase. This year, it is expected they will increase significantly. During normal contract negotiations, the State typically agrees to pay for 80% of the increase, while employees pay the other 20%, which helps mitigate the impact of the premium increases. While furloughs don't impact the CoBen amount, the absence of an agreement on healthcare contributions would mean Unit 2 members could see substantial increases in their premiums next January, and would have to cover those increases out of their own pocket, resulting in a net loss of take home pay.

Question #12: Would pay cuts affect student loan forgiveness programs?

That is unclear. Many forgiveness programs require that members are working "full-time" in order to qualify. CASE is working to verify the precise requirements of these programs, and, if furloughs are imposed, will advocate for legislative declarations that members are deemed to be working full time regardless of furloughs. Our message has to be carefully tailored to say that in the event that furloughs are forced upon us, our members should not be doubly disadvantaged by forfeiting their eligibility for loan forgiveness programs on top of suffering a pay cut.

Question #13: Would pay cuts affect seniority accruals?

Generally, no. The furloughs envisioned by the Governor contemplate an across-the-board 10% pay cut, such that everyone would have their worktime and pay reduced equally. As such, everyone would continue to earn the same level of seniority credit viz-a-viz their colleagues as they would without furloughs. It is theoretically conceivable that a bargaining unit could negotiate for some variance in this uniform application, but it is difficult to see how that would be advantageous for CASE members.

<u>Question #14</u>: Would pay cuts affect parking/transit subsidies?

At this time, we do not have enough information to answer this question definitively.

<u>Question #15</u>: Can some departments be exempted from this pay cut as State Fund attorneys and DAGs were in 2008 when the AG refused to implement cuts?

The Administration has indicated a strong desire that everyone "share the pain" so it is unlikely that many departments will be exempted. Under the Schwarzenegger era of furloughs, certain public safety employees were exempt, but so far this Administration has not indicated whether there will be any exemptions at all. It is worth noting that under the Schwarzenegger administration, all of the constitutional officers (including the Attorney General) besides the Governor were Democrats, and that helped inform their decision to defy the Republican Governor's furlough order. Today, all the constitutional officers are of the same party, making such defiance much less likely. Even worse, the Schwarzenegger lawyers sued the constitutional officers and while that case took a while to wind its way through the courts, the appellate court ultimately held that the constitutional officers had no legal basis to defy the furlough order. See *Brown v. Chiang*, 198 Cal. App. 4th 1203, 132 Cal. Rptr. 3d 48 (2011). Given that legal precedent, it would seem unlikely that the constitutional officers would try to defy the orders again. Of course, we also recognize that State Fund is specifically exempted from furloughs by statute and some special fund sources actually contribute to the tax revenue of the State and including them in a pay cut would actually reduce revenue to the State.

<u>Question #16</u>: Will the state eliminate the use of retired annuitants (RAs) and pro tems?

The Administration has not indicated any intentions to do so. Note that while CASE generally opposes the use of retired annuitants and prefers instead that the State hire full-time employees, there is a budgetary reality that makes RAs appealing to the State. The State does not have to pay the employer CalPERS contribution (since they are already retired) or their healthcare contributions (they are covered under retiree health benefits) so, hour for hour, they are much less expensive in the short term. Even worse, if we successfully oppose the use of RAs, but there is not enough money to hire permanent employees, our members will be stuck with increased workloads. CASE is still reviewing this issue, and may take different approaches for our members in different departments, depending on the individual circumstances.

<u>Question #17</u>: Can the 10% pay cut be achieved by eliminating vacancies? No additional hiring?

CASE is investigating this. Note that in addition to the 10% pay cut associated with the furloughs, the Governor has also proposed 5% in programmatic savings from each department. These savings will likely be achieved, at least in part, by eliminating vacant positions. Thus, we likely will not be able to “double-count” those savings in an effort to mitigate the furlough cuts.

<u>Question #18</u>: If there are furloughs, can we make those days bankable like leave time instead of having to take them right now?

Many CASE members have expressed their opinion that if furloughs must happen, they would prefer flexibility. CASE is working to get a clear understanding of what exactly the Governor intends to do with his particular brand of furloughs, and once we do, we will share that information with all members.