



CDSS

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ARNOLD SCHWARZENEGGER
GOVERNOR

October 11, 2010

TO: ALL CDSS STAFF

FROM: JOHN A. WAGNER
Director

SUBJECT: **FISCAL YEAR (FY) 2010-11 BUDGET**

Governor Schwarzenegger signed the FY 2010-11 Budget on October 8, 2010. Nearly 100 days after the beginning of the fiscal year, the budget for 2010-11 addresses an estimated budget gap of \$19.3 billion with a combination of spending cuts, increased federal funds and other fund shifts and changes. Notably, some major program changes proposed by the Administration including the elimination of CalWORKS, Transitional Housing Program Plus, and an 87 percent reduction to IHSS were not included in the final budget.

Below is a brief recap of major items of interest, as reflected in the budget:

Furloughs

As we reported last week, the state Supreme Court ruled that the Governor's furlough program was valid so long as the Legislature also acted to approve it by reflecting the savings. Under the terms of the budget, the 3-day-per month furlough program will stop at the end of October. This means that the last two "furlough Fridays" are October 15 and October 22. There are no changes to prior furlough days, due to the court decision.

Other Employee Compensation

The budget also reflects new labor agreements with employee unions. Some of these agreements have not yet been ratified nor enacted by law, but the budget assumes that they will be. Based upon the budget, the Department of Personnel Administration also has announced an Excluded Employee Package which applies these same employee compensation provisions to managerial, supervisory, and confidential employees (see attached Executive Order S-15-10). Because the budget has just passed and many of the agreements have not yet been ratified, we expect further guidance and information to become available in the future, which potentially could be different from the details below. Updates on these items will be provided, as necessary.

While the details of these nearly-final labor agreements vary a bit for each bargaining unit, their major components are similar. You will recall that our prior budget updates referred to the Administration's proposed employee compensation changes as the "5-5-5-5": reduced employee salaries by five percent, a further five percent employee salary reduction in exchange for one day off per month, increased employee contributions to retirement by five percent of salary, and reduced budgeted personnel costs by five percent.

A general salary reduction is not included in the final budget. Instead, the final budget reflects a five percent (really, approximately 4.62 percent) salary reduction in exchange for one day off per month. This will be known as a Personal Leave Program (PLP), which will begin on November 1 and expire 12 months later. This monthly PLP day will be treated as another day of employee leave time, similar to vacation or sick leave, but PLP days cannot be cashed out. During the 12-month PLP period, the agreements do not allow any furloughs to be implemented.

The budget also eliminates Columbus Day and Lincoln's Birthday as paid state holidays, consistent with a law passed by the Legislature in early 2009. The SEIU bargaining agreement includes two "professional development days" which the Department of Personnel Administration indicates may be used for activities such as professional association activities, or professional or personal development seminars, to promote professional or personal growth and to enhance professional or personal goals. These activities are at each employee's expense and therefore the choice of activity is at each employee's discretion. This time shall be requested and approved in the same manner as vacation, sick and annual leave, and cannot be accumulated from one year to the next if unused.

Of particular note given past concerns with the potential for being paid at the federal minimum wage level when the budget is late, the labor agreements and the budget provide for the continuous appropriation of employee salaries. What this means is that whenever the state budget is late in the future, the state will still have the spending authority to issue full paychecks for employee salaries.

The budget also increases employee contributions to the retirement system by another three to five percent of each employee's salary, depending upon the bargaining unit. The budget further reflects a five percent reduction to each department's budgeted overall personnel costs, which we continue to believe CDSS will be able to absorb without requiring layoffs as a result of our continuing management of hiring in anticipation of this reduction.

Lastly, in July 1, 2013 the top step of many salary ranges will be increased by three percent. This only affects employees when they are at or reach the top step of their current salary ranges.

Pension Benefits

While pension benefits for current employees cannot be changed, new employees hired will have a new retirement formula. At the present time, it is unclear whether “new employees” are defined as people starting on November 1 or November 10, 2010, or January 1, 2011. For the “Miscellaneous” category of employees, which covers the vast majority of CDSS job classifications, the formula will change from 2 percent at age 55, to 2 percent at age 60. Additionally, final compensation for retirement purposes for these new employees will be based upon the highest 36 consecutive months of salary, rather than the highest 12 consecutive months of salary used for current employees.

Other Items

The Governor’s Directive remains in place at this time. This [Directive](#) froze hiring, promotions, interdepartmental transfers, and overtime subject to an exception request [process](#), and also barred personal services contracts, among other things. If and when the Directive is lifted, we will let you know.

Otherwise, the enactment of the budget means that usual state business can begin again. For example, travel claims will begin to be paid, office supplies can be purchased, and non-personal services contracts can once again be executed.

Major Program Budget Adjustments

Due to the severity of the budget crisis, there are many large changes in all areas of the budget. Below is a list of the major budget actions affecting CDSS, and near the bottom of this update is a link to the Department of Finance website if you want more information on other areas of the budget.

- The CalWORKs Stage Three Child Care program was eliminated by a veto, effective November 1, 2010.
- \$366 million in General Fund was vetoed from the CalWORKs program, in anticipation that the federal government will agree to an early advance of that same amount of federal funding that otherwise would have been received in the 2011-12 state fiscal year.
- The CalWORKs budget also assumes the continuation of federal TANF ECF through the end of the fiscal year, something that Congress has not yet approved at the federal level.
- The IHSS program was reduced by \$300 million General Fund, comprised of: (1) a \$190 million tax on the providers of IHSS services to draw down additional federal funds and offset GF expenditures in the program; (2) \$35 million from a 3.6 percent across-the-board reduction to the authorized hours for IHSS recipients; and (3) \$75 million resulting from lower caseload projections based upon more recent data.

- A decrease of \$80 million GF to maintain the level of funding in the Child Welfare Services program that was included in the FY 2009-10 Budget.
- A one-time decrease of \$70 million GF from eliminating state funding for approximately 1,900 Seriously Emotionally Disturbed children.
- The Statewide Fingerprint Imaging System will continue to be used for the CalWORKs, Food Stamp, and IHSS recipient fingerprinting programs.
- The budget continues last year's \$10 million General Fund allocation to assist the counties in fraud prevention, detection, referral, investigation and other program integrity efforts in the IHSS program.
- Legislation passed with the budget increases protections for IHSS recipients, by excluding providers with criminal convictions in the prior ten years for rape and many other sex crimes, murder, burglary and theft, kidnapping, assault, intimidation, and criminal threats, among others.
- The reimbursement rate ceilings for license-exempt child care providers was reduced from 90 percent to 80 percent of the licensed Family Child Care Home rate ceilings, for all child care programs, including CalWORKs Stages 1 and 2, and for just Stage 3 through November 2010.

We will continue to keep you informed of new developments and what they mean for our Department and our employees. If you are interested in additional information regarding other areas of the state budget, there is a link to this information on the Department of Finance's Internet home page: www.dof.ca.gov.

Please feel free to direct questions to the [Budget Impact email address](#). We know that these continue to be trying times for ourselves and the beneficiaries and recipients of our services, and we remain committed to sharing what we know, when we know it.

Attachment



EXECUTIVE ORDER S-15-10

10/07/2010

WHEREAS in 1999, the Legislature and prior administration enacted SB 400 to retroactively and prospectively boost pension benefits for all state employees who retired on or after January 1, 2000; and

WHEREAS the current state employee pension formulas have helped create the State's increasing unfunded post-employment liabilities; and

WHEREAS over the last 10 years, pension costs for state employees have increased by more than 2,000 percent; and

WHEREAS in December 2006, Governor Schwarzenegger established the bipartisan Public Employee Post-Employment Benefits Commission (Commission) to develop strategies and make recommendations for addressing post-employment liabilities, including pension and retiree health care; and

WHEREAS to help address the current and continuing budget crisis, it is necessary to reduce the state's obligation to pay for the escalating costs related to public employee pensions and other forms of employee compensation.

NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER, Governor of the State of California, in accordance with the authority vested in me by the Constitution and statutes of the State of California, do hereby issue the following orders to become effective immediately:

IT IS HEREBY ORDERED that effective November 1, 2010, the Department of Personnel Administration shall adopt a comprehensive plan to reduce employee compensation for (1) non-represented state employees, including supervisors and managers; (2) non-statutory exempt state employees; and (3) statutory exempt employees.

IT IS FURTHER ORDERED that the employee compensation plan for non-represented, non-statutory exempt, and statutory exempt employees shall include the following reforms:

For all non-represented and non-statutory exempt employees except those affiliated with Bargaining Units 5 and 8:

- a. As soon as administratively possible, increase employees' monthly pension contribution by 3% of monthly pay.
- b. Employees will be subject to a 12-month Personal Leave Program (PLP) where salaries will be reduced equal to one day of pay per month. Under this program, employees will receive eight hours of personal leave each month. This leave will have no cash-out value and will not adversely affect any health or retirement benefits.
- c. During the 12-month PLP period, no furloughs will be imposed.
- d. The furlough program in effect since August 2010 will remain in effect through October 2010.
- e. Effective July 1, 2013, a new top step will be added to the pay ranges for these classifications that is 3% higher than the current top step. Only employees who reach the top of the pay range will be affected by this change.

- f. Provide two days of professional development leave per fiscal year.
- g. Support legislation to provide a continuous appropriation of employee compensation through July 1, 2013.

For non-represented and non-statutory exempt employees except those affiliated with Bargaining Units 5 and 8 hired on or after November 1, 2010:

- a. Return to pre-SB 400 retirement formulas for Miscellaneous and Industrial (to 2 percent at age 60), State Safety (to 2 percent at age 55), and Peace Officer (to 2.5 percent at age 55) retirement categories.
- b. Change the pension benefit formula for employees in the firefighter and peace officer retirement categories from 3 percent at age 50 to 2.5 percent at age 55.
- c. Employees hired while the Personal Leave Program (PLP) is in effect will be subject to this program for its duration, reducing their salaries equal to one day of pay per month. Employees affected by this program will receive eight hours of personal leave each month. This leave will have no cash-out value and will not adversely affect any health or retirement benefits.
- d. During the PLP period, no furloughs will be imposed.
- e. Provide two days of professional development leave per fiscal year.
- f. Effective July 1, 2013, a new top step will be added to the pay ranges for these classifications that is 3% higher than the current top step. Only employees who reach the top of the pay range will be affected by this change.
- g. Support legislation to provide a continuous appropriation of employee compensation through July 1, 2013.

For statutory exempt employees:

- a. As soon as administratively possible, increase all employees' monthly pension contribution by 3% of monthly pay.
- b. For employees appointed on or after November 1, 2010, the retirement formulas shall be 2 percent at age 60 for Miscellaneous and Industrial, 2 percent at age 55 for State Safety, 2.5 percent at age 55 for Peace Officer, and 2.5 percent at age 55 for the firefighter and patrol retirement categories.
- c. The Director of the Department of Personnel Administration shall reduce the salary of statutory exempt employees by the equivalent of one day of pay per month during the period that the Personal Leave Program (PLP) is in effect.

This Order is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.



I FURTHER DIRECT that as soon as hereafter possible, this Order shall be filed with the Office of the Secretary of State and that widespread publicity and notice be given to this Order.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State

of California to be affixed this 7th day of October 2010.

ARNOLD SCHWARZENEGGER
Governor of California

ATTEST:

DEBRA BOWEN
Secretary of State