Senate Budget and Fiscal Review—John Laird, Chair

SUBCOMMITTEE NO. 5 Agenda

Senator Laura Richardson, Chair
Senator María Elena Durazo
Senator Kelly Seyarto

Wednesday, August 12, 2026
9:30 a.m.
State Capitol – Room 2100

Consultants: Hans Hemann

ITEMS FOR DISCUSSION

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

Issue 1: Special Salary Adjustments – Bargaining Unit 10 – California Association of Professional Scientists (CAPS-UAW) – Informational Item Only

Issue: Item 9800 of the 2026-27 Budget Act did not include funding for Bargaining Unit 10's (BU 10) special salary adjustments (SSAs) agreed to as part of a 2024 memorandum of understanding (MOU) between the Union and the Administration and scheduled for July 1, 2026. Under the terms of the contract, BU 10 employees at the top step of the salary were scheduled to receive a 4 or 5 percent increase depending on classification and all other employees were scheduled to receive a 3 percent raise effective July 1, 2026.

Recent Budget Actions:

Bargaining Unit 10. According to the Department of Human Resources (CalHR), there are approximately 5,000 full-time equivalent employees in BU 10 represented by the California Association of Professional Scientists, United Automobile, Aerospace and Agricultural Implement Workers of America, Local 1115 (CAPS-UAW). The members of CAPS-UAW include rank-and-file scientists, supervisors, and managers who work in more than 50 departments across California's state government. They perform a wide array of tasks that protect the health and safety of Californians including air, water, and soil testing, engineering new earthquake warning systems, scoping out the state's future energy needs, conducting climate change related research and more.

On August 2, 2024, after four years of working without a contract, BU 10 and the Administration reached an agreement on a new three-year agreement that expires on July 1, 2027. The Legislature approved and the Governor signed AB 181 (Committee on Budget), Chapter 1001, Statutes of 2024 ratifying the new MOU.

The 2024 MOU contained a number of changes in compensation and benefits, including:

- *Special Salary Adjustments (SSAs) for Employees at the Top Step of the Specified Classifications.* The 2024 contract included increases to the top steps of various BU 10 classifications by between (1) 6 percent and 12 percent in 2024-25, (2) 4 percent and 5 percent in 2025-26, and (3) 4 percent and 5 percent in 2026-27.
- *SSAs for Employees Not at the Top Step.* The agreement also increased all other steps for specified BU 10 classifications by 3 percent on three instances: July 1 of 2024, 2025, and 2026.

2025-26 Budget Deficit. Facing a significant budget deficit in fiscal year 2025-26, the Administration proposed cuts to state employee compensation and signed MOUs or side letters with the 21 state employee bargaining units, resulting in savings totaling approximately $720 million ($351 million General Fund). According to the Legislative Analyst's Office, the general overarching structure of the agreements resulted in (1) employee take-home pay remaining flat for two years (by providing General Salary Increases or special salary adjustments in exchange for additional leave credits through the Personal Leave Program 2025 [PLP 2025]), (2) the state employer and employee suspending contributions to prefund retiree health benefits (also referred to as Other Post-Employment Benefits, or OPEB) for at least two years, and (3) state employee take-home pay increasing in future budget years relative to 2024-25 pay levels at the conclusion of PLP 2025.

As part of the reductions to state employee compensation, CAPS-UAW signed a side letter or addendum to its three-year contract that had been signed and ratified just nine months earlier. The side letter included a reduction in pay equal to the July 1, 2025 raise and a PLP 2025 program that runs from October 2025 through June 2027. As a result, CAPS-UAW members did not see an increase in take-home pay on July 1, 2025. The side letter also included a postponement of OPEB for both employees and the state, as well as cancellation of the telework stipend. The Legislature ratified that side letter in SB 161 (Committee on Budget and Fiscal Review), Chapter 114, Statutes of 2025. The changes to the contract saved the state approximately $6.7 million ($1.8 million General Fund) in fiscal year 2025-26.

Importantly, the side letter maintained the provisions that provided BU 10 with SSAs effective July 1, 2026.

Also and notably, the side letter included a reopener clause that stated:

"The Parties agree to reopen depending on 2026 Budget Act, consistent with the Dills Act and the Budget Act of 2026.

- If the Legislature does not approve or fully fund any provision of the memorandum of understanding which requires the expenditure of funds for the 2026-27 fiscal year, either party may reopen negotiations on all or part of the memorandum of understanding. The parties shall meet and confer in good faith on or before July 1, 2026."

The reopener language in the BU 10 side letter was specific to the enactment of the 2026 Budget Act. Similar language, consistent with the Dills Act, but not specific to a budget act, is typically included in every piece of legislation ratifying MOUs or side letters. The Administration has cited the reopener language in the 2025 side letter as the authority to forego the SSAs scheduled for July 1, 2026.

Enacted Budget. The 2026-27 Budget Act approved in June included a lump sum appropriation of $307.2 million ($138.1 million General Fund) in Item 9800 for collectively bargained pay increases and health care costs for active state employees for fiscal year 2026-27. Included in these costs are collectively bargained salaries and benefit increases that were the result of contract negotiations and funding for increases in health care premiums and enrollment for the 2027 calendar year. The lump sum appropriation included a General Salary Increases (GSI) for Bargaining Unit 5 (California Association of Highway Patrolmen) that is offset by the PLP 2025, a number of pay differentials and a few SSAs that had been ratified through previously negotiated MOUs and side letters.

As noted above, Item 9800 did not include funding for BU 10s SSAs that were scheduled for July 1, 2026 that were part of the 2024 MOU. Under the terms of the contract, BU 10 employees at the top step of the salary were scheduled to receive a 4 or 5 percent increase depending on classification and all other employees were scheduled to receive a 3 percent raise effective July 1, 2026. It is estimated that the increase associated with the SSAs would cost $28.7 million ($8.6 million General Fund) in 2026-27. Neither the Governor's January Budget, the May Revision nor the final budget included an appropriation necessary to fund BU 10's SSAs. The omission of the funding was never presented to the Legislature in terms of a change to the MOU and the Administration did not inform the Legislature or the Union that the funding for the BU 10 SSAs was not appropriated until after the final enactment of the 2026-27 Budget Act.

Background

Legislature's Role in Collective Bargaining. Under the Ralph C. Dills Act, CalHR is the official representative of the Governor in all matters related to collective bargaining with state employees. The state is required 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. MOUs are submitted to the Legislature for ratification and the increase in cost associated with wages and benefits are funded through Item 9800 before the costs are distributed to the appropriate department budgets in the following fiscal year. Since the Legislature is not the employer, its role in collective bargaining is limited to ratification of MOUs and approving the appropriations necessary to pay for the cost of the increase in employee compensation and benefits.

Challenging Labor Relations Between BU 10 and the Administration. According to the LAO's analysis of the 2024 BU 10 contract agreement, CAPS-UAW and the state have had an ongoing disagreement as to how much state scientists should be paid. The disagreement primarily stems from union-raised pay equity concerns between two sets of employees: (1) between Bargaining Unit 9 (Professional Engineers) and BU 10 rank-and-file workers and (2) between BU 10 rank-and-file workers and their supervisors. The disagreement resulted in CAPS union membership rejecting a 2014 tentative agreement negotiated with the Brown Administration after the Legislature had already ratified the agreement as part of the 2014-15 budget. Prior to the ratification of the 2024 MOU, the state and BU 10 ratified three MOUs: a one-year MOU that was established through mediation and expired July 2015, a three-year MOU that expired July 2018, and a two-year MOU that expired July 2020. Though the parties were able to agree to side letter agreements over the period, the parties repeatedly failed to ratify a successor MOU before 2024. As a result, BU 10 members worked under the terms of the expired agreement for four years.

Understanding Item 9800 – Augmentation for Employee Compensation. Every fiscal year, in order to fund additional costs for state employee compensation and benefits that are expected during the budget year, funds needed to augment departments' budgets are appropriated in a lump sum in Item 9800 of the budget act. Item 9800 addresses increased costs for most state government employees, excluding university, legislative, and some judicial employees. These additional costs result from:

- Pay and benefit schedules established under MOUs with state employee unions that are approved and fully funded by the Legislature.
- Pay and benefit schedules for employees (such as managers and supervisors) who are not represented by a union.
- Legislative actions to increase compensation for specific groups of employees independent of the MOU negotiation process with the employee unions.

As mentioned above, the Governor's January Budget proposed and the enacted Budget Act of 2026-27 included $307.2 million ($138.1 million General Fund) in Item 9800 for collectively bargained pay increases and health care costs for active state employees. It did not include an appropriation necessary to fund the BU 10 SSAs schedule for July 1, 2026.

Staff Recommendation: Informational Item Only

Public Comment.