# SELECTED ISSUES:
# THE 1998-99 BUDGET PROPOSAL FOR:
# WORKING CALIFORNIANS

The Governor's budget for 1998-99 touches on a number of issues of importance to working people throughout the state, such as the employee compensation and elimination of overtime pay.

***State Employee Compensation:*** In the closing days of the 1997-98 Legislative session, the Governor and the Legislature agreed to provide state employees with a pay raise ranging between three and six percent subject to negotiation between the Department of Personnel Administration and the state's 21 collective bargaining units.

The Governor's 1998-99 budget proposes $278.9 million for a general salary increase for state employees, an amount just short of a three percent increase. The Governor's proposal needed another $21 million to fully fund a three percent increase because a one percent pay raise for state employees equals approximately $100 million.

While most state employees have not had a general salary increase since January 1, 1995, California's consumer price index is estimated to have increased by an average of 6.1 percent in the last three years. The California Correctional Peace Officers are the only bargaining unit that has agreed to a new Memorandum of Understanding (MOU), which does not contain any general salary increase and is scheduled to terminate on June 30, 1998.

To date, negotiations have stalled due to the Governor's demand to replace a merit salary adjustment, delete two holidays, extend probationary periods to two years, and increase dental vesting to 20 years.

## DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations (DIR) has the responsibility to protect and improve the working conditions of workers in California. The Governor's budget proposes total expenditures of $228 million for the 1998-99 budget year, a four percent increase over the estimated current year expenditures. Similar to last year's budget, the Governor's budget proposes several policy areas that will impact a large number of working Californians.

### MAJOR PROPOSALS

Some of the major budget proposals for the Department of Industrial Relations include:

- $1.2 million from the General Fund to continue funding for the Joint Enforcement Strike Force;
- $1.7 million from the General Fund to continue funding of the Targeted Industries Partnership Program (TIPP);
- $643,000 from the General Fund to expand TIPP into the restaurant industry; and
- Eliminating funding for the Industrial Welfare Commission.

***Joint Enforcement Strike Force:*** The Joint Enforcement Strike Force program is a multi-agency effort that includes the Employment Development Department, the Department of Industrial Relations, the Department of Consumer Affairs, the Office of Criminal Justice Planning, the Department of Justice, the Franchise Tax Board, and the Board of Equalization. Its primary objective is to deter illegal activities of employers in the underground economy.

It focuses on inspection of employers which have a significant potential for having both tax code and labor law violations, such as restaurants and bars, and the construction and trucking industries. In 1996, the program resulted in 1,056 citations, 19,231 violations, $3.5 million in wages recovered and paid to workers, and $7 million in penalty assessments.

According to the Employment Development Department (EDD), because of the burgeoning economy, the collection of Unemployment Insurance (UI) has decreased in the last couple of years. This has led to a decline in EDD's Benefit Audit fund used to operate the Joint Enforcement Strike force program. As a result, to continue the program, the Governor's budget now proposes to fund the program from the general fund at $1.2 million. This proposal equals the same level of funding the program has had in past budget years.

***Targeted Industries Partnership Program (TIPP):*** The Targeted industries Partnership program is a joint effort between the Employment Development Department and the Department of Industrial Relations to crack down on labor and tax law violations in the garment and agricultural industries. Typically, the TIPP program tries to prevent situations like those uncovered in the El Monte (LA County) garment raid of 1995 where a number of Thai citizens were working under extremely poor, even oppressive conditions, and were received less than the minimum wage.
Currently, the TIPP program has nine offices in California including Los Angeles, Fresno, San Diego, Bakersfield, San Francisco, Santa Ana, Sacramento, El Centro, and Salinas. In 1996, the program resulted in 3,000 inspections, 1,500 civil citations,

50 criminal citations, $3.5 million in wages recovered and paid to workers, $1.2 million in penalties collected, and $4 million in penalty assessments.

In addition, the Governor' s budget proposes another $640,000 from the General Fund to expand TIPP into the restaurant industry by adding 10 field investigators. Each will cover issues such as minimum wage, lack of worker's compensation coverage, child labor violations, cash pay violations, and health and safety problems within the restaurant industry.

***Industrial Welfare Commission (IWC) and Overtime Pay:*** The Industrial Welfare Commission is administratively charged with establishing minimum wages, overtime wages, and standards for working conditions that cover 15 industries and occupation groups. Its primary purpose is to foster, promote, and develop the welfare of wage earners in California.

Since 1996, rather than sponsor legislation, the Governor has attempted to repeal the overtime standards through the budget process. The Legislature has consistently rejected any budgetary proposal that eliminated the fair wage entitled to Californians after working eight hours a day. However, on April 11, 1997 the IWC, under the direction of the Governor, succeeded in overturning the state's 79 year-old daily overtime law. The California Labor Federation responded immediately in April of 1997 by filing a lawsuit, *California Labor Federation AFL-CIO, et al. v. Industrial Welfare Commission*. Because the San Francisco Superior Court ruled with the IWC, the case is now being appealed in California's First Appellate District Court.

While eliminating the IWC will result in a $500,000 savings, it to the eliminated the division in charge of setting overtime rates in California, and further confirms that working Californians will no longer receive compensation for working more than eight hours in one day. In addition, while this could allow for flexible working schedules, employers could easily impose a twelve-hour working day without providing extra compensation for the worker. In broader terms, this means that eight million working Californians could take a pay cut of approximately $833 million without overtime wages.

***Prevailing Wage Update:*** In the last two budget cycles, the Governor has proposed $1.3 million to change the current calculation of the prevailing wage from the "Modal" to the "Modified Weighted Average" method. The "Modal" method determines prevailing wage based on the most frequently occurring wage rate in a geographic area (i.e. a county). In contrast, the "Modified Weighted Average" method is based on a certain average for work of a similar character rather than the most frequently occurring wage rate.
Despite being denied funding to implement changes in the prevailing wage by the Legislature, DIR proceeded to conduct wage surveys of Electricians, Plumbers, Sheet Metal Workers, Roofers, and Glaziers in October of 1996. This resulted in a lawsuit, *Local Union No. 595, International Brotherhood of Electrical Workers, et. al v. Lloyd W. Aubry.* The unions cited Section 1332.15 of the Government Code which states that

“no appropriation may be compiled or used in any manner to avoid budgeting the salary or operating expenses of any position or to achieve any purpose which has been denied by any formal action of the Legislature.” Despite this, in February of 1997, the San Francisco County’s Superior Court ruled in favor of DIR, allowing the department to move forward with the new wage surveys.

By March 14, 1997, however, the 1st District Court of Appeals vacated the Superior Court ruling and issued a new order to prohibit DIR from spending funds to implement the “Modified Weighted Average” methodology. To date, although the Governor’s budget does not include funding to eliminate prevailing wage, DIR is appealing the decision of the Court of Appeals to the California Supreme Court.

***Minimum Wage Update:*** In August of 1996, the President and Congress approved legislation that increased the minimum wage from $4.25 to $4.75 effective October 1, 1996, and again to $5.15 effective September 1, 1997. Three months later, Californians voted for a statewide initiative, Proposition 210, which further increased California’s minimum wage from $4.25 to $5.00 effective March 1, 1997, and subsequently to $5.75 effective March 1, 1998.

To implement the minimum wage increase brought about by the new federal law and Proposition 210, the current year 1997-98 budget included about $100 million. To cover the March 1, 1998 increase in the minimum wage ($5.75), the Governor’s budget includes approximately $63 million throughout several departments.

According to the Legislative Analyst's Office, approximately two million of California’s nearly 13 million workers will benefit from the increase in the minimum wage. This figure includes teenagers, part-time workers, and workers in the retail or manufacturing industries. Within state government, these are young adults who work for the California Conservation Corps, seasonal firefighters who work for the Department of Forestry and Fire, support staff who assist aged individuals and persons with disabilities (In-Home Supportive Services), care-takers in Medi-Cal’s long-term nursing facilities, child care providers administered by the Department of Social Services, janitors who work for various state agencies, and students working for the University of California and California State University who will all receive a pay increase.