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March 21, 2024

The 2024-25 Budget

State Employee Compensation

Summary

The Governor's 2024-25 budget proposal includes three proposed budgetary changes for state employee compensation. Specifically, the Governor proposes to (1) use vacancy rates to identify one-time unallocated spending reductions across state departments through a budget exercise, (2) eliminate the telework stipend established under current labor agreements, and (3) defer June 2025 payroll by one day to reduce state payroll costs in 2024-25 by one month's payroll.

Savings From Vacancies Not Likely to Materialize in Full in 2024-25. We think there is merit in an exercise led by the Department of Finance (DOF) to identify inefficiencies in the state budget; however, we do not think that the proposed reduction will achieve the level of savings assumed in the budget for 2024-25. Instead, we think that such an exercise should be used to identify specific ongoing and one-time reductions to be included in the Governor's 2025-26 budget proposal in January 2025. If the Legislature wishes to include an across-the-board reduction in the budget for 2024-25, we think an up to 1.5 percent across-the-board reduction in General Fund state operating costs would be more likely to achieve savings than the proposal. We recognize that such an action would have shortfalls (for example, the Legislature would

play no direct role in determining how reductions are applied); however, we think it would be simpler and have a greater likelihood of achieving a larger share of the assumed savings in 2024-25 while the administration identifies specific reductions to propose for the 2025-26 budget.

Eliminating Telework Stipend Now Seems Disproportionately Difficult for Modest Savings. The assumed General Fund savings under the proposal is modest—\$26 million in 2024-25. For reference, the state budget assumes that its existing labor agreements with state employees will increase state costs in 2024-25 by \$1.3 billion (\$676 million General Fund). The state established new labor agreements with most state workers in 2023. None of these labor agreements included changes to the state’s existing telework stipend. Eliminating the telework stipend either through collective bargaining or through unilateral action likely would result in difficult labor relations and an erosion to any savings.

Recommend Legislature Approve Payroll Deferral. We recognize that deferring the June 2025 payroll by one month in the state’s accounting reports can be administratively complex and is not preferred budget practice. Given the magnitude of the state’s budget problem, however, we think that the benefits of deferring the June 2025 payroll outweigh the shortcomings of the accounting maneuver.

Introduction

In this analysis, we provide the Legislature our key questions and recommendations related to the administration’s proposed budgetary changes for state employee compensation. (For our analysis of issues related to pension payments under Proposition 2 [2014], see our report *The 2024-25 Budget: Proposition 2 Debt Payment Proposals* <<https://lao.ca.gov/Publications/Report/4887>> .) Specifically, this analysis looks at the Governor’s 2024-25 budget proposals to (1) use vacancy rates to identify one-time unallocated spending reductions across state departments, (2) eliminate the telework stipend established under current labor agreements, and (3) defer June 2025

payroll by one day to reduce state payroll costs in 2024-25 by one month's payroll. The analysis is structured to discuss each of these proposals in turn.

Unallocated Reduction to Departments' Personal Services Budget

Background

Legislature Approves Position Authority for Departments to Accomplish Specific Tasks. State employee jobs are organized into thousands of state civil service classifications that establish the minimum qualifications, duties, and compensation for the jobs. When the administration submits budget proposals to the Legislature, the requested funding levels often are built on assumptions about the number of new state employees that need to be hired into specified job classifications in order to accomplish a particular new workload. The Legislature then determines whether it agrees with the administration that (1) the proposed new workload is consistent with Legislative priorities and (2) the requested mix of state employees is appropriate to accomplish the new workload.

Positions Typically Funded at Mid-Step of Salary Ranges. Each state job classification includes a salary range within which a department may pay an employee who is hired in that job classification. The salaries for job classifications are a range with a bottom step being the lowest possible salary for the classification and a top step being the highest possible salary for the classification. The state budget most often establishes funding levels for new position authority on the assumption that the position will be filled by an employee at the mid-step of the job classification's salary range. This budgeting approach is intended to reflect the anticipated average employee salary. Through a combination of career advancement and turnover, the employee filling a particular position might be at the bottom step, the top step, or anywhere in between.

Salary and Benefit Funding Associated With Approved Positions Constitute Significant Portion of State Operations Costs. State

operations budgets for departments are identified as expenditures towards “personal services” and “operating expenses and equipment.” The costs to pay for state employee salaries and benefits are reflected in the personal services portion of the budget. The costs to pay for computers, office spaces, utilities, and other non-personnel operating expenses are identified in the operating expenses and equipment portion of the operations budget. Personal services constitute a large portion of the state budget. Specifically, we estimate that the Governor’s budget assumes that salaries and salary-driven benefits for the roughly 250,000 full-time-equivalent state employees will be roughly \$40 billion (roughly \$20 billion General Fund) in 2024-25 when state operations is assumed to total about \$83 billion (\$47 billion General Fund).

Historically, Position Authority Seen as Primary Tool to Align Workforce With Program Needs. With state employee compensation constituting a significant portion of state operations costs, legislative oversight of the state workforce is fundamental to effective oversight of the state’s overall budget. The purpose of position authority is to impose limits on the number of people the state can hire as a way to ensure that employee compensation costs align with authorized workloads. Accordingly, the Legislature’s role of approving position authority historically has been seen as a key tool in legislative oversight of the state budget by aiming to establish an efficient state workforce level.

Consistent Large Numbers of Vacant Position. Departments reasonably have some level of vacant positions as there is always turnover in a workforce and it takes time to fill vacant positions. When a position is vacant or filled by an employee at a pay level lower than the department’s budget assumes, the department captures “salary savings.” Salary savings means that the appropriation for salaries is higher than needed, thus freeing up funds to be used elsewhere in a department’s budget—for example, to pay for over time, salary costs above the mid-step, or rising rent. For at least the past 20 years, the statewide vacancy rate consistently has been above 10 percent. In recent years, the vacancy rate has

increased significantly to, at times, more than 20 percent. As of February 2024, the vacancy rate currently is about 20 percent with 47,920 vacant full-time-equivalent positions of the 243,829 established positions. (As we discuss below, the size of the workforce and the number of vacant positions fluctuates throughout the year.)

Many Reasons for Positions to Be Vacant. As we discuss below, there are a variety of reasons as to why a department might have vacant positions.

- ***Rising Costs.*** For decades, the state has not provided systematic, regular adjustments to state department budgets to reflect rising costs of doing business including rising rent, fuel, leave cash outs, or overtime costs. Departments have had to find ways to pay for these rising costs. Intentionally holding positions vacant in order to generate salary savings is one common strategy used by departments to pay for rising costs of doing business.
- ***Turnover.*** There is always turnover in a workforce as employees promote, separate, or otherwise vacate positions. Vacancies due to turnover typically are positions that departments intend to fill.
- ***Timing.*** Vacancy rates fluctuate throughout a year. Accordingly, a department's vacancy rate might be higher or lower depending on when they report their vacancy rate. For example, if a department receives a large number of new positions in a new fiscal year, the department will report a high vacancy rate in July and for the several months that it can take to fill the positions. Similarly, a department with a seasonal workforce might report higher vacancy rates as it ramps up (or ramps down) seasonal staffing levels.
- ***Noncompetitive Compensation.*** In some cases, a department might want to fill a vacant position and have the funding to pay for the compensation established by the classification but is unable to fill the position because the compensation that the department is able to offer is not competitive enough in the labor

market to attract qualified candidates. Compensation is established at the state level through administrative policy, law, and collective bargaining. Individual departments have very limited ability to affect the compensation they provide employees directly. This issue is particularly common among high-demand jobs (for example, nursing staff) or in high-cost-of-living regions of the state.

- ***Challenging Working Conditions.*** The nature or location of a state job might make it difficult to fill. For example, a prison in a very rural part of the state might have challenges filling medical staff positions.

Past Efforts to Control Position Vacancies Held Department Funding Harmless. There have been a number of efforts over the decades to either reduce the number of vacant positions in state government or to at least provide greater transparency into how departments use position authority. These efforts have ranged from programmatic reviews targeting specific departments to broad statewide policies that affect all state departments. We highlight the efforts undertaken in the past decade below.

- ***State Law to Eliminate Chronically Vacant Positions.*** The Government Code used to include language requiring the State Controller's Office (SCO) to abolish certain authorized positions that were vacant for six consecutive months. Under this process, a department's expenditure authority was not affected by any position authority being abolished. As we indicated in 2008 <https://www.lao.ca.gov/analysis_2008/general_govt/gen_anl08002.aspx> and 2015 <<https://lao.ca.gov/Recommendations/Details/853>> and the State Auditor indicated in 2002 <<https://www.bsa.ca.gov/reports/summary/2001-110>> , this law was ineffective as most chronically vacant positions were never eliminated and departments found ways to preserve their position authority. The law was repealed as part of the 2015-16 budget package.

- ***Biennial Review of Vacant Positions.*** At the same time that the SCO process discussed above was eliminated, the 2015-16 budget incorporated a new “budget position transparency” administrative process under Control Section 4.11 that directed DOF to conduct a biennial review of departmental budgets to determine—over the preceding three years—departments’ average (1) number of filled positions and (2) amount of money spent on personnel versus other operating expenses. In our [2017](#) [analysis of this process](https://lao.ca.gov/Publications/Report/3633), we concluded that the budget position transparency process lacked transparency. The Legislature amended Control Section 4.11 to end this review beginning in 2021-22.
- ***Annual Reporting of Vacancy Rates.*** Beginning in 2021-22, Control Section 4.11 requires DOF to submit to the Legislature each year (1) the percentage of vacant positions for each department by month, (2) the total authorized positions for each department, and (3) the average percentage of vacant positions throughout the year for each department. The purpose of this report is to promote greater transparency in how departments use position authority. DOF uses SCO data to produce the [report](#) [that is posted each year on DOF’s website along with other budget references](https://ebudget.ca.gov/reference/2024-PositionVacancyReport.pdf).

Number of Filled Positions Has Grown Significantly in Recent Years... The state workforce has grown significantly over the past several years. Specifically, using data reported in the state budget, the number of state employees grew by more than 11 percent from 226,000 state employees in 2011-12 to more than 251,000 state employees in 2022-23. For reference, using data maintained by the U.S. Census, the per capita number of state employees (excluding K-14 and higher education employees) in California in 2022 was just below the U.S. average with 7 state employees per 1,000 population in California compared with 7.3 state employees per 1,000 population nationally.

...But Number of Vacant Positions Has Grown Faster. With the expansion and growth of state programs, the number of authorized positions in state government has grown significantly in recent years. A number of these new authorized positions were filled—resulting in the growth in the number of state employees discussed above—but the number of vacant positions has grown faster than the number of authorized positions. Comparing payroll data from December 2015 with data from December 2023, the number of established positions grew 11.5 percent while the number of vacant positions grew 52 percent. As a result, the vacancy rate in December 2015 was 13 percent and the vacancy rate in December 2023 was 21 percent.

Governor’s Proposal

One-Year Unallocated Reduction of \$1.5 Billion (\$762.5 Million General Fund) Across Departmental Operations. The Governor’s proposed budget assumes that state operations are reduced by \$1.5 billion (\$762.5 million General Fund) in 2024-25. This reduction is identified in the budget summary document as a “state vacant position funding sweep.” The proposed reduction is established in the budget bill under Control Section 4.12. The control section does not identify a dollar amount for the reduction. Instead, the budget bill language indicates that “each item of appropriation” in the budget except the university systems, the Legislature, and the Judicial Branch “shall be adjusted, as appropriate, to achieve savings associated with vacant positions.” The language specifies that the Director of Finance shall determine the adjustments made to each item and that DOF “shall make the final determination of the budgetary and accounting transactions to ensure proper implementation of this section.” The reduction would be unallocated and would only be in effect for one year with funding levels restored beginning in 2025-26. Because the reduction is unallocated, the assumed savings are reflected in the statewide budget Item 9901—an item that contains budget adjustments that are not attributed to specific departments or programs.

Assumed Magnitude of Budget Reductions Calculated Using Vacancy Rates. The reduction assumed by the administration was

derived by assuming savings from estimated salary and benefit costs associated with one-half of all vacant positions in departments with (1) more than 100 authorized positions and (2) a vacancy rate above 10 percent. This amount was reduced further by (1) excluding the California Department of Corrections and Rehabilitation (CDCR) and California Department of Forestry and Fire Protection (CalFire) from the calculation out of consideration of safety mandates (for example, positions that must be filled at all times) that likely would limit these departments' abilities to reduce personal services costs and (2) assuming that there would be erosion to the maximum possible savings of 15 percent.

Actual Amount of Budget Reductions to Be Determined Through Undefined Administrative Budget Exercise in 2024-25. Under the proposal, DOF would submit instructions to departments at some point after July 1, 2024 to serve as the framework for a budget exercise that would identify reductions in departmental budgets. The specifics of the budget exercise are not known at this time. The administration indicates that the instructions are currently being developed. While specifics are not known, the administration indicates that it intends to work with every department to identify possible reductions and also possible exemptions to the reductions.

LAO Comments

Few Details as to Criteria That Would Be Used to Identify Reductions. There is very little information available as to how reductions ultimately would be determined and the extent to which vacancy rates would be used to target reductions. Further, though they were excluded from the methodology to estimate the assumed savings in the budget, it is not clear that CDCR and CalFire necessarily would be exempt from the exercise to actually identify cuts as Control Section 4.12 establishes no such exemption and the administration indicated that it anticipates that it would include all departments in the initial exercise. It seems that the administration intends to work with each department on a case-by-case basis to identify reductions and to determine whether departments should be exempt from making reductions. This case-by-case approach very

likely would result in differing levels of savings across departments. As a result, some departments would receive disproportionately larger reductions than others. Without details as to how the reductions would be determined, the criteria that would be used to give one program or department priority over another is not known. While the administration frames this proposal as a sweep of funding associated with vacant positions, we encourage the Legislature to, instead, view the proposal as an undefined and unallocated reduction to departmental operations.

Administration Assigns No Role to Legislature in Determining How to Allocate Reductions. Under the administration’s proposal, the Legislature would have no role in determining how to allocate reductions. Instead, the reductions would be made through an internal administrative process. As a result, the choices would reflect the administration’s priorities. The process as proposed gives no deference to legislative authority or priorities.

Savings Likely Will Not Materialize at Levels Assumed. Unallocated cuts can be difficult to achieve in full. This especially is true when the reductions are determined through a collaborative process that allows for departments to be exempt from any reductions or receive a lower level of reduction. Moreover, the proposed unallocated reduction is large. The General Fund portion is roughly 4 percent of the 2023-24 General Fund salary and salary-driven benefit costs—the [Personal Leave Program](https://lao.ca.gov/Publications/Report/4267) [<https://lao.ca.gov/Publications/Report/4267>](https://lao.ca.gov/Publications/Report/4267) that state employees agreed to in 2020-21 reduced the state’s salary and salary-driven benefit costs by 4.62 percent. Given the administration would not begin to identify reductions until after the start of the fiscal year in which reductions are assumed to occur, achieving the full amount of savings seems even more unlikely.

Data on Which Proposal Is Premised Has at Least One Glitch. The vacancy data used by the administration to estimate the savings assumed in the budget are maintained by SCO. While these data are the best available for statewide vacancies and position authority, we

did identify one significant glitch in the data when we spot checked them. Specifically, the data suggest that the Secretary of State (SOS) has a vacancy rate of 49 percent. In fact, however, in 2022-23, the average monthly vacancy rate for SOS was 27 percent. The SCO and SOS reported that the 49 percent vacancy rate was not correct and that it was the result of internal processing issues at SCO. The SCO stated that this example is the only instance of the problem; however, we cannot independently confirm that the rest of the data are accurate. While vacancy rates may not ultimately drive the level of savings, errors in the data (1) undermine the methodology that underpins the assumed level of savings and (2) could misguide the administration as it seeks to target departments for reductions.

Administration Seeks to Minimize Disruption to State Services and Operations. From our conversations with the administration, we understand that the administration wants to implement reductions under the proposal in such a way as to minimize disruptions to state services and operations. In essence, the administration is seeking to identify inefficiencies in the state budget. That said, under the proposal, any reductions made would only be in effect for 2024-25 and would be reinstated in future years. Under any circumstance, but especially given the severity of the state's budget problem, we question the value of reinstating any of these funds if their reduction does not affect state services or operations.

Identifying Inefficiencies in State Government a Worthy Endeavor, but Proposal Raises Questions for Legislature to Consider. A statewide exercise led by DOF to identify budgetary inefficiencies is a worthy endeavor. While such an exercise could be beneficial in any year, it seems particularly important to minimize unnecessary or duplicative spending when the state faces a budget problem. However, for the reasons we discussed above, we have doubts that the proposed approach would result in the assumed level of savings or that it would sufficiently consider legislative priorities. Because of these concerns, we highlight questions below for budget committees to consider asking the administration.

- Why did the administration choose vacant positions as the metric to identify savings?
- What confidence does the administration have in its assumed level of savings under the proposal?
- How long does the administration assume it will take to thoroughly work with departments to identify savings?
- What factors will the administration use to determine reductions in departments? Will some departments receive proportionately larger reductions than others?
- In the event that the assumed level of savings are not achieved through the exercise, will the administration propose larger reductions to departments' budgets?
- Will the administration make reductions under this proposal if such cuts negatively affect departmental operations?
- Will the administration make reductions under this proposal if services would be affected?
- How will the administration notify the Legislature what reductions are made in the state budget?
- Should reductions made under this proposal that would not negatively affect departmental operations or services be ongoing reductions rather than one time?
- How frequently, and through what process, does the administration work with departments to identify potential operational savings and inefficiencies beyond this proposal?

Proposed Budget Exercise Could Be Used to Identify Specific Cuts to Present to Legislature in January 2025. While we have doubts that the proposed exercise could produce savings at the level assumed in 2024-25, we think the process could be helpful to identify targeted one-time and ongoing reductions to be incorporated as part of the administration's proposed 2025-26 budget. The

Legislature could direct the administration to use the proposed process to identify specific reductions for legislative consideration as part of the 2025-26 budget. Any such targeted reductions should be aimed at addressing ongoing inefficiencies in the state budget; however, the exercise could also lead to the administration identifying programmatic reductions or consolidations for legislative consideration.

If Across-the-Board Administrative Savings in 2024-25 Are Desired, Legislature May Consider a Different Approach. As we indicated above, we do not think the level of savings assumed in the budget resulting from the proposed unallocated reduction are likely to materialize in the budget year. We think that the proposed budget exercise should, instead, be used to identify targeted budget cuts that can be incorporated into the 2025-26 budget. If the Legislature wants to achieve savings in state operations across the board in 2024-25, we recommend that the Legislature consider the trade-offs of a simpler approach: a smaller, specified reduction in General Fund state operations across all departments. For example, in 2023-24, 1 percent of the General Fund state operations costs constituted \$572.6 million. Accordingly, similar savings as assumed by the Governor's proposal could be achieved in 2024-25 with less than a 1.5 percent across-the-board temporary reduction to 2023-24 General Fund state operation spending levels. There are shortcomings to this approach. For example, the Legislature would not be involved in the specific decisions of how reductions are applied to departmental budgets and some departments might have more or less capacity to absorb such a temporary reduction. However, we think such an approach would be a more effective interim solution to reduce costs in 2024-25 while the administration identifies specific one-time and ongoing reductions to include in its 2025-26 budget proposal.

Elimination of Remote Work Stipend

Background

Many State Employees Began Working Remotely in 2020. The nature of some state jobs—for example, a highway patrol officer or correctional officer—require a state employee to be physically in a particular location (whether in a state office or in the field). Accordingly, many state employees were required to report physically to work during the COVID-19 pandemic. Other state employees have jobs that allowed them to work remotely beginning in 2020 in response to the restrictions in place in response to the pandemic. The share of the state workforce that has worked remotely has fluctuated since 2020. As of December 2023, the Department of General Services (DGS) reports that 46 percent of state workers telework at least a portion of their week (37 percent of state workers telework more than 50 percent of their time). Under state policy, each teleworking employee must complete a [telework agreement](https://www.documents.dgs.ca.gov/dgs/fmc/pdf/std200.pdf) <<https://www.documents.dgs.ca.gov/dgs/fmc/pdf/std200.pdf>> that, among other things, delineates the employee’s teleworking schedule. Of the approximately 100,000 employees eligible to telework in December 2023, DGS data indicate that 49 percent worked in office (meaning, not remotely) zero or one days per week.

Teleworking Stipend Established in 2021 and 2022 Through Collective Bargaining Process. The Ralph C. Dills Act (Dills Act) establishes collective bargaining for state employees. Under the Dills Act, there are different types of labor agreements that the state and employee representatives enter into. The most significant of these types of agreements is a memorandum of understanding (MOU). The MOU is the labor contract that establishes the vast majority of working conditions and terms of employment for state employees. (Pursuant to state law, our office produces [analyses](https://lao.ca.gov/stateworkforce/MOUAnalyses) <<https://lao.ca.gov/stateworkforce/MOUAnalyses>> of MOUs when they are submitted to the Legislature for consideration.) Other types of labor agreements are addenda to the MOU, including a type of agreement referred to as a side letter. A side letter is a labor

agreement that addresses a specific issue beyond what is included in the MOU. (State law does not require our office to produce an analysis of a side letter.) Across 2021 and 2022, the state and 17 of the state's 21 bargaining units entered into side letters establishing a stipend for teleworking state employees. (The units that did not establish such a side letter included Units 5 [highway patrol], 6 [correctional officers], 8 [firefighters], and 18 [psychiatric technicians]). The agreements can be found on the Department of Human Resources' (CalHR's) [website](#)

<https://www.calhr.ca.gov/Pages/Telework-Stipend-Agreement.aspx> . The telework stipend side letters established **Pay Differential 453**

https://www.calhr.ca.gov/Pay%20Differentials%20Library/Pay_Differential_453.pdf

. Under the pay differential, employees who telework more than 50 percent of their time receive \$50 per month and employees who telework more than 0 percent but less than 50 percent of their time received \$25 per month. The side letter agreements specified that after the side letter went into effect, “no reimbursement claims will be authorized for utilities, phone, cable/internet, or other telework incurred costs.”

State Ratified New MOUs With Most of Workforce in 2023. In 2023, the Governor (represented by CalHR) negotiated and the Legislature ratified new MOUs with most of the state's workforce, including 14 of the 17 bargaining units with established telework stipend side letter agreements (in the case of Unit 10 [professional scientists], the Legislature ratified a new MOU but the union membership rejected the agreement). None of these new or proposed MOUs altered the telework stipend.

In 2024, Administration Shifting Towards More Hybrid State Workforce. Since January 2024, a number of state departments have announced that they are shifting to a hybrid workforce requiring state employees to report to a worksite a specified number of days per week. CalHR confirmed to us that leaders within the executive branch are moving towards a two or three day in-person hybrid schedule.

Proposal

Eliminate Telework Stipend for Annual Savings of \$52 Million (\$26 Million General Fund). Beginning in 2024-25, the Governor’s budget proposes eliminating the telework stipend (Pay Differential 453) established under the side letters. The budget summary indicates that the state will attempt to negotiate with each bargaining unit to eliminate the stipend. Under the proposal, the stipends would be eliminated beginning with the July 2024 pay period.

LAO Comments

Eliminating Benefit Likely Would Require Trade-Off That Would Erode Savings. The telework stipend was established through the collective bargaining process. The benefit certainly is not the largest benefit earned by state employees, but at up to \$600 per year per employee, it reasonably has become an expected part of state employees’ compensation. State law has required our office to review labor agreements since the enactment of Chapter 499 of 2005 (SB 621, Speier). As regular observers of the collective bargaining process over the past couple of decades, we would expect there to be some sort of offsetting trade-off through the collective bargaining process—perhaps not immediately, but maybe when the current MOUs expire—that erodes the state’s savings from eliminating the stipend. The trade-off might not fully eliminate the savings, but it likely would substantially erode the savings.

Any Future Reimbursements of Telework Costs Would Erode Any Savings. The side letter agreements explicitly state that upon ratification, no reimbursement claims will be authorized for costs incurred for telework—essentially establishing the stipend in lieu of reimbursement. Although some state departments are moving more employees to hybrid work schedules—increasing in-office work—telework will continue. The administration indicated that it does not anticipate that the state would reimburse employees for incurred telework costs if the telework stipend established by the side letters were eliminated; however, the administration also specified that reimbursement of telework-related expenses is a matter subject to

the collective bargaining process. If the parties could not reach agreement to end the stipend and the Governor instead sought to eliminate the stipend unilaterally, it is possible that state employee unions would sue the state. To the extent that the state is required to reimburse teleworking employees for incurred telework costs—either as the result of labor agreements or court orders—any savings from eliminating the telework stipend would erode.

Implementing Proposal Seems Disproportionately Difficult for Modest Savings. The Governor proposes opening negotiations with all 17 of the affected bargaining units to achieve \$26 million General Fund savings. This figure represents less than one-quarter of 1 percent of the state’s General Fund payroll costs associated with these bargaining units and the associated excluded employees. While the cost of the telework stipend is small, based on anecdotal evidence, the ability to work remotely has been very popular among state workers and increasing in-office work poses challenges. This suggests that bargaining might be difficult and that the parties might not come to an agreement. Imposing the elimination of the stipend—if no agreement is reached—would have negative downstream effects on labor relations. Given all of this, implementing the Governor’s proposal seems disproportionately difficult relative to the modest savings that would be achieved.

Proposal Raises Questions for Legislative Consideration. We raise questions below that the budget committees could consider when they hear the administration’s proposal.

- What are the administration’s goals regarding hybrid work?
- How do those goals vary by department and classification?
- How could hybrid work be implemented to improve recruitment and retention?
- What aspects, if any, of the hybrid workforce and the proposed elimination of the telework stipend will be determined through the collective bargaining process?

- In the absence of a telework stipend, what obligation, if any, does the state have to reimburse state employees for costs incurred while working remotely?

Deferral of June 2025 Payroll

Background

State Deferred June Payroll in 2009-10. The state pays its employees monthly. In response to a severe budget deficit problem, the 2009-10 budget package included an ongoing one-month deferral of state payroll from late June to early July, providing one-time savings for the state by only paying 11 months of payroll in the 2009-10 fiscal year. This action was only reflected in the state's accounting reports—it did not affect when paychecks were actually issued to state employees. On an ongoing basis, the state's budget documents still reflected 12 months of payroll, but rather than reflecting payroll for June of the last month of the fiscal year, they reflected June of the previous fiscal year. (For budgetary purposes, the state only recognized the deferral in the General Fund, not other funds' statements.)

State Undid Deferral in 2019-20. The state undid the payroll deferral in 2019-20. To undo the payroll deferral, the state's accounting reports reflected the state paying 13 months of payroll in one fiscal year. This resulted in a one-time budgetary cost of hundreds of millions of dollars. Ongoing, the state's accounting reports reflected only 12 months of payroll in the fiscal year.

Proposal

Defer June 2025 Payroll to July. The Governor proposes deferring the June 2025 payroll to July. Similar to how the 2009-10 payroll deferral operated, this would result in the state paying 11 months of payroll in 2024-25 and, beginning in 2025-26, state accounting reports in future fiscal years would include June payroll from the preceding fiscal year through May of the current fiscal year. This action would reduce the state's reported payroll costs in 2024-25 by

one month of payroll estimated to be \$3.2 billion (\$1.6 billion General Fund).

LAO Comments

Undoing the 2009-10 Payroll Deferral Created a Reserve-Like Benefit to the State. As we discussed in [2019](#)

<https://lao.ca.gov/Publications/Report/3988> , when the state undid the 2009-10 payroll deferral, it created a reserve-like benefit to the state in the sense that the payroll deferral could be redone at some future date to help address a future budget problem.

Cost to Undo Proposed Deferral in the Future Will Grow With Payroll. The payroll deferral is a one-time budget solution. When the state undoes a payroll deferral, state accounting reports reflect 13 months of payroll paid in one fiscal year. This means that the cost to undo the payroll deferral is equivalent to one month of payroll in the future. Payroll grows by two factors: compensation levels and the number of state employees. In theory, payroll could decrease; however, payroll is expected to increase into the future. (For example, the California Public Employees' Retirement System assumes that state payroll grows by 2.8 percent each year.) Because of this, the longer the Legislature waits to undo a payroll deferral, the costlier it likely will be.

Undoing and Redoing Payroll Deferrals Complex. Undoing deferrals and then taking the action again in the future results in more administrative complexity than other budgetary solutions like using reserves. For example, the 2009-10 payroll deferral increased workload for the SCO when the state took the action to do and undo the deferral. Further, because budgetary savings from a payroll deferral are the result of an accounting maneuver and not the result of actual reduced state expenditures, a payroll deferral adds a layer of complexity to an already complex state budget.

LAO Recommendations

Approve Proposal. Given the magnitude of the state's budget problem, the benefits of deferring the June 2025 payroll outweigh

the shortcomings of the accounting maneuver.
