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September 3, 2009

Hon. Arnold Schwarzenegger
Governor of California
State Capitol, First Floor
Sacramento, California 95814

Dear Governor Schwarzenegger:

In the months since the furloughs began, the evidence shows that the policy is costing the state money and further hurting the economy. It is a significant district issue for me as I represent so many state employees.

Information we have gathered indicates that California will lose hundreds of millions of dollars in our general fund at the state tax agencies alone. The current furlough policy has become a "penny saved, a dollar lost" approach that can be corrected immediately.

I offer these furlough fixes to help the General Fund.

First, the Legislature should enact AB 88, the bill that would implement the collective bargaining agreement that your administration reached with SEIU, Local 1000—the largest unit that represents state employees—which contains one furlough day that all agreed to. A 5 percent pay cut is a sacrifice for a state employee; a 15 percent cut is punishment.

Second, Assembly Speaker Karen Bass and I will introduce a bill tomorrow to reduce the furloughs by one day. The union already gave us one day, now we ought to give them one back. I suggest that we pass urgency legislation to buy-out a day of furloughs with an across-the-board reduction on the state bureaucracy. This time, we ought to cut from the top down, not the bottom up.

Third, your Administration should get back to the bargaining table and hammer out agreements with the other collective bargaining units.



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You recently re-examined the furlough policy as it applied to dispatchers employed by the California Highway Patrol, and exempted these employees from the furlough. I applaud you for that action. Now is the time to re-examine the policy more broadly. Please find attached information the Senate has gathered on the furloughs.

I look forward to working with you on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Darrell Steinberg", with a long horizontal flourish extending to the right.

DARRELL STEINBERG
President pro Tempore
Sixth Senate District

Enclosure

Preliminary Findings on State Employee Furlough Policy

The General Fund “benefit” scored for the furloughs is not credible. On August 25, the Senate Budget Subcommittee #5 held a hearing on the impact of the furloughs on state revenues. At that hearing, the state’s tax agencies testified—and the Department of Finance concurred—that the state will likely face General Fund revenue losses of about \$360 million in 2009-10, simply because of the furlough of tax agency staff. None of this revenue loss was scored by the Administration in the budget.

The potential General Fund revenue loss is not just a one-time occurrence, and is not cost-effective. At that same hearing, the Franchise Tax Board indicated that there will be a three-year revenue loss of \$650 million resulting from the furloughs. This is not a delay in revenue collections, but rather a permanent loss of General fund revenues. The furloughs were supposed to save the FTB about \$46 million in reduced salary costs—a loss of \$14 for each \$1 saved.

The furloughs are hurting our individual citizens. Among the examples:

- **Disability Payments:** Federal officials have repeatedly told the Governor that his furlough policy was aggravating the flow of federal funds to citizens eligible for disability payments.
 - In November 2008, the Commissioner of Social Security wrote the Governor and expressed concern about the furlough of employees in the Disability Determination Services Division (DDSD) of the state Department of Social Services, pointing out that the furloughs were delaying the processing of 53,000 disability claims, and postponing \$15 million in federal benefits to California’s disabled community. The Commissioner followed-up with a letter to Senator Feinstein on the same subject on August 3, 2009.
 - Senator Feinstein wrote the Governor on April 29, 2009, and again on August 25, calling the furloughs in DDSD “harmful and short-sighted.” She indicated that California would lose tens of millions of dollars in federal funds. And she pointed out that “For many disabled Californians that have already been impacted by the economic downturn the timing could not be worse.
- **Unemployment Payments:** The Unemployment Insurance Appeals Board has a significant backlog of cases that is aggravated by the furloughs, and will result in loss of tens of millions of dollars in federal funds that can benefit unemployed Californians.
- **Automobile Registrations:** Wait times for customers at the Department of Motor Vehicles (DMV)—the “face” of state government for many Californians—are rising due to the furloughs, and backlogs are building in many of the department’s operations. According to the DMV, the

percentage of customers served in 30 minutes or less has dropped from 79 percent in July 2008 to 64 percent in July 2009.

The furloughs are too broad, and are hurting non-General Fund services.

Our fiscal dilemma this year was the consequence of the severe drop in revenues to the *General Fund*. But the furlough budget “solution” is targeted to all departments and agencies, including those that are supported by *special and federal funds*. Furloughing employees in these agencies does nothing to aid our General Fund. Senator Feinstein highlighted this point in her April 29 letter to the Governor in which she noted that the furloughed DDSD employees at the state Department of Social Services were funded entirely with federal funds.

The furloughs will cost the state money in the long-run. Given the way the furlough policy has been implemented, the state will likely incur greater long-run costs, aggravating our fiscal situation in the future.

The California Department of Corrections and Rehabilitation (CDCR) provides a good case study:

Because the prisons are a round-the-clock operation, workers are not required to take furlough days. In fact, they work their furlough days, although their pay is docked. Instead, they “bank” the furlough hours to use in the future. Correctional workers are being urged to use their banked furlough hours before they take vacation or sick leave—but are banking the time off faster than they can use it.

The department banked 1.3 million furlough hours in the first six months of furloughs, based on data from the State Controller’s Office. In only one of those months—July 2009—were all three furlough days applied.

There’s another impact, as well. In the same six-month period this year, correctional officers accrued 792,000 hours of vacation. That’s a 275 percent increase over last year, before furloughs were a factor. Sick leave balances are also far outpacing budgeted amounts.

The Governor’s furlough policy requires state workers use their furlough days off within 24 months of the end of the furlough program. The days are not supposed to be “cashed-out.” Both these requirements are problematic for corrections, which doesn’t have the relief staff to cover all the days off.

As a consequence of the policy, CDCR is creating a major “unfunded liability” sometime in the future—and a greater future financial liability for the state.

The furloughs are hurting our economy. The furloughs equate to 14.2 percent pay cut for our state employees. That means financial hardship, more difficulty in making mortgage payments, and less money to spend in the economy.

As the *Los Angeles Times* noted in a story on August 30, “[B]ankruptcy attorneys in the Sacramento area, where many state employees live, say that in recent months, as the pay cuts have mounted, many of their clients have been government workers.”

And the impact on the economy in the Sacramento region is particularly acute. In January, the *Sacramento Bee* reported that the local economy stood to lose about \$1 billion through 2009-10 as a result of the furloughs. That estimate was completed when the policy was to furlough employees for two days per month. Presumably, the imposition of the third furlough day will push that number much higher.

State faces lawsuits and additional financial risks. Several lawsuits have been filed seeking to overturn the furlough policy which, if successful, would eliminate savings and potentially cost the state even more money. On September 2, a court ruled that furloughing of employees at the State Compensation Insurance Fund (SCIF) was illegal, and that employees were owed back pay, plus 7 percent interest for the days the employees were furloughed.

State may lose good workers. It is likely that some of the state’s best workers will leave state service as a result of the major pay cut imposed by the furloughs—workers who may seek better paying employment elsewhere. In addition, the number of state workers applying for retirement in 2009 is surging.

California is unique. The National Council of State Legislatures advises that, at three furlough days per month, California and Hawaii lead the nation—a distinction that the state should not be proud of.