

# PE INFORMER

# CG

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Professional Engineers in California Government

## STATE BUDGET HOLE GROWS



The projected State General Fund Budget **deficit** for the current and upcoming 2008-09 fiscal year has grown from \$14.5 billion several months ago to \$22 to \$24 billion, based on the latest projections from the Governor (in his May Revision to his January Budget Proposal) and Legislative Analyst Elizabeth Hill's response. Earlier this year, the Legislature and the Governor agreed to a series of actions to reduce the deficit by \$7.5 billion. That still leaves a significant problem in light of the increased deficit projections due to the slumping economy.

The Governor's original budget proposal, and his May Revise, have virtually no negative impact on PEGC-represented employees, 96% of whom are paid through Special Funds, not the General Fund. He included funding in his Budget Proposal for the upcoming **salary increases** for PEGC-represented employees and a couple of other bargaining units. Previous proposals on tinkering with the retirement system, health benefits for retirees, layoffs or furloughs, and other negative recommendations have not reappeared.

His January proposal would close a number of **State Parks** and reduce funding and staffing; his May Revise proposes to keep the Parks open. Other state departments would see no change in staffing or some increase, such as the **Department of Water Resources**. One exception is **Caltrans**, where he would reduce the engineering staff by 247 in Capital Outlay Support (out of a total of more than 10,000) due to anticipated slight decreases in funding and workload. While the Prop 42 sales tax on gasoline would continue to be used for transportation purposes, both the Governor and the Legislative Analyst recommend diverting between \$700 million and \$850 million to the General Fund from transportation revenue to help balance the Budget.

Although finding the Governor's forecast of revenues and expenditures to be "reasonable", the Legislative Analyst was particularly critical of his proposal regarding the State Lottery. He would borrow or "securitize" \$15.5 billion in future lottery revenues; she feels his estimate is overly optimistic and could reduce funding for schools in the future.

All of these proposals, and many others, will be hashed out in the legislative process during the coming weeks or months, primarily through a series of hearings by Assembly and Senate Committees. While eventually there will be a State Budget -- there always is -- it appears highly unlikely that the June Constitutional deadlines for passing and signing a State Budget for the fiscal year beginning in July will be met.

## GOOD NEWS ON HEALTH PLANS



The monthly premiums for **PERS Choice** and **PERSCare** will remain the same next year and the benefits will also be unchanged. This is the first time in a decade that that has occurred. More than 300,000 CalPERS members (state and local employees) are enrolled in these plans. PERS Select, a relatively new offering with 4,300 members, will see a 3% decrease in premiums. PERS credits the ability to hold the line on premiums to fewer hospital admissions and the increasing use of generic prescriptions.

PERS is currently negotiating with the HMO providers (**Kaiser and Blue Shield**) regarding their rates for the next year. A final decision for those plans is expected in June. As always, there will be an open enrollment period in the Fall for employees to change coverage if they wish to do so.

## WHAT'S THE COST?

The Governor's proposed May Revision to his January State Budget proposal would reduce the Caltrans Capital Outlay Support Program (the Department's primary engineering program) by 247 positions and would reduce contracting by 22 positions. This is the result of a slight decrease in anticipated workload for the approximately 13,000 positions in the program. In addition, cash overtime would be cut by nearly 200 person years.

PEGC's position is that this imbalance in reductions is inappropriate based on policy -- when workload drops, outsourcing should be reduced, rather than staff -- and cost. It is no longer in dispute that outsourcing Caltrans' engineering and related services costs approximately twice as much as utilizing state staff.

In addressing this issue in Legislative Committee hearings, the Legislature concluded that **outsourcing costs \$217,000** per person year, while state **staff costs \$121,000** "including all benefits and the standard cost of operating expenses and equipment". These figures actually were generated initially by the Governor's Office in their budget request.

As a result, Legislative Committees concluded that the **outsourcing** authorization requested by the Governor should be **reduced by 105 person years**, with a corresponding increase in Caltrans' Capital Outlay Support Staff. This will "achieve a **savings of approximately \$10 million**" which could then be used for "needed State Highway Operations Protection Program (SHOPP) projects".

While this allocation is not yet the final word for the State Budget for the upcoming fiscal year, it is encouraging that the Legislature is taking action to reduce wasteful outsourcing of state engineering and related services.

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# OUTSOURCING LEGISLATION

Outsourcing the work of PEGC-represented state employees, particularly in Caltrans, can take many forms. One way is to assign a state highway project to a local or regional agency, whether or not they are paying for it, and allow them to outsource the work. Another is to attempt to enact legislation for either a category of work or specific projects, give them a fancy title like design-build or public-private partnership, and seek legislative approval to have someone else provide the services (at twice the cost) for a state project which ultimately will be operated and maintained by the state.

Many of these bills have dropped by the wayside during the legislative process. Two **design-build** authorization bills -- one for local wastewater treatment plants, another for a hospital -- are still alive. One key issue is whether there will be agreement that enactment of these bills would trigger a moratorium on design-build bills over the next several years.

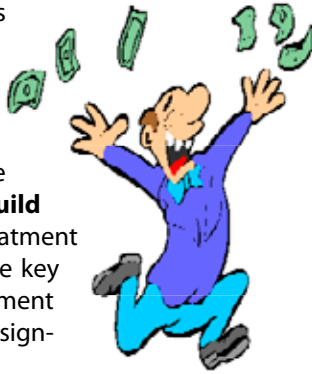
**Public-private partnerships** (PPP) are a new glamour term in Sacramento and elsewhere. The theory is that the private sector contributes billions of dollars for projects, no strings attached, so the taxpayers won't have to pay the bill. Toll roads are the most common financing mechanism. Where this has been tried in other states (such as Indiana and Chicago) and in California (Routes 91 and 125), they have resulted in economic and public policy disasters. Nevertheless, the PPP advocates continue to

try to convince decision-makers that private financing is the way to go, despite excessive profits, the higher cost of bonds, and the absence of public interest protections or involvement.

The Governor's proposal was contained in AB 2600 by Assembly Member Roger Niello and was defeated. Another bill, AB 1756 by Assembly Member Anna Caballero, was more general and would have required the State to provide assistance on PPPs to local governments. It was defeated, as was a similar bill, AB 2278. Last year's bills on design-build and PPP have failed and were abandoned.

PEGC has been working hard to educate the decision-makers and the media regarding the serious shortcomings of these catchy sounding alternatives to solving California's infrastructure woes. This education process will continue.

Ultimately, the State Budget is the determining factor on how much work is performed by state staff and how much is outsourced in each fiscal year. The Governor's 2008-09 proposal for Caltrans is to reduce both **staffing and contracting**, primarily staff. PEGC has been working with legislative Committees to remind them that outsourcing is justified in part by protecting against reductions in workload, so when that occurs, it is outsourcing which should be reduced, not staff.



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