



JOHN CHIANG
California State Controller

June 8, 2012

Joe Shinstock
Senate Republican Caucus
1020 N Street, Room 536
Sacramento, CA 95814

Dear Mr. Shinstock:

I am writing in response to your request for the number of state employees who received Merit Salary Adjustments (MSAs) during the current fiscal year, and the fiscal impact of those adjustments. The short answer to your question is that 65,077 employees received an MSA (out of the state's total workforce of about 200,000 employees¹). This year, MSAs have totaled \$102,112,297 and comports with recent years. MSAs amounted to \$111,650,340 in fiscal year 2007-08, \$124,878,479 in fiscal year 2008-09, \$111,844,135 in fiscal year 2009-10, and \$96,637,842 in fiscal year 2010-11.

A good deal of confusion surrounds MSAs, which are unlike discretionary pay raises. Most state employees, like their federal counterparts, are hired into job classifications that have salary ranges. These salary ranges normally include several salary steps. An employee's movement from one step to another is controlled by state law. The statutes provide that each year employees "shall receive a merit salary adjustment equivalent to one of the intermediate steps . . ." (Government Code Section 19832). Once employees reach the top step in their job classification, they are ineligible for further adjustments unless they receive a promotion. By statute, these adjustments are "automatic" (Government Code Section 19834), and constitute a "right" (Government Code section 19835). A decision to deny such an adjustment may only occur if an employee's immediate supervisor has notified the employee, prior to the effective date of an impending MSA, that he or she has not met performance expectations.

MSAs are part of departments' budgeted employee-compensation costs. Every authorized position is funded as though the employee filling it will earn a salary in the middle of the salary range for the job classification. In budget terms, savings generated from employees earning less

¹ Employees receiving MSAs worked in agencies throughout state government, including constitutional offices, the judiciary, and independent and quasi-independent agencies.

Joe Shinstock
June 8, 2012
Page 2

than the mid-level amount make up for employees earning more. Departments that have more than half their employees in higher salary ranges must make up the extra costs by generating savings in other ways, such as by leaving positions vacant. MSA costs are required to be absorbed within departmental budgets.

Because MSAs are statutorily mandated, they are unaffected by hiring freezes and other compensation-reduction measures that Administrations can impose without legislative approval.

I hope you find this information helpful as you work to solve California's budget problems. Should you need additional historical or legal background regarding MSAs, the Department of Personnel Administration is best suited to assist you. If you need additional statistical information maintained by the State's centralized payroll system, please do not hesitate contacting me at (916) 322-8080.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lisa Crowe', written in a cursive style.

LISA CROWE, Chief
Personnel/Payroll Services Division