

THE STATE WORKER

With threat of salary freezes, what's on the bargaining table for state workers?

By William Melhado

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State workers protest on March 26, 2025, at the California Environmental Protection Agency Headquarters in Sacramento against Gov. Gavin Newsom's order directing them to return to the office four days per week. By Paul Kitagaki Jr.



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The governor is hoping to save \$767 million by freezing state workers' salaries as a means to help shore up California's projected \$12 billion deficit.

But if that doesn't happen by July 1 through negotiations, Gov. Gavin Newsom's administration may pursue a "reduction in employee compensation" to patch up the state's finances.

It's not yet clear what that might look like.

By reopening the agreements with bargaining units, "anything is on the table," said Nick Schroeder, a public employment analyst at the nonpartisan Legislative Analyst's Office.

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Those could potentially include changes to Newsom's unpopular telework policy going into effect in July or pausing the amount state workers pay into retirement benefits, which California has paused during past periods of financial strain.

An organization that represents supervisors and managers working for the state hopes to achieve concessions from the administration on both telework and reduced retirement payments.

"That would be the best case scenario for my members and frankly, something they deserve after having to bear the brunt of most of these employer actions," said Rocco R. Paternoster, the executive director of the Association of California State Supervisors.

The proposed salary pause would affect all 14 bargaining units that have an established agreement and employees not represented by unions, such as managers and supervisors.

For the seven bargaining units in active negotiations with the state, which includes the union representing correctional officers, Schroeder said the proposal sets an

expectation that any new contracts will not include salary increases in the next fiscal year.

Newsom's administration "is focused on achieving the employee compensation savings through salary increase deferrals rather than pay cuts," H.D. Palmer, a spokesperson for the Finance Department, said in a statement.

What's on the bargaining table

Paternoster said the main cause of ACSS members' frustration has been their confusion over the justification of these proposed cuts. He said the salary freezes appear to be a "protectionist move" to minimize the impact of future potential losses.

"The numbers don't add up," he said.

But one option that would likely be attractive to some state workers is a change in remote work policies.

In March, the governor directed state employees to return to offices four days a week, up from the current two-day requirement, which has frustrated labor groups and hybrid workers alike.

While the payroll pause will be across the board, changes in telework policy would impact less than half of public workers who are eligible to work from home.

Paternoster said he hopes the administration might be willing to relax the strict telework policy slated to go into effect in July to take some of the sting out of pausing pay increases. Particularly considering that many state departments are not ready for all workers to come back into offices, he said.

“We have been traditionally very happy with Newsom as an employer,” Paternoster said. “This is a clear departure from his usual treatment of his employees.”

The California Department of Human Resources declined to comment on the collective bargaining process.

ACSS is not a union and therefore its members don’t have the same collective bargaining rights afforded to the state’s 21 bargaining units. Despite this, Paternoster said ACSS is asking the administration to suspend a retirement health payment that’s taken out of state workers’ paychecks to lessen the impact of the salary freeze.

Over a decade ago, California reformed health benefits at the insistence of former Gov. Jerry Brown due to the state’s ballooning unfunded liability for medical costs for retirees. As of June 2023, the state’s liability for retiree health and dental benefits was \$85.2 billion, according to the latest numbers from the State Controller’s Office. That number is slightly down from the 2018’s liability: \$85.6 billion.

Under the new system, state employees are required to contribute to the California Employers’ Benefit Trust, which appears as the deduction “CERBT” on workers’ paychecks. Employees and the state contribute between 1.4% and 4.5% of their pay, depending on which bargaining unit they are represented by.

For example, pausing Service Employees International Union Local 1000 workers’ contributions to the retiree health benefit trust, which is 3% of their paychecks, would roughly cancel out the lost income from the salary increase those workers are expecting this July.

Other savings options

During previous budget challenges, the state has pursued several other methods to reduce employee compensation costs.

One of the most common is furloughs, or personal leave programs, which the LAO noted have been used nine times since 1992, including as recently as 2020-21. While furloughs offer immediate budgetary relief, the LAO's Schoeder warned that these programs create more liability in the long-term by inflating employees' leave balances and reducing the state's contributions to the pension fund.

Other options would be to reduce the amount California contributes to state workers' pensions and healthcare premiums, which would shift more of that financial burden onto state workers.

In a recent analysis, the LAO recommended the Legislature reject the governor's proposal. The analyst's office insisted the administration provide more specific language around how it plans to reduce employee compensation and by how much, which part of the current proposal does not.

Mike Genest, a former Department of Finance director, said during then-Republican Gov. Arnold Schwarzenegger's administration instituted a personal leave program, but he described that strategy as a "gimmick" that moves the financial obligation into the future.

Genest said he hopes that Newsom is successfully able to reduce California's salary and benefit expenses related to state workers, but he is skeptical it will be successful based on historical precedent.

"We never achieved an actual reduction in state employee compensation year over year," Genest said, "even in the worst times."

The \$12 billion deficit may seem large, but last Wednesday Newsom pointed out that it represented just 5.8% of the state's budget. Comparatively, in 2020-21 the deficit was 39% of the state's budget.

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