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Budget Information Brief / 2008-5

Compensation Plan Funding

The purpose of this budget brief is to provide background on employee compensation plan funding.[i]

Compensation Plan – Employee Salary and Benefit Adjustments
Compensation for state employees is complex. Employee salaries and wages are based on established compensation plans defined by job classification; salary range; and, within each salary range, approximately nine incremental step increases, each of which represents about a five percent increase in salary and wages. Compensation plans, which vary by branch of government, are subject to adjustment.[ii] The most common adjustments are for cost-of-living (COLAs); the addition of steps to salary ranges; selective salary rate increases that adjust classifications for market or competitive conditions; and elimination of obsolete classifications. Employee compensation also includes health and retirement benefits. Any changes to compensation plans impact some Other Payroll Expenses (OPE), which increase as salaries and wages increase. The most notable are Social Security and Public Employees Retirement System contributions. Health benefits, however, are unaffected by changes in salaries and wages.

In terms of the state budget, compensation funding occurs in two distinct phases. During the legislative session, most position funding for all but statutorily established positions (e.g., elected officials) are approved based on the current compensation plan and OPE costs.[iii] The Legislature then normally appropriates a set amount of General Fund to the Emergency Board as a special purpose appropriation for employee salary and benefit changes for the next biennium. Contract negotiations with unions generally take place during the regular legislative session in odd numbered years. After the close of the regular session, union contract ratification usually occurs and the Legislature, typically through the Emergency Board, considers distribution of the special purpose appropriation as funding for any contractually negotiated changes to the compensation plan and for the state's unclassified and management service workforce.

Collective Bargaining Contracts and Unclassified Employees
Under the state's collective bargaining law for public employees, the Human Resource Services Division (HRSD) of the Department of Administrative Services (DAS) negotiates with unions over salary and represented employee benefits.[iv] These negotiations involve approximately 12 unions with 32 contracts for about 27,000 represented employees. Negotiations begin prior to the expiration of each union's two-year contract, which typically is June 30 of each odd numbered year. The Legislature's role is limited to consideration of the funding of any compensation plan changes, having no legal authority to override the negotiated contracts. The Governor's Office, however, plays a role in the negotiation process by approving all final offers made by the state to the unions.

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[i] For background information on state positions in general, please see the Legislative Fiscal Office's June 2008 Budget Information Report on "How Positions are Created, Budgeted, and Used" at www.leg.state.or.us/comm/lfo/publications.htm
[ii] See Oregon Revised Statute 291.371, which in part states that, prior to making any changes in a salary plan, the Oregon Department of Administrative Services shall submit the proposed changes to the legislative review agency.
[iii] See ORS 292.907 related to the Public Officials Compensation Commission for elected officials' compensation changes.
[iv] Oregon Revised Statute 243.650.

Although not required by law, the state's unclassified, management service, and exempt employees are normally granted a similar, if not identical, compensation adjustment as those negotiated for represented employees.[v]

It should be noted that after ratification of the negotiated contracts in the fall of odd numbered years, but prior to Emergency Board consideration of funding, state employees may begin receiving negotiated pay and benefit adjustments, typically retroactively back to the beginning of the biennium depending on specific contract language, although this practice varies by branch of government. Since this occurs at the beginning of the biennium, agencies are able to pay for such adjustments by temporarily drawing down existing budgeted resources. Agencies undertake this action based on the contractual requirements, but do so prior to the Emergency Board's consideration of a formal funding request.

Compensation Plan Budget Process

In order to have funds available to finance compensation plan changes during the interim and maintain a balanced state budget, the budget considered by the Legislature during the regular session generally includes set aside funding. The amount is based on an estimated cost of the compensation plan proposed by the Governor during the fall of even numbered years.[vi] The estimate is then budgeted in the Governor's recommended budget (GRB) as a General Fund special purpose appropriation (SPA) to the Emergency Board. The estimate includes a projection of the cost for all three branches of government. The Legislature, when considering the GRB, may adjust the amount of the SPA; however, it is under no legal obligation to fund compensation plan changes.

Special Purpose Appropriation Allocation

DAS, on behalf of all agencies, may submit a request to the Emergency Board requesting the allocation of salary adjustment SPA funds to individual agency budgets. The request includes an allocation for Judicial and Legislative Branch agencies. The request includes a schedule of the amount of General Fund appropriation allocation to each agency, along with any Lottery, Other, and Federal Funds expenditure limitation requirements. The Emergency Board considers compensation funding in even numbered years.

Legislative History of Funding Compensation Plans

The table on the following page provides a summary of the history of compensation plan funding over the last ten biennia, beginning with 1987-89 through the current SPA for 2007-09. The table provides context on how the Emergency Board and, at times, the Legislative Assembly have chosen to budget and then fund compensation plans.

Three major conclusions can be drawn from the historic data presented in the table:

- The Legislature has supported Executive Branch negotiated contract agreements by consistently providing the majority, if not all, of the required compensation plan funding. On average, the Legislative Assembly, or the Emergency Board, has funded 84% of estimated compensation plan costs over the last ten biennia.
- Agencies, for their part, have been consistently required to absorb within existing budgeted resources the unfunded portion of compensation plan costs over the last ten biennia.
- The Legislative Assembly, or more typically the Emergency Board, has, when necessary, used a portion of the funding set aside for financing the compensation plan to fund other unanticipated state government costs due to changing economic conditions, rising costs due to caseload changes, or other emergencies.

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[v] Oregon Revised Statute 240.195 to 240.212. Examples of unclassified service employees include Governor appointed board or commission members, elected officials, employees in the Governor's Office, lawyers, and doctors. Examples of exempt service employees include elected officials, judges, officers, and employees of the Legislative Assembly. Management Service employees are those not in unclassified or exempt service that have supervisory or managerial responsibilities, or who are associated with the management processes of the state.

[vi] DAS-HRSD utilizes a Collective Bargaining Information System (CBIS) to estimate compensation plan costs for all three branches of government.

Legislative History of Compensation Plan Funding for General Fund*
(in millions)

	Biennium	*Estimated* Compensation Plan Cost (General Fund)	Governor's Recommended Budget SPA	Legislatively Adopted Budget SPA	Emergency Board Allocation	Percent of Compensation Plan Funded
1	1987-89	$66.1	$63.0	$63.0	$63.0	95%
2	1989-91	$95.1	$91.0	$91.0	$91.0	96%
3	1991-93	$68.7	$66.0	$66.0	$65.8	96%
4	1993-95	$14.3	$21.8	$21.8	$14.4	101%
5	1995-97	$73.2	$52.0	$52.0	$51.8	71%
6	1997-99	$91.5	$95.0	$62.5	$62.5	68%
7	1999-01	$77.0	$40.0	$40.0	$40.0	52%
8	2001-03	$102.4	$100.0	$100.0	$77.3	75%
9	2003-05	$10.9	$9.0	$9.0	$9.0	83%
10	2005-07	$118.9	$130.0	$130.0	$118.3	99%
	Average	**$71.81**	**$66.78**	**$63.53**	**$59.31**	**84%**
11	2007-09	$131.1	$130.0	$125.0	$100.0	80%

*The table does not reflect the many unique funding decisions that were associated with each biennium. Those decisions can be found within the respective minutes of the Emergency Board or the budget reports of the Legislative Assembly when financing decisions were made by the Legislature.

Underfunding of Compensation Plan

Given that, historically, the compensation plan underfunds the actual costs to agencies, how then do agencies make up the difference between what was allocated by the Emergency Board and the actual costs incurred? It is important to note that state employees are compensated and receive payment for contractually negotiated or approved compensation adjustments for salary and wage increases and other benefit changes based on the ratified contracts and agreements regardless of the Legislature's decision to fund such costs. In order to have the budget authority to provide this compensation, agencies must use normal budgetary savings or undertake additional management actions to mitigate the shortfall and absorb the expenditures within existing resources. This is done though one-time reductions in budgeted expenditures for personal services, services and supplies, and other budget categories. For example, agencies may delay filling vacant positions, under-fill positions by hiring below budgeted cost, reduce overtime, reduce the use of temporaries, and use savings from services and supplies to fund personal services.

The legislative expectation has generally been that any underfunding of the compensation plan be "distributed" or shared equitably across agencies and that, within each agency, a similar equitable reduction occur within program areas, although the Legislature may make note of certain exceptions.[vii] In general, however, the Legislature has expressed concern that agencies avoid a disproportional impact on key programs, mostly those that have increased caseloads when the economy is in recession. The Legislature typically asks DAS to develop and report on a "Cost Accommodation Plan" outlining how agencies will be managing programs and services within approved funding levels.

Summary

By statute, the Legislature has delegated to the Executive and Judicial branches of government the authority to determine salary and benefit changes for their employees. Negotiated contract changes for represented employees are typically used to adjust the compensation of the state's unclassified, management service, and exempt employees. In the state's negotiations with unions, the Governor's

[vii] See HB 5091 (2001) budget report, page 17, for a budget note explaining and directing such action.

Office plays a role in determining the extent of such increases. The role of the Legislature is limited to the review and approval of the financing for salary and benefit increases. While the Legislative Assembly and the Emergency Board have consistently funded the majority of compensation plan costs, agencies have normally been asked to self-fund any unfunded costs. These agencies have been able to do so successfully using managerial discretion to accumulate offsetting budget savings within existing agency budgets.

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This brief is available on the Legislative Fiscal Office website at www.leg.state.or.us/comm/lfo/