Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer

Daron Hill
Deputy Legislative Fiscal Officer

900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301
503-986-1828

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Compensation Plan Funding

Compensation Plan – Employee Salary and Benefit Adjustments

Compensation for state employees is somewhat complex. Employee salaries and wages are based on established compensation plans defined by job classification; salary range; and, within each salary range, incremental step increases, each of which represents between a 4.5% and 5.0% increase in salary and wages. Compensation plans, which vary by branch of government, are subject to adjustments. 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 insurance 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 (PERS) contributions. Health benefits are a fixed cost and 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, positions are approved based on the current compensation plan and OPE costs. 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. The Legislature approves 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. This funding may occur either during the even-numbered year legislative session or by the Emergency Board.

Collective Bargaining Contracts and Unclassified Employees

Under the state's collective bargaining law for public employees, the Chief Human Resources Office (CHRO) of the Department of Administrative Services (DAS) negotiates with unions over salary and represented employee benefits. Negotiations begin prior to the expiration of each union's 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 current 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.

Although not required by law, the state's unclassified, management service, and exempt employees are normally granted a similar compensation adjustment as those negotiated for represented employees. The other branches of government usually use those contracts as a basis for their employee compensation plans.

It should be noted that after ratification of the negotiated contracts in the fall of odd numbered years, but prior to legislative consideration of funding, state employees may begin receiving negotiated pay and benefit adjustments. Since this occurs at the beginning of the biennium, agencies are able to pay for such adjustments by temporarily drawing down existing budgeted resources. Before any compensation plan adjustments can be made, DAS is required to report the proposed changes to the Legislative Assembly when in session. If the Legislature is not in session, DAS may report to either the Emergency Board or the interim Joint Committee on Ways and Means. The Legislature does not approve the changes, they only receive a report on the impending adjustments.

Compensation Plan Budget Process

As mentioned above, the Legislature usually provides a special purpose appropriation (SPA) for state employee compensation during the regular legislative session. The amount is based on an estimated cost of the compensation plan proposed by the Governor during the fall of even numbered years. The estimate is then included in the Governor's budget 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 may adjust the amount of the SPA recommended by the Governor; however, it is under no legal obligation to fund compensation plan changes.

Special Purpose Appropriation Allocation

With the implementation of annual legislative sessions, the distribution of the funds set aside for employee compensation have typically been distributed during the even-year legislative session. The distribution usually covers state employees in all three branches of state government. The distribution includes a General Fund appropriation to each agency, along with any Lottery, Other, and Federal Funds expenditure limitation requirements. If the Executive Branch negotiates contracts that exceed the amount of General Fund in the special purpose appropriation, then agencies typically receive a proportional reduction from the actual need. Lottery Funds, Other Funds, and Federal Funds limitations are usually increased to cover the full cost of the employee compensation need.

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 fifteen biennia. The table provides context on how the Emergency Board and the Legislative Assembly have chosen to budget and then fund compensation plans.

Of note in the table:

- For the most part, the Legislature has supported Executive Branch negotiated contract agreements by consistently providing the majority, if not all, of the required compensation plan funding.
- Agencies have been consistently required to absorb the unfunded portion of the compensation plan costs within existing budgeted resources.
- Occasionally, the Legislative Assembly has 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.
- In the 2009-11 biennium, the $32 million that was originally set aside for employee compensation was to cover the cost of health insurance increases only. All other compensation increases were offset by the use of unpaid furlough days, wage freezes, and agencies absorbing some of the costs. The Legislature eventually used the money to help balance the budget due to declining General Fund revenues.
- In the 2011-13 biennium, no funds were set aside for employee compensation, again due to declining revenues. All compensation increases were offset by use of unpaid furlough days, wage freezes, and the agencies absorbing some of the costs.

- The last two biennia have been more in line with the traditional use of a SPA for employee compensation and the distribution of the funds during the even-year legislative session.

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	Legislative 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%
11	2007-09	$131.1	$130.0	$125.0	$100.0	80%
12	2009-11	$30.2	$5.1	$32.0	$0.0	0%
13	2011-13	$0.0	$0.0	$0.0	$0.0	n/a
14	2013-15	$96.2	$81.5	$86.5	$86.5	90%
15	2015-17	$128.8	$120.0	$120.0	$120.0	93%

* 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

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 program areas, although the Legislature may make exceptions.

Current Employee Compensation

For the 2015-17 biennium the total increase in employee compensation is expected to be $128.8 million General Fund and $299.7 million total funds. As shown above, the General Fund SPA is expected to cover about 93% of the statewide estimate of costs for compensation and benefit changes. Lottery Funds, Other Funds, and Federal Funds expenditure limitations were calculated at fully-funded amounts.

The costs of the awarded increases for 2015-17 are expected to roll-up to slightly over double that amount for the 2017-19 biennium. The Legislature has raised concerns that while the Executive Branch has historically negotiated somewhat closely to the amount set aside for employee compensation in the current biennium, many of the cost of living adjustments (COLAs) and step increases phase-in later in the biennium and therefore the roll-up costs are significant in the next biennium.

For the first time, one of the two largest unions has negotiated a 6% pay increase in lieu of the state PERS "pickup." The Service Employees International Union (SEIU) included that provision in its current contract. Those employees actually will receive a 6.95% pay increase beginning November 1, 2016. The additional 0.95% covers the other payroll expenses (OPE) that are affected by the increase in salary. The result is that employees should see no change in their pay, but they will now be paying the 6% of their salary that goes into their retirement account. SEIU is taking a smaller COLA in the first year of the biennium to offset the cost of the additional 0.95% of salary.

The other significant change in the current contracts is the inclusion of the day after Thanksgiving as a paid state holiday.

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 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 costs above that amount. These agencies have been able to do so successfully using managerial discretion to accumulate offsetting budget savings within existing agency budgets.