

Legislative Fiscal Office

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Budget Information Report

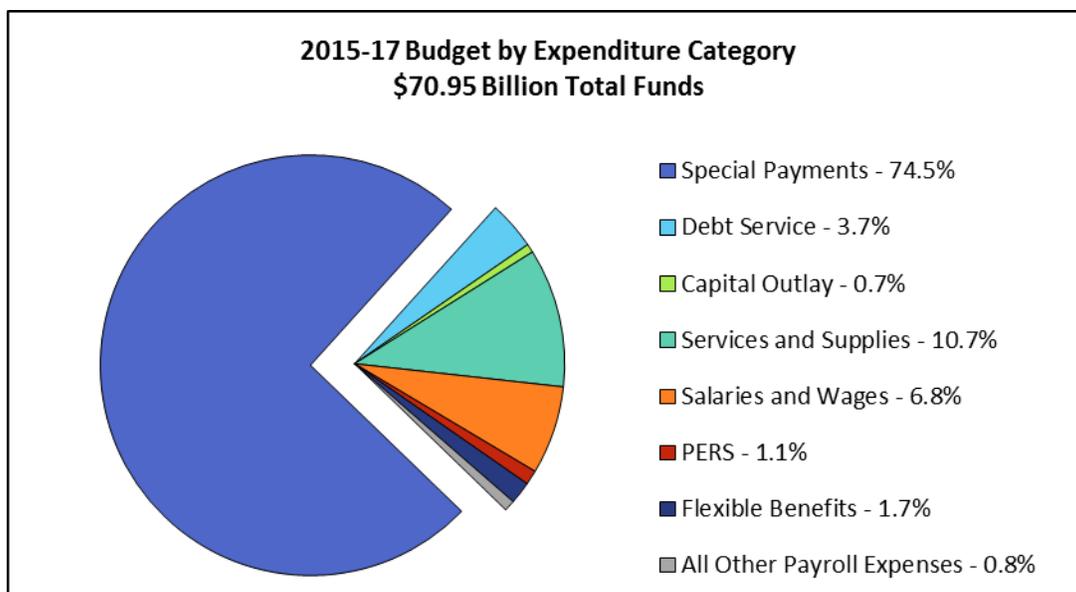
How Positions Are Created, Budgeted, and Used

Issues relating to state employees, including their number, compensation, and funding, are always in the forefront of budget discussions. This report (last published June 2008) is an updated introduction to the fundamental budget-related issues for state employees and positions. The report is intended to address some of the major questions that are frequently asked by the Legislature and the public.

It should be noted that since the previous issuance of this report, the Legislature passed SB 242 (2011), which redefined the Oregon University System (OUS) as an organization with greater authority and independence to manage affairs, operations, and obligations. Universities with governing boards are no longer considered to be state agencies and are now independent public bodies with statewide purposes and missions. As a result of this change, position and FTE data reporting for OUS is no longer collected by the Department of Administrative Services (DAS); this change will be seen in the comparisons of data over time that are included in this report.

How much of the budget is represented by the cost of state employees?

For the 2015-17 biennium, there are over 40,967 state positions in various state agencies. The total legislatively approved budget for 2015-17 is \$71 billion total funds. Of this amount, roughly \$4.8 billion total funds are budgeted for state employee salaries, representing 6.8% of the entire budget. The largest share of the state's spending is for payments to individuals (e.g., public assistance payments, Food Stamps), local jurisdictions (e.g., schools, counties, cities), and service providers (e.g., hospitals and other health care providers) as represented by the 74.5% share for Special Payments. The following chart demonstrates total funds spending by expenditure category for the 2015-17 biennium, updated as of the May 2016 Emergency Board actions.



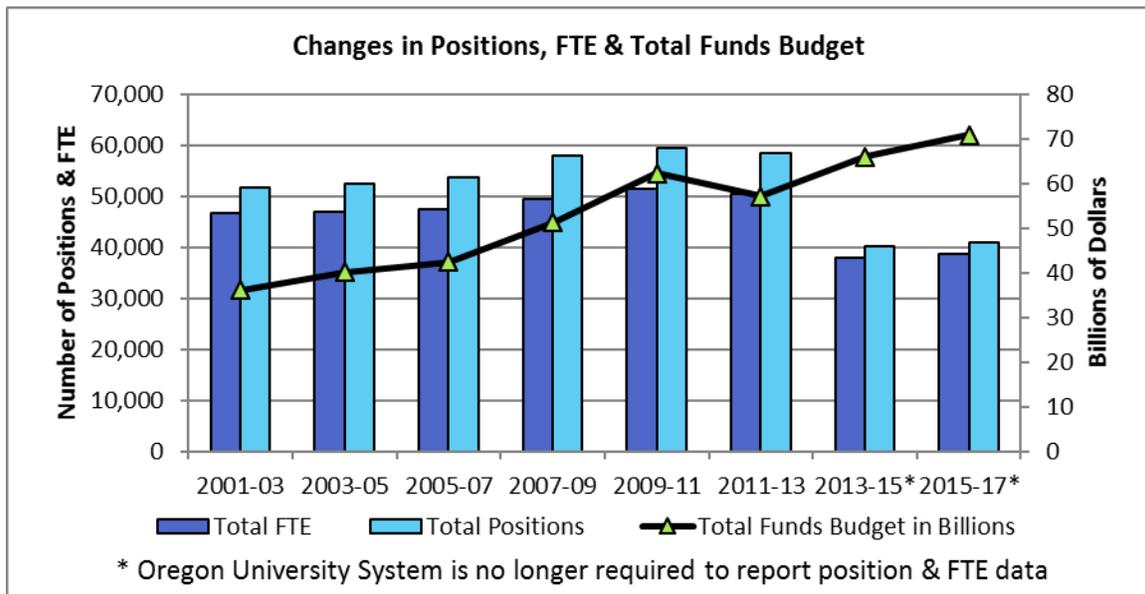
How does the state budget for positions and how are they counted?

The state's budget process results in a specific number of positions being authorized as each agency's budget is passed by the Legislature. There are two terms used to measure state employee resources in the budget:

- The term *position* is used to measure the number of slots, regardless of whether the position is full-time or part-time. The current legislatively approved budget for 2015-17 authorizes a total of 40,967 state positions. In some cases, there may be more than one employee assigned to a position (referred to as a double-filled position, which is discussed below).
- The term *full-time equivalent (FTE)* accounts for the amount of time each position is budgeted, and better reflects the amount of employee resources. For example, a full-time position budgeted for all 24 months of a biennium is 1.00 FTE, while a position that is filled full-time for only 12 months of the biennium or is a half-time position is 0.50 FTE. The 2015-17 legislatively approved budget authorizes a total of 38,772.42 FTE in state agencies.

How much has the number of state employees changed in recent years?

The chart below, spanning the current and the previous seven biennia, demonstrates the fluctuations in both the number of positions and total FTE in comparison to the budget for the same period in billions of dollars.



Is there a limit on the number of state positions?

ORS 240.185 limits the number of state employees to 1.5% of the state's population in the prior year. Every two years, DAS updates information applying the limit to the number of budgeted full-time equivalent positions. Certain employees are exempt from the limit, including employees of the Legislative and Judicial Branches, Governor's Office, Secretary of State, Treasurer, and personnel who administer the unemployment insurance benefits program at the Employment Department. The most recent version of this report, found on pages 553-554 of the 2015-17 Governors Recommended Budget, measures the number of subject full-time equivalent positions at 35,225 which represents 0.8% of the state's population.

Is each position unique or can agencies change positions based on their needs and priorities?

Each position has a set of specific characteristics, including an identification or position number, salary level, job classification, and funding mix. A position is grouped or classified with other positions that have similar duties, responsibilities, pay, qualifications, and authority. There are roughly 543 classes of

positions in state government (not including the Judicial Branch) which are grouped in similar occupational categories such as financial management, health care, human resources, biologists, or managers. Some position classes have only a few employees because of the uniqueness of the duties, while others, such as the clerical and management series, have hundreds of employees because the general duties are very similar from one agency to another. DAS reviews and revises classifications as part of an ongoing process. In the 2015-17 biennium, DAS has established 14 new classifications and eliminated 3 classifications, while 30 classifications were currently under review as of August 31, 2016.

An individual state agency may use a process termed “reclassification,” or “reclass,” if it wishes to change the position classification. Any reclass of a position must be approved by DAS. The agency must identify a business reason for the change, such as: 1) new agency priorities based on a new law or other change in direction; 2) an agency reorganization leading to new duties for a position; 3) greater responsibilities being placed on a position; or 4) the need for a new skill set because of a change in technology or business practice. An executive branch agency may reclassify a position if it completes a number of steps, including: 1) the proposed classification has been reviewed by a human resource professional; 2) resources have been identified in the current budget to fund any resulting increase in spending; and 3) a permanent financing plan has been prepared which ensures that the reclass will not increase costs in future budget periods. For example, if an agency determines a position must be reclassified upward, the agency may identify another position to reclass downward to provide the financial resources within the parameters of the agency’s budget. The Legislature can approve a position reclassification as part of the budget process or through Emergency Board action, without meeting the requirements outlined above.

There is also a process in which a series of positions in one or more classifications may be reviewed for all agencies which have positions in certain classifications. In these cases, DAS, not the individual agencies, is responsible for performing the class study. These class studies may include a number of job classifications. DAS began work on “The Oregon Management Project”, which would be a comprehensive market comparison of management positions, including systems of classification and compensation, training practices, and retention and recruitment. The project would change the current system with a series of recommended legislative and administrative phases. Many of the proposed changes could be implemented administratively, while some components would require legislative approval. While the purpose of this effort was to redesign/reconfigure the state workforce systems (compensation, classification, performance management) to support getting the right people in the right job at the right time, the study has been put on hold indefinitely.

How much flexibility does the Executive Branch have in creating a position without legislative approval?

Traditionally, the Legislature during session and the Emergency Board during the interim, may authorize the establishment of positions as well as change the funding mix, classification, and budgeted dollar amounts. The Executive Branch is limited in its authority to establish a permanent position without legislative approval. The Executive Branch may establish a position as part of a reclassification, but generally it must stay within the resources authorized for that specific agency. For example, two part-time positions could be eliminated to create one full-time position as long as the agency has the financial resources and the action does not increase the overall FTE for the agency.

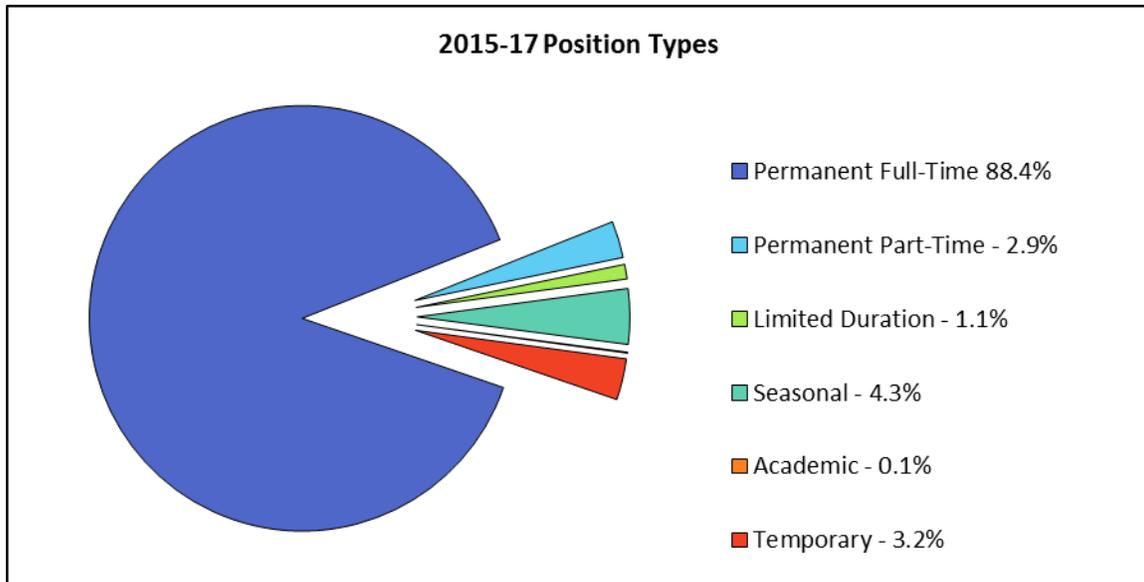
DAS may approve the creation of a limited duration position if: 1) it can be financed with existing resources; 2) will not produce future budgetary increases; and 3) conforms to the approved salary policies. These positions are authorized only to the end of the biennium in which they were created and they only become permanent with the approval of the Legislature.

DAS also has the authority (ORS 291.371) to move vacant positions from one agency to another. This action is difficult for DAS to do since the statute only authorizes DAS to move a vacant position and not

the expenditure limitation or appropriation, which requires legislative or Emergency Board action. The usefulness of this authority is also diminished by the fact that each position has a specific salary level, classification, and funding mix, making it difficult for the receiving agency to actually use the position.

Are all state positions permanent and full-time?

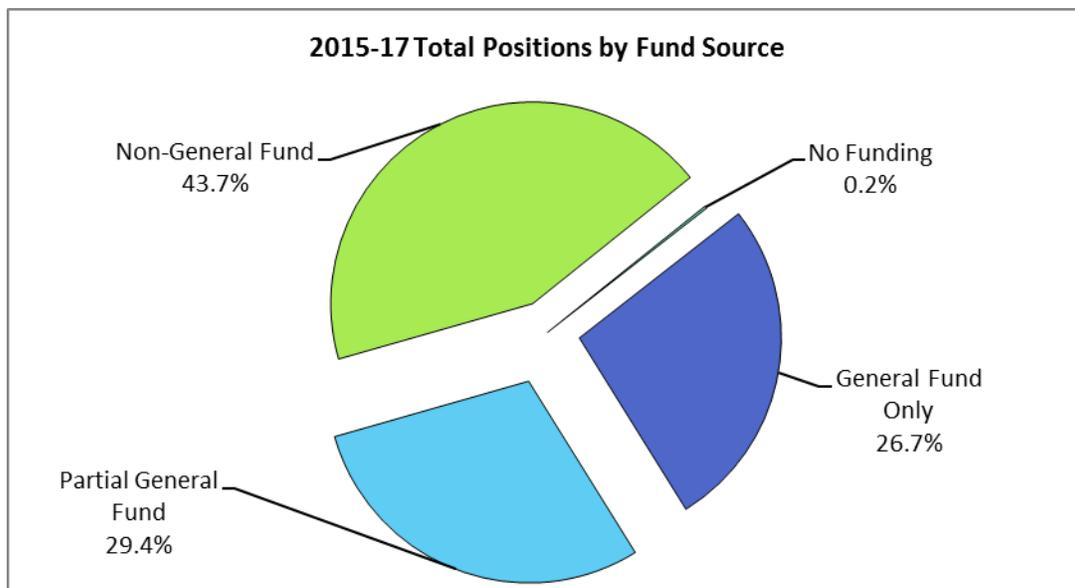
While most positions are classified as permanent and full-time, there are five major position types to meet the needs of state programs and services.



- *Permanent full-time positions*, representing almost 88.4% of all positions, are usually continued from one biennium to another unless eliminated by the Legislature.
- *Permanent part-time positions*, representing 2.9% of positions, also continue from one biennium to the next, but are authorized and budgeted for less than full-time. Agencies that rely on permanent part-time positions include the Legislature, Judicial Department, and Department of Human Services.
- *Seasonal positions*, both full-time and part-time, represent 4.3% of total positions. These positions are only required for part of a year to meet seasonal workload. Most of these positions are located in natural resource-related agencies including the Department of Fish and Wildlife, Department of Forestry, and Department of Agriculture.
- *Limited duration positions*, both full-time and part-time, represent 1.1% of total positions. These positions are often used for jobs with a source of funding that is not permanent (e.g., grants or contracts), or whose services are required for a short period of time. Limited duration positions are only authorized for the current biennium unless reauthorized by the Legislature or DAS.
- *Academic positions*, both full-time and part-time, represent less than 1% of total positions. These positions are found in the Department of Education for the School for the Deaf.
- *Temporary employees* are also utilized by state agencies to perform specific functions; these positions represent 3.2% of total positions. Temporary employment is used for meeting emergency, nonrecurring, or short-term workload needs. A formal position is not established for temporary employees, so they do not appear in total position counts. The time a temporary employee can work is generally limited to six months out of each 12-month period (full-time basis). An agency may request an exemption from this time limitation beyond the six months for covering the responsibilities of another employee on leave or on a job rotation for more than six months, or for a continuing emergency where there is not another feasible way to meet the need. Employees in a temporary position are not eligible for flexible benefits (e.g., health insurance), but retirement contributions are paid for individuals who meet PERS eligibility requirements.

How are positions funded in the budget?

Each position has a specific funding mix and the chart below demonstrates that 26.7% of state positions are funded only with General Fund resources. These General Fund-only positions are found across state government but are concentrated in the Department of Corrections, the Judicial Branch, Oregon State Hospital, Department of State Police, Oregon Youth Authority, and the Legislature. Another 29.4% of state positions are funded with a combination of General Fund and other sources. Nearly all of these are found in the Department of Human Services and the Oregon Health Authority, where General Fund is used to match Federal Funds (e.g., Medicaid). Other agencies with positions funded in part with General Fund include the Forestry Department, Department of Justice (Support Enforcement Division), and the Department of Revenue. The remaining 44.7% of all state positions have no General Fund resources. A majority of these positions are in the Departments of Transportation, Consumer and Business Services, Administrative Services, Employment Department and the natural resource agencies. A small number of positions (less than 1%) have no funding designated (e.g., pro-tem judges). It should be noted that the funding source(s) for positions is not considered a factor in the determination of appropriate salary range assigned to a job.



How is an employee's salary determined?

Each employee is assigned to a unique position which has a specific number, classification, and salary range. The employee's salary should be within that range but "payline exceptions" are possible. Salary ranges generally have up to nine steps, and the step for which the employee is paid is based primarily on seniority. Each step is approximately 5% greater than the previous step. The goal is that the top step salary is comparable to the median salary for that occupation across all comparable Oregon employers. A newly hired employee is generally hired at the first or second step. Agencies have the discretion to hire at a higher range under a number of circumstances, including a competitive job market. Annually, the employee is eligible to receive a step or merit increase. The date of the increase is referred to as the "anniversary" or "salary eligibility" date. Once employees reach the top step of the salary range, they are no longer eligible for further step or merit increases if they remain in that classification. On occasion, as a result of collective bargaining and compensation plan changes, the first step for some state positions is eliminated and another step is added at the top of the range. This means that those employees who had been at the top step of their range will be eligible for a step or merit increase.

All employees are eligible for a cost of living adjustment (COLA) in the years they are authorized. COLAs are set by the bargaining agreements for represented employees. For non-represented Executive Branch employees, the Governor, after consulting with the DAS director, sets the increase; but it is usually based on the increases provided to represented employees. For the 2015-17 biennium, most

state employees received a 2.25% COLA effective on December 1, 2015, and received another 2.75% COLA December 1, 2016. The COLA is over and above any step or merit increase the employee receives. Employees are also eligible for a number of salary differentials, including specific shift times (e.g., “graveyard”), bilingual ability, and training certification. These are usually a percentage of the employee’s base salary. Other employee groups may receive additional compensation increases specific to that group. For example, in SB 1597 (2016) all statutory judges received a \$5,000 per year salary increase set to begin on January 1, 2017.

How are positions treated in the budget development process?

The budget for personal services (e.g., salaries, benefits, retirement) is based on information for each individual position, using the Position Information Control System (PICS). The sequence of steps in building the 2015-17 budget relating to positions is outlined below:

- In the spring of 2014, information for individual positions was subject to a process termed the “PICS freeze.” At the time of the freeze, existing salary and related Other Payroll Expenses (e.g., health benefits, retirement) was used to project 2015-17 costs. Any changes to information on an individual position, such as changes in classification after the freeze date, were not included in the base budget projections.
- The salary for each position is usually adjusted for any scheduled step or merit increases for anniversary dates remaining in the current biennium and for any scheduled COLAs.
- For positions that were phased-in during 2013-15, adjustments were made to provide 24 months of funding for the 2015-17 budget if those positions were scheduled to continue.
- Funding for one salary step or merit increase was provided in the development of the 2015-17 budget for each position where the employee had not reached the top step. This applied to agencies with more than 10.00 FTE, and the resources for the second step increase for eligible employees were funded by savings in the agency’s budget. Agencies with less than 10.00 FTE were provided resources for both step or merit increases since smaller agencies usually have less staff turnover or other budget savings.
- If a position is vacant at the time of the PICS freeze, funding for that position is provided at the second step of the salary range. All step or merit increases and cost of living adjustments are factored into the calculations as if the position was filled.

Can more than one person be assigned to a position?

Agencies use a process termed “double-filling” when more than one person is assigned to a single position. DAS’s Policy: 04-010-02 lists specific purposes for double-filled positions, including:

- covering or backfilling for an employee on leave when other alternatives, such as a temporary employee appointment, do not work
- short-term transition and training when an employee will soon leave state employment
- job sharing when the total FTE of the employees assigned to the position is no more than 1.00 FTE
- when a position is awaiting an update in the PICS system
- addressing a specific budget issue when directed by DAS’ Chief Financial Office

Agencies also use double-filling for emergency workload and to place an employee in a position awaiting the establishment or reclassification of a different position. Employees double filling positions must meet the minimum qualifications of those positions and be appointed according to applicable recruitment and appointment policies or collective bargaining agreements. Double-filling is not to be used to permanently increase legislatively approved staffing levels. There is no additional funding available to an agency if it decides to double-fill a position. An agency must identify savings elsewhere in its budget or reprioritize its resources to fund the additional costs of a double-fill. Vacancy savings are a primary source of funding for double-fills. As of August 10, 2016, there were 2,132 double-filled positions.

Why are positions vacant?

At any given time, roughly 10% to 15% of authorized state positions are vacant. For example, as of August 10, 2016, a total of 4,812 state positions were vacant, representing 12% of all positions. There are a number of reasons for these vacancies, including:

- *Position turnover:* Someone leaves a position and the agency is in the process of filling the position. This is the normal turnover, or attrition, that any large organization experiences. The hiring process can take weeks or longer after factoring in recruitment, interviewing, criminal records checks, and other activities which must occur prior to a hire. Some positions may take much longer to fill if they are in a field with a shortage of viable candidates (e.g., health-related fields in rural areas of the state).
- *Double-fill funding:* Agencies leave positions vacant to provide funding for another position that might be double-filled (see previous discussion on double-filled positions).
- *Seasonal:* Approximately 4.5% of positions are seasonal in nature and, depending on the time of year, many of these positions may be vacant. Many natural resource agencies depend on seasonal positions for their core functions.
- *Eliminated positions:* At any point in time, the vacancy list(s) prepared by DAS include positions which have been eliminated, but continue to be in PICS until the end of the biennium.
- *No funding:* When a position depends on a funding source that is not generating revenue at the anticipated amount or has been terminated (e.g., grant funds are no longer available), the position may be left vacant until there are sufficient revenues. If there is a long-range revenue issue, the budget process generally results in a review of the program and elimination of positions.
- *Phase-in positions:* A position may be created during the legislative session but the funding for this position is not scheduled to phase-in or begin until later in the biennium. An example of this is a caseworker or eligibility worker position tied to caseload growth which is projected to occur later in a biennium. The position is filled when the funding becomes available.
- *Unbudgeted costs:* Agencies often leave positions vacant to provide resources for costs not included in the agency's budget. These may include unanticipated costs such as utilities, health care, and growing caseloads. In the past, the legislatively approved budget has often not included sufficient funding for known costs such as employee compensation increases.
- *Overall budget shortfalls:* In a given biennium, but particularly those with a significant statewide or agency-specific funding shortfall or uncertainty, many positions may be left vacant in order to achieve both specified and unspecified reductions. These financial reductions may also be accomplished through hiring freezes or through administrative action.
- *Post-factor:* Vacant positions also occur because of the staffing patterns for 24-hour institutions. For example, the Department of Corrections applies a "post-factor" to specific positions, within a correctional facility, which must be staffed 24 hours/7 days per week. This drives the need for more than 1.00 FTE to provide all of the resources for the 24-hour period. A part-time position is established to provide the necessary resources beyond the full-time FTE.
- *Reorganization:* A reorganization of an agency or program may leave positions unfilled until final decisions are made on the responsibilities and classifications of the positions.

Review of long-term vacancies (position is vacant for over six months) provides the best opportunity to determine whether positions are still needed by an agency. State agencies must report on a quarterly basis on any position that has been vacant for at least for six months (ORS 291.263). The table below shows the reasons for long-term vacant positions at the end of June 30, 2016. In addition, the Department of Human Services and Department of Corrections must report biennially to the Legislature on the number of vacant positions and their impact on delivery of services, use of overtime, use of temporary employees, and employee workload (ORS 291.371).

Reasons for Long-Term Vacancies

	Number of Vacant Positions	Percent Share
Seasonal positions	618	27.6
Position filled or in the process of being filled	499	22.3
Position vacant to generate savings or fund unbudgeted costs	165	7.4
Used to finance another position, including double-fills	252	11.2
No funding available for position	95	4.2
Difficulty in recruiting position	53	2.4
Position is pending a reclassification	143	6.4
Position is abolished but still in the system	24	1.1
Position is phased-in later in the biennium	48	4.2
Other	344	13.2
Total	2,241	100.0

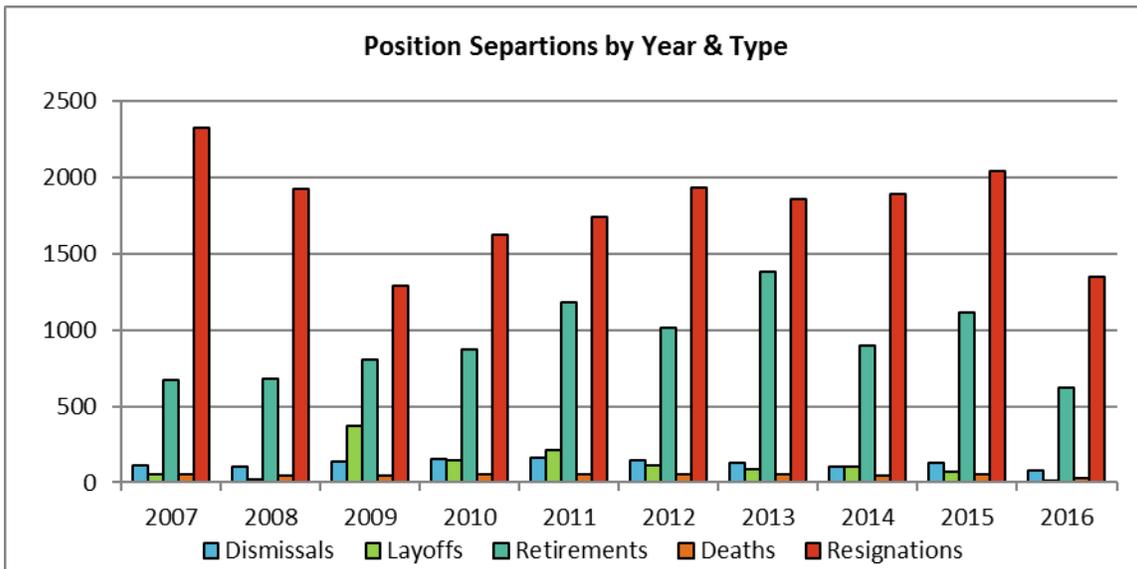
How are vacant positions factored into the state budget process?

The formal budget process utilizes a vacancy factor calculation which estimates the budget savings expected to occur due to staff turnover. This calculation uses turnover history in the previous biennium and accounts for cases where the vacancy savings are used to fund other personal services costs, including double-filled positions and temporary employees. Vacation payouts to employees leaving employment, as well as benefits and other personal service costs, are factored into the calculation. For the 2015-17 legislatively approved budget, the vacancy calculation resulted in total funds savings of \$68.4 million and General Fund savings of \$41.8 million. The Legislature, as part of its budget process, also reviews vacant positions to achieve further savings.

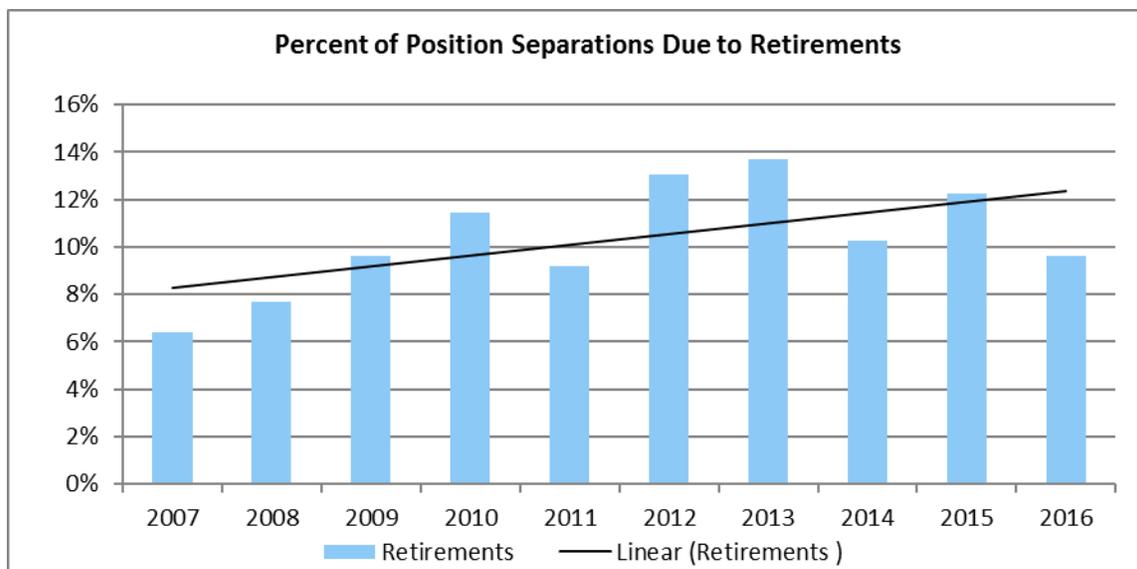
What is the turnover rate for state employees and why do state employees leave service?

State government is just like any other large employer; a certain number of employees will leave or separate from employment over a period of time. Employees leave state employment for the following reasons:

- *resignations*, where an employee leaves state employment on his or her own accord
- *retirement*, where an employee decides to formally retire and start collecting retirement benefits
- *layoffs*, where an employee loses his or her job because funding is no longer available for the position, the agency has reorganized, or if there are changes in the agency's programs
- *death* of an employee
- *dismissal or removal of an employee from trial service* because of job performance or other reasons
- *other*, the termination of seasonal, limited duration, or executive service appointments, as well as any time an employee separates from a position for a promotion, demotion, or transfer to another position (the 'other' category has not been included in the graph below)



In the past, the annual turnover rate has averaged approximately 8.5% (not including the Judicial Branch). During the 2015 calendar year, the turnover rate was 9.7%. These separations do not include those cases where an employee decides to move from one state job to another. Retirements are the only form of position separation that is trending upward as a percentage of total separations.



Do agencies hire back employees after their retirement?

Past changes to the Public Employees Retirement System (PERS) have caused a significant increase in retirements over the past five years. From 2007 to 2010, there was an average of 760 retirements per year, while there was an average of 1,120 retirements from 2011 to 2015. Many agencies hire the same retirees back to perform day-to-day functions of the agency and to assist in the transition to new employees. State law limits retirees to less than 1,040 hours of employment during a 12-month period if the retiree is to continue receiving PERS benefits. In recent years, a number of exceptions to the 1,040 hour limit on the number of hours worked have been established by the Legislature including the following:

- Teachers or administrators employed by an education service district (ESD), provided the primary duties of the retired employee are performed in a county with a population of not more than 35,000 inhabitants. Members who took early retirement are eligible for this exception provided they are not employed in the position until at least six months after their effective retirement date.

- Speech-language pathologists or speech-language pathologist assistants employed by a school district or ESD. Members who took early retirement are eligible for this exception provided they are not employed in the position until at least six months after their effective retirement date. This exception ends January 2, 2026.
- Oregon State Police for work in a county with less than 75,000 inhabitants.
- Any participating employer if the retired member is employed to temporarily replace an employee serving in the National Guard or in a reserve unit of the United States Armed Forces who is called to federal active duty.
- A person on active state duty in the organized militia who has reached normal retirement age.
- Director or an Assistant Director of the Department of Human Services, or the Oregon Health Authority if the Governor approves the exception for the specific person in the position.
- A retired member who is a registered nurse employed as a nursing instructor. This exception ends January 2, 2026.
- By the Legislative Assembly or the Oregon State Police for service during a legislative session.
- A person employed by the Department of Public Safety Standards and Training to provide training under ORS 181.610 – 181.712. This exception ends January 2, 2026.
- As a teacher of career and technical education (licensed by the Teacher Standards and Practices Commission to instruct any career and technical education course or program in any career and technical education field). This exception ends June 30, 2018. Members who took early retirement are eligible for this exception provided they are not employed in the position until at least six months after their effective retirement date.

Additional exemptions exist for local governments, such as cities and counties. As of August 2016, there were 620 PERS-eligible retired state employees working for state agencies (excluding the Judicial Branch). All but 137 of these employees were assumed to be working under the 1,040-hour limit. Almost all of those working under one of the exemptions for a state agency were employees of the Department of Public Safety Standards and Training, which rely on retired law enforcement officers to work as instructors.

Is contracting out work a viable alternative and are there barriers to contracting out?

Many state-funded services already “contract out” to private businesses and organizations, including senior and disabled services, road construction and maintenance, information systems development, various laboratory services, firefighting, fish production functions, vehicle repair and maintenance, park concessions, and mental health treatment services. Collective bargaining, through case law and state statute, assumes that contracting out is a mandatory bargaining issue since it affects job security and wage issues. Generally, this means the impact of the decision must be bargained, but not the decision itself. Examples of impact issues include the assistance state agencies may provide to displaced workers (e.g., training, job search skills), timing when displaced workers may be laid-off, and re-employment with agencies outside of the bargaining unit. A state agency may promise to work with the entity performing the contracted work to hire the displaced state worker or to seek hiring preferences by state agencies.

As discussed above, certain requirements must be met prior to contracting out services or functions currently provided by state employees. The collective bargaining agreements with the Service Employees International Union (SEIU) and the American Federation of State, County and Municipal Employees (AFSCME) include a number of requirements. For any proposal to contract out when a represented employee will be displaced, the agency must conduct a formal feasibility study determining the costs and benefits of the proposal. The results of this study must be provided to the union. In addition, the agency must give at least a 30-day notice that it intends to issue bids for contracting out responsibilities so the union may submit an alternative proposal. If the alternative proposal would result in quality and savings equal to or greater than the contracting out proposal, the agency must implement the union proposal. If a represented employee is displaced as a result of contracting out, the agency

must either require the contractor to hire the displaced employee at the same rate of pay for at least six months, or place the employee in another position in state government. If an employee finds either alternative unsatisfactory, the employee may exercise layoff rights pursuant to the bargaining agreement. The employer will also count 80% of the affected employee's straight-time wage rate when comparing the two plans. The Oregon Nurses Association and the State Teacher Education Association have similar requirements.

Summary and Additional Information

As one of the largest employers in the state of Oregon, the personnel resource management system of the state is understandably complex. The system must ensure that the practices of all state agencies and managers conform to federal and state personnel relations laws, rules, regulations, and policies, as well as negotiated collective bargaining agreements. The system must attempt to balance the need for some level of decentralized control to provide individual agencies with the ability to manage their human resources while maintaining a certain amount of centralized authority to enforce uniform and consistent application of mandated human resource management practices.

Given the complicated nature of the state's personnel system, no single report can address all of the potential issues or questions the system invites. This report has focused on providing background information on the budgetary elements of the state's employee classification, compensation, and recruitment system to address some common questions concerning the creation, management, and utilization of the state's employees and positions.

For information relating to specific positions or agencies, please contact the Department of Administrative Services, Human Resource Services Division at 503-378-8344. For information or questions on general position-related information contained in this report, please contact the Legislative Fiscal Office (Krista Dauenhauer at 503-986-1838, John Terpening at 503-986-1824, or Ken Rocco at 503-986-1844).