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

Budget Information Report

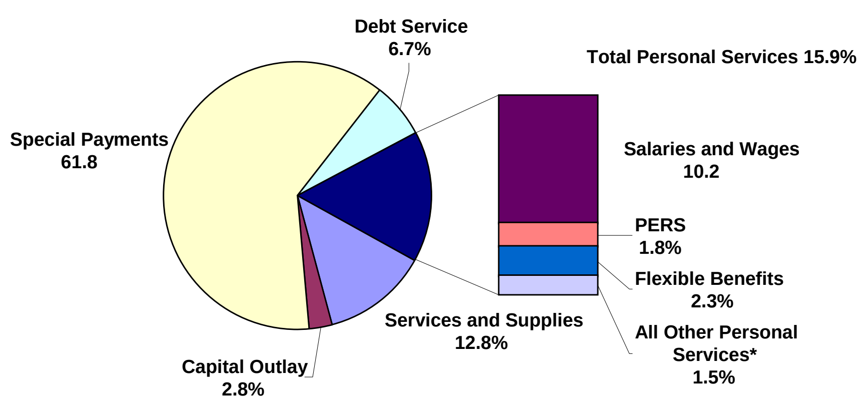
How Positions are Created, Budgeted, and Used

Issues relating to state employees, including their number, compensation, and funding, are always in the forefront of budget discussions. This report is an introduction to the fundamental budget-related issues for state employees and positions. The format is designed to address some of the major questions that are frequently asked by members of the Legislature and the public.

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

For 2007-09, there are over 57,100 state positions in the various state agencies and the Department of Higher Education. The total legislatively approved budget for 2007-09 is $48.3 billion total funds. Of this amount, over $4.9 billion total funds ($1.8 billion General Fund) is budgeted for state employee salaries for 2007-09, representing 10.2% of the entire budget. Another $2.7 billion total funds ($1.2 billion General Fund), or 5.6%, is budgeted for retirement system contributions, flexible benefits (e.g., health benefits), overtime, differentials, and other personal services costs. 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 61.8% share for Special Payments. A large share of the Special Payments fund the compensation of local government employees in school districts and counties. The following chart demonstrates total funds 2007-09 spending by expenditure category.

2007-09 Budget by Expenditure Category
$48.327 Billion Total Funds



* All Other Personal Services includes the $125 million Special Purpose Appropriation for the "salary pot" to be distributed by the Emergency Board.

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

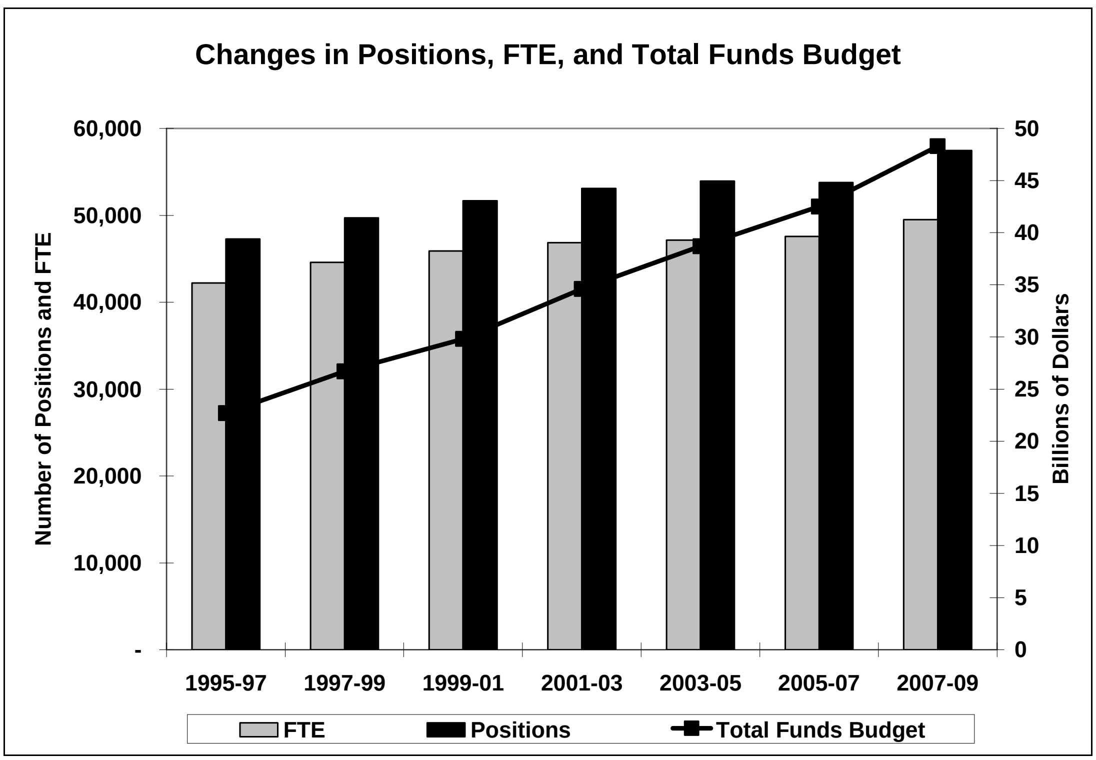
The state's budget process results in a specific number of positions being authorized as each agency's budget is passed by the Legislature. There are two terms used in reference to measuring state employee resources in the budget:

- 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 2007-09 authorizes a total of 57,199 state positions (including the Department of Higher Education). 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 2007-09 legislatively approved budget authorizes a total of 49,367.33 FTE in state agencies (including the Department of Higher Education).

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

The chart below, spanning the current 2007-09 biennium and the previous six biennia, demonstrates that growth in both the number of positions and total FTE is roughly 20% compared to growth in the total funds budget for the same period of over 110%. The General Fund budget grew by 88% over the same period.



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, the Department of Administrative Services (DAS) updates information applying the limit to the number of budgeted full-time equivalent positions. Certain employees are exempt from the limit as defined in ORS 240.185, including employees of the Legislative and Judicial Branches, Governor's Office, Secretary of State, Treasurer, Employment Department, and employees of the Department of Higher Education funded by the gifts, grants, and contracts program.

As of 2006, which is the last time DAS updated this information, there were 43,721 FTE subject to the limitation. Based on the population at that time, the total number of FTE employed by the state was more than 11,600 FTE under the limitation of 55,350 FTE.

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

Each position has a set of specific characteristics, including identification 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 670 classes of positions in state government (not including the Judicial Branch and the Department of Higher Education) 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 like 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. Currently, there are 89 classifications under review that may be revised or eliminated.

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 skills set because of a change in technology or business practice. An executive branch agency may reclass a position if it meets 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 reclassed upward so the employee is compensated for the work actually performed, the agency may identify another position to reclass downward to provide the resources. 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 termed "reallocation" which also results in a position being "reclassified." The difference is that, in a reallocation, a series of positions in one or more classifications are being reviewed for all agencies which have positions in these 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 has recently completed major studies involving trades and crafts positions as well as various administrative positions. Both of these class studies took many years to complete. DAS plans to work on a number of class studies during 2007-09, including a multi-year study on state health care positions, examining nurses and mental health workers first. Other class studies scheduled for 2007-09 include Building Codes employees; natural resource field workers in Fish and Wildlife, Forestry, and Parks and Recreation; and Print Services at DAS. Beyond 2007-09, class studies involving other health care workers (e.g. physicians and pharmacists), correctional counselors, tax auditors, information systems specialists, and program analysts, among others, are scheduled. In addition, the Principal Executive Manager classes, which involve most state managers and agency directors, are scheduled to be studied.

The table on the following page demonstrates the number of reclassifications and reallocations for the 2005-07 biennium and for the current biennium through March 31, 2008. These numbers include all of the agencies in the executive, judicial, and legislative branches except for the Department of Higher Education.

	2005-07 Biennium	2007-09 through 3/31/08
Reclassifications		
Reclass Upward	1,287	419
Reclass Equal	110	57
Reclass Downward	73	22
Reallocations		
Reallocation Upward	1,763	1,618
Reallocation Equal	750	99
Reallocation Downward	67	7

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

Traditionally, the Legislature during the session and the Emergency Board during the interim may establish positions as well as change the funding mix, classification, and budgeted amount. 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 reclass or reallocation (described above), 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 both the financial resources and it does not generally 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.

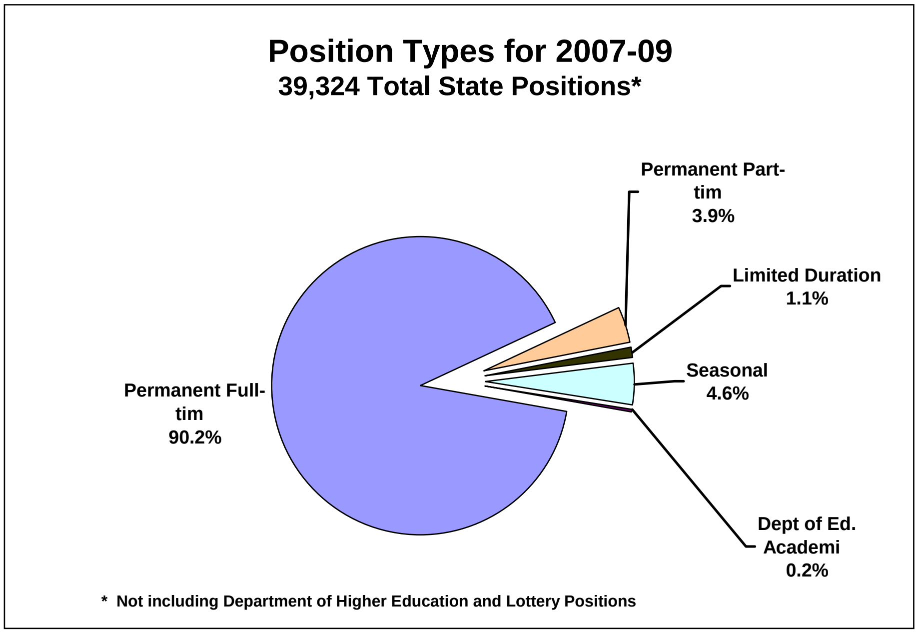
DAS also has the authority (ORS 291.371) to move vacant positions from one agency to another. To date, this has not been used since it only authorizes DAS to move a vacant position and not the expenditure limitation or appropriation, which would require legislative or Emergency Board action. Also limiting the transfer of positions under this authority is that each position still 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 are full-time, there are five major position types to meet the needs of state programs and services. The positions of the Department of Higher Education are not included in this information since they are not included in the statewide Position Inventory Control System (PICS), the primary budget tracking system for state positions. The Department of Higher Education has its own position control system.

- **Permanent full-time positions**, representing over 90% of all positions, are usually continued from one biennium to another unless eliminated by the Legislature.
- **Permanent part-time positions**, representing almost 4% 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 just under 5% 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 just over 1% of total positions. These positions are often used for employees whose source of funding 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 for another biennium.

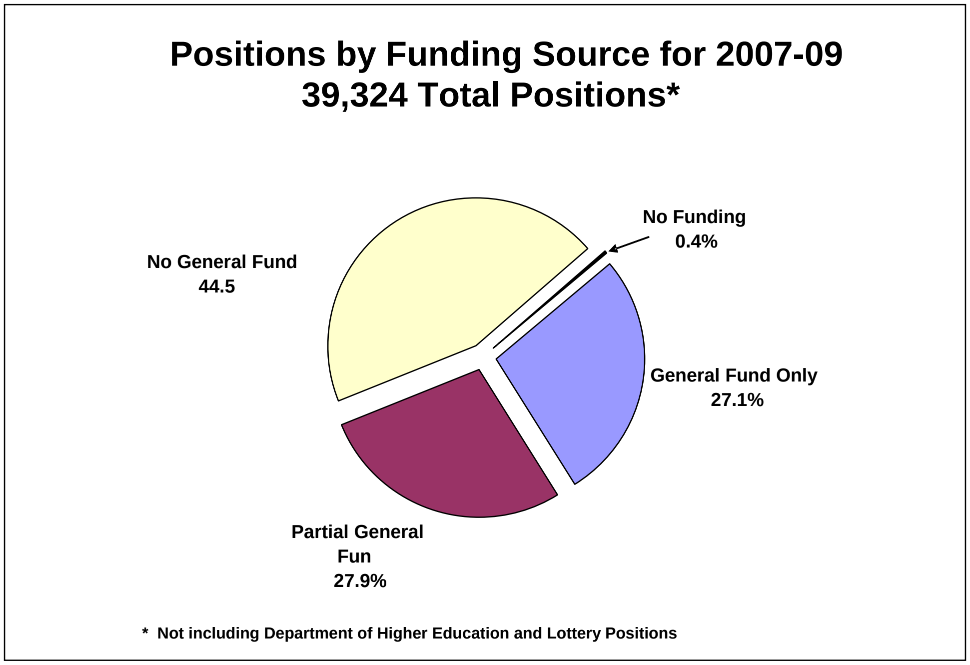
- **Academic positions,** both full-time and part-time, represent less than 1% of total positions. These positions are found in the Department of Education for either the School for the Blind or the School for the Deaf. Positions within the Department of Higher Education are not included in these figures.



State agencies may also use temporary employees to perform specific functions. Temporary employment is to be 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 from DAS 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. As of March 31, 2008, there were 1,162 temporary employees working for state agencies (excluding the Department of Higher Education).

How are positions funded in the budget?

Each position has a specific funding mix – General Fund, Lottery Funds, Other Funds, or Federal Funds. The chart on the following page demonstrates that less than a quarter of state positions (not including the Department of Higher Education) 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, Department of State Police, the Judicial Branch, and the Legislature. Another 29% 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 Youth Authority, where General Fund is used to match Federal Funds. Other agencies with positions funded in part with General Fund include the Judicial Branch, Department of Justice (Support Enforcement Division), and Department of Revenue. Almost half of all state positions have no General Fund resources. A majority of these positions are in the Departments of Transportation, Consumer and Business Services, Employment, Administrative Services, and the natural resource agencies. A small number of positions (less than 1%) have no funding designated. Most of these are the "pro-tem" judges (retired) used by the court system to meet the demands of court activity.



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 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. By the end of this biennium (2007-09), the first step for most state positions will be eliminated and another step will be 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 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 2007-09 biennium, most state employees received a 3% COLA effective in July of 2007, and will receive another in the fall of 2008. 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, the Governor authorized an additional 10% increase (effective July 2007) for agency heads.

How are positions treated in the budget development process?

The budget for personal services (e.g., salaries, benefits, PERS) is based on information for each individual position, using PICS. The sequence of steps in building the 2009-11 budget relating to positions is outlined below.

- In the spring of 2008, information for individual positions is 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, PERS) is used to project 2009-11 costs. Any changes to information on an individual position, such as changes in classification after the freeze date, are 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 2007-09, adjustments are made to provide 24 months of funding for the 2009-11 budget if those positions are scheduled to continue.
- Funding for one salary step or merit increase is provided in the development of the 2009-11 budget for each position where the employee has not reached the top step. This applies to agencies with more than 10 FTE, and the resources for the second step increase for eligible employees must be funded by savings in the agency's budget. Agencies with less than 10 FTE are 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 administrative rules list 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 FTE;
- when a position is awaiting an update in the PICS system; and
- addressing a specific budget issue when directed by the Budget and Management Division of DAS.

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. 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 March 31, 2008, there were 2,677 double-filled positions (not including the Department of Higher Education).

Why are positions vacant?

At any given time, roughly 10% to 15% of authorized state positions are vacant. For example, on March 31, 2008, a total of 4,941 state positions were vacant, representing 12.6% of all positions (not including the Department of Higher Education). There are a number of reasons for these vacancies, including:

- **Position turnover**: Someone leaves a position through retirement or other reason 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 (e.g., State Police recruit school). Some positions may take much longer to fill if they are in a field with shortages 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 5% of non-higher education 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 lists 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 revenue source that is not generating at the anticipated amount or has been terminated (e.g., grant is 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**: During the 2001-03 biennium, many positions were left vacant based on actions taken by the Legislature during the 2002 special sessions (due to both specified and unspecified reductions), hiring freezes put in place by the Governor, or through allotment plan reductions (e.g., December 2002). Given the uncertainty of the economy during 2008, some agencies (e.g., Department of Corrections) are planning for hiring freezes.

- **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 which must be staffed 24 hours/7 days per week within a correctional facility. This drives the need for more than 1 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 2007. 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 as of December 31, 2007

	Number of Vacant Positions	Percent Share
Seasonal positions	400	26.2
Position filled or in the process of being filled	307	20.1
Used to finance another position, including double-fills	158	10.5
Position is pending a reclassification	132	8.7
Difficulty in recruiting position	118	7.7
Position vacant to generate savings or fund unbudgeted costs	114	7.5
No funding available for position	77	5.0
Position is phased-in later in the biennium	49	3.2
Position is abolished but still in the system	29	1.9
Other	141	9.2
Total	1,525	100.0

<u>How are vacant positions factored into the state budget process?</u>

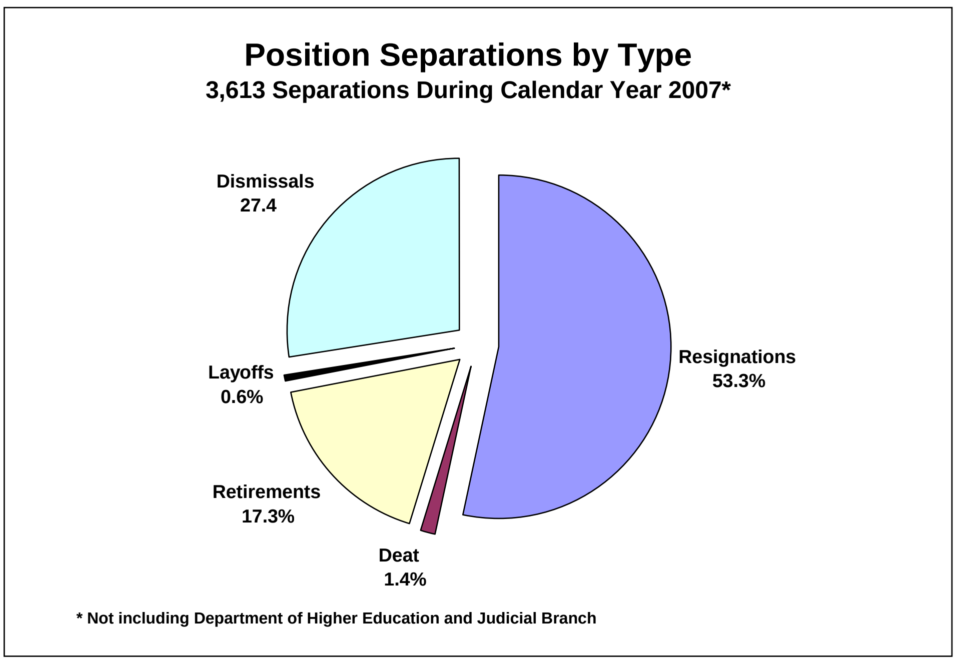
The formal budget process utilizes a vacancy factor calculation which estimates the budget savings expected to occur due to staff turnover. This calculation uses turnover history in the previous biennium and accounts for cases where the vacancy savings are used to fund other personal services costs, 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 2007-09 legislatively approved budget, the vacancy calculation resulted in total funds savings of $49.8 million and General Fund savings of $22.2 million. The Legislature, as part of its budget process, also reviews vacant positions to achieve further savings.

<u>What is the turnover rate for state employees and why do state employees leave service?</u>

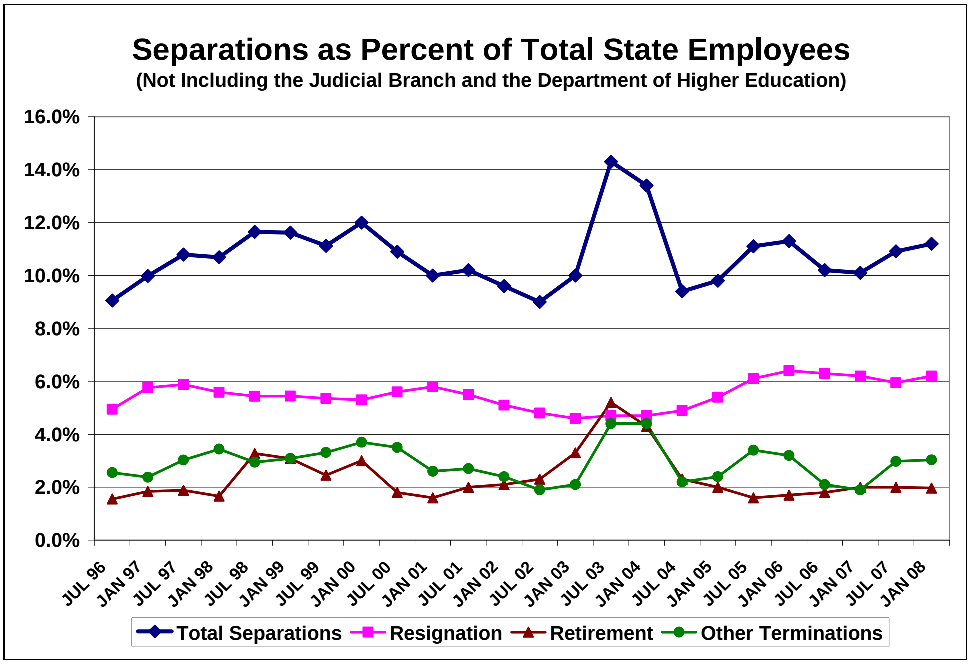
State government is just like any other large employer; a certain number of employees will leave or separate from employment over a period of time. Employees leave state employment primarily for the following reasons:

- **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, agency reorganization, or changes in the agency's programs;
- **death** of an employee; and
- **dismissal or removal of an employee from trial service** because of job performance or other reasons.

The following chart summarizes the 3,613 separations for 2007.



In the past, the annual turnover rate has averaged approximately 10% (not including the Department of Higher Education and the Judicial Branch). Over the past 12 months, the turnover rate is 11.2%. These separations do not include those cases where an employee decides to move from one state job to another. During the budget crisis of the 2001-03 biennium, the rate increased to over 14% as demonstrated by the chart on the following page.



Do agencies hire back employees after their retirement?

Past changes to the Public Employees Retirement System (PERS) caused a significant increase in retirements earlier in this decade. Many agencies hired these retirees back to perform day-to-day functions of the agency and sometimes 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 exemptions to this limit on the number of hours worked have been established by the Legislature. These exemptions are generally directed at jobs where it is critical that the employee has experience and a high level of training, such as law enforcement personnel. Exemptions have also been established to recognize shortages in occupations in specific areas of the state. Exemptions include:

- teachers or administrators employed by a community college or education service district (ESD) where the majority of work activities are performed in a county with a population less than 35,000;
- persons hired by a sheriff of a county with a population less than 75,000, or hired by a police department for a city with a population less than 15,000;
- persons working in a county or state correctional facility located in a county with a population less than 75,000;
- persons hired to temporarily replace someone serving in the National Guard or reserve unit;
- nurses employed as a nursing instructor; and
- instructors employed by the Department of Public Safety Standards and Training.

Some of these exemptions have sunset dates.

As of March 31, 2008, there were 598 PERS-eligible retired state employees working for state agencies (excluding the Department of Higher Education and the Judicial Branch). All but 50 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 for their instructors.

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

Many state-funded services are already “contracted out” to private businesses and organizations, including medical-related services through the Oregon Health Plan and senior and disabled services; road construction and maintenance; information systems development; various laboratory services; firefighting; fish production functions; vehicle repair and maintenance; state park concessions; food services in higher education facilities; 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.

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 it wishes. 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 this 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 (Doug Wilson at 503-986-1837, Daron Hill at 503-986-1832, or Ken Rocco at 503-986-1844).