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Budget Information Report

How Positions are Created, Budgeted, and Utilized

Issues relating to state employees, including their number, compensation, and funding, are always in the forefront of budget discussions. The 2003 legislative session was no different, where public employee retirement benefits, state employee compensation, and vacant positions were major issues addressed by the Legislature. The $6 billion Total Funds ($2.1 billion General Fund) of compensation and related personnel costs of the 52,500 state positions represent roughly 15% of the state's total funds budget (20% General Fund).

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 asked by members of the Legislature and the public.

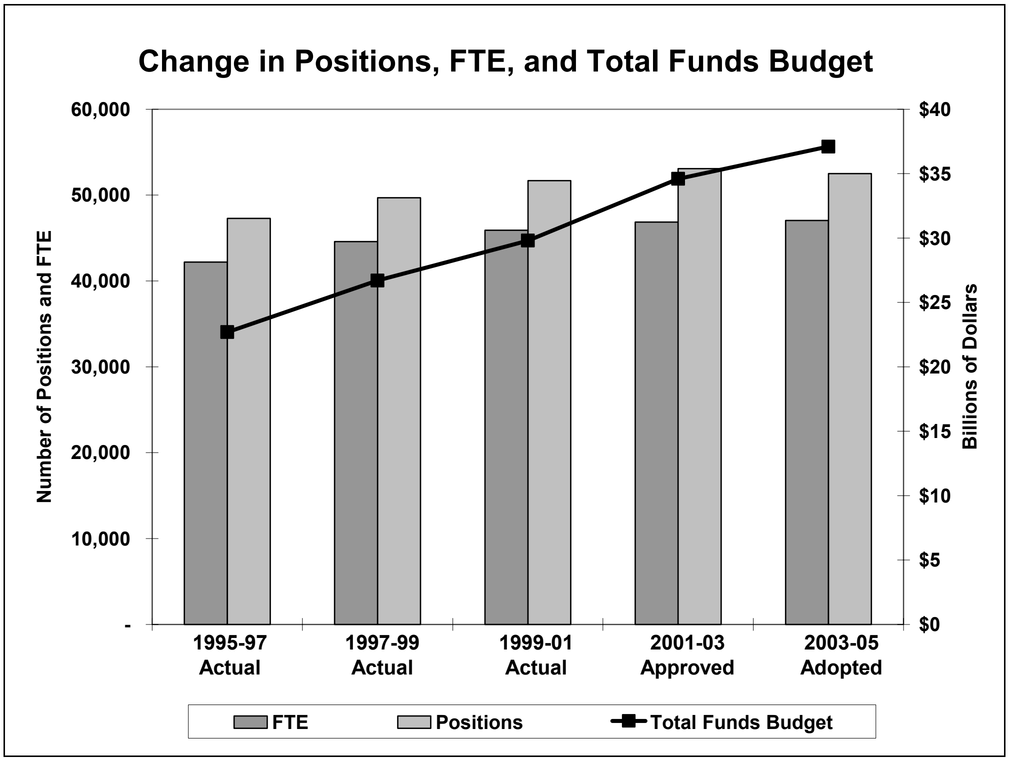
How does the state budget for positions and how are they counted?

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 adopted budget for 2003-05 authorizes a total of 52,501 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 1.0 FTE, while a position that is filled full-time for only 12 months of the biennium or is a half-time position is 0.5 FTE. The 2003-05 legislatively adopted budget authorizes a total of 47,059.0 FTE in all state agencies.

The chart on the following page, spanning the current 2003-05 biennium and the previous four biennia, demonstrates that growth in both the number of positions and total FTE is just over 11% compared to growth in the total funds budget for the same period of over 63%.



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. The Department of Administrative Services (DAS) regularly 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 Oregon University System that are funded by the gifts, grants and contracts program.

As of June 2004, there were a total of 47,141.0 authorized state FTE, with 41,458.0 FTE subject to the limitation. Based on a population of just over 3.5 million, the total number of FTE employed by the state was 11,112.0 FTE under the limitation of 52,570.0 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 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.

A state agency may use a process termed "reclassification" 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 including: 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; and 4) the need for a new skills set because of a change in technology or business practice. The Executive Branch 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 must 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.

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 cannot establish a permanent position without legislative approval.

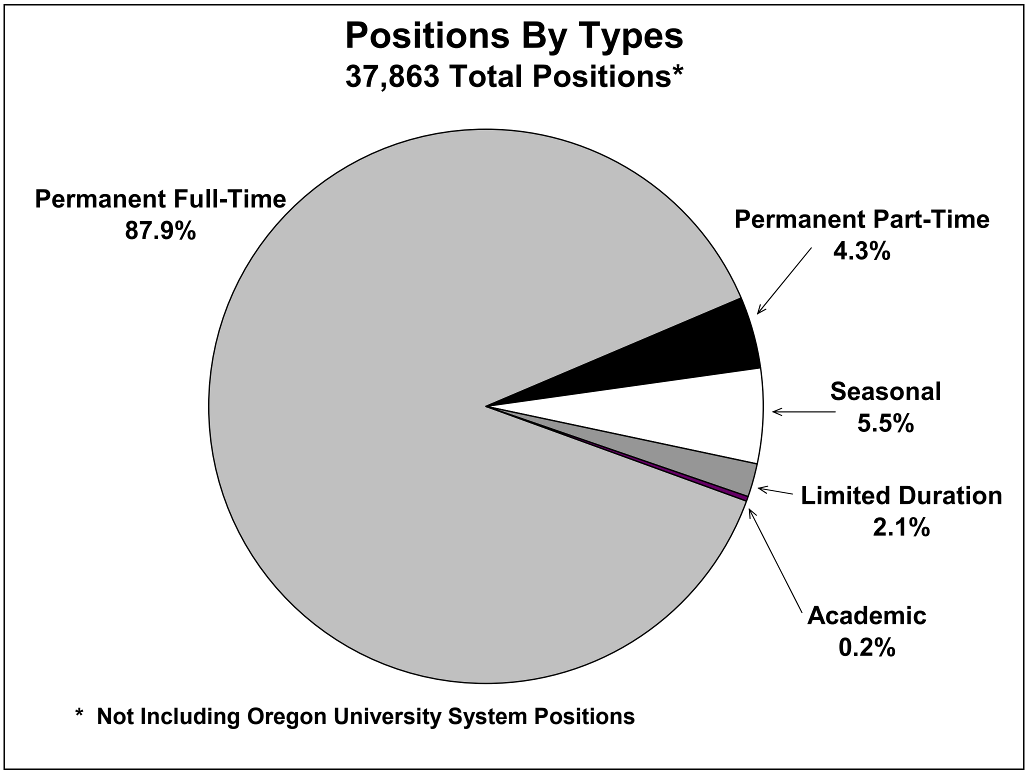
DAS may approve the creation of a limited duration position if it can be financed with existing resources, will not produce future budgetary increases, and conforms to the approved salary policies. These positions are authorized only to the end of the biennium in which they were created and they only 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 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 full-time and permanent?

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. Oregon University System positions 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 Oregon University System has its own position control system.

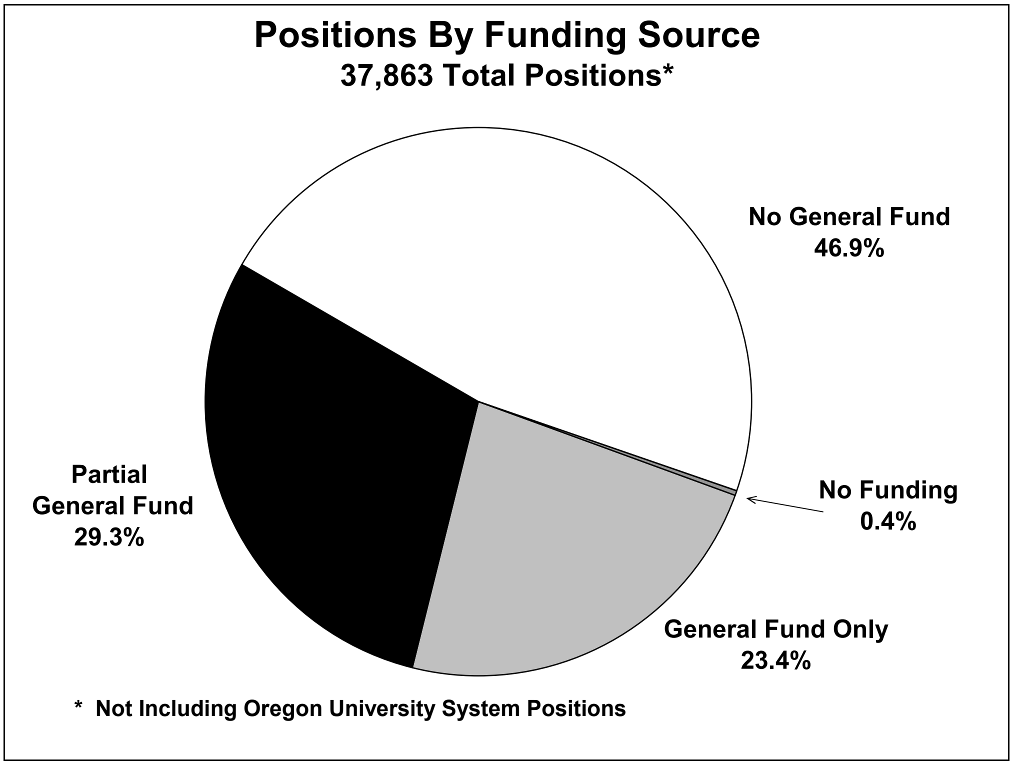
- **Permanent full-time positions**, representing almost 89% of positions, are continued from one biennium to another unless eliminated by the Legislature.
- **Permanent part-time positions**, representing approximately 4% of positions, also continue from one biennium to the next but are authorized and 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 over 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 2% 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 located either at the School for the Blind or the School for the Deaf.



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. There are not positions for temporary employees and 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 reasons outlined in statute. These reasons include covering the responsibilities of another employee on leave or on a job rotation. Employees in a temporary position are not eligible for flexible benefits (e.g., health insurance), but retirement contributions are paid for individuals who are employed as a temporary employee for more than six months. As of May 31, 2004, there were 1,107 temporary employees working for state agencies (excluding the Judicial Branch and the Oregon University System). This number does not include temporary staff hired through Qualified Rehabilitation Facilities.

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 shows that less than a quarter of state positions (not including the Oregon University System) 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, Oregon Youth Authority, Oregon 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 (almost 8,500 positions) and the Oregon Youth Authority, where General Fund is used to match Federal Funds generally at a 50/50 funding mix. Other agencies with positions funded in part with General Fund include the Judicial Branch, Department of Justice (Support Enforcement), 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.



<u>How is an employee's salary determined?</u>

Each employee is assigned to a unique position which has a specific classification and salary range. The employee's salary generally must be within that range. Salary ranges have seven or eight steps; and the step for which the employee is paid is based primarily on seniority. Each step is approximately 4.75% greater than the previous step. A newly hired employee is generally hired at the first or second step. Once a year, 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.

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 2003-05 biennium, budgets did not include funds for COLAs and merit increases for state employees.

<u>How are positions treated in the budget development process?</u>

The budget for personal services (e.g., salaries, benefits, PERS) is based on information for each individual position using the Position Inventory Control System (PICS). The sequence of steps in building the 2005-07 budget relating to positions is outlined below.

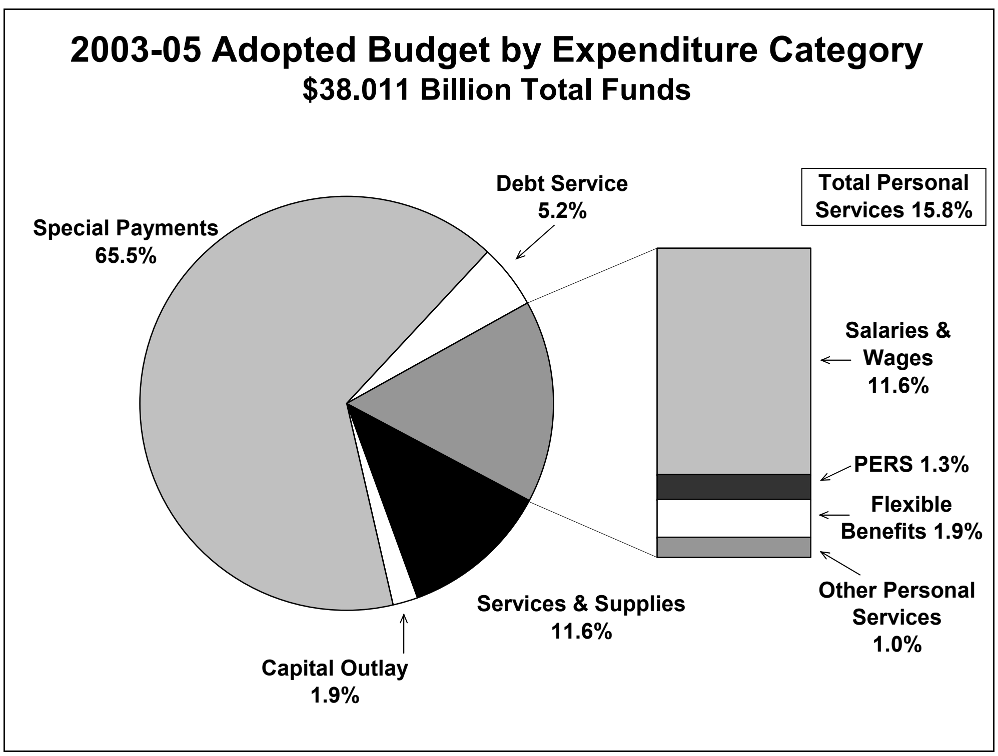
- In the spring of 2004 (generally after the April Emergency Board meeting), information for individual positions is subject to a process termed the "PICS freeze." At the time of the freeze, existing salary and related Other Payroll Expenses (e.g., health benefits, PERS) is used to project

2005-07 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 merit or step increases for anniversary dates remaining in the current biennium and for any scheduled cost of living adjustments. Since state employees generally were not provided merit increases or cost of living adjustments for 2003-05, this step does not occur for the development of the 2005-07 budget.
- For positions that were phased-in during 2003-05, adjustments are made to provide 24 months of funding for the 2005-07 budget.
- Funding for one merit or salary step increase is provided in the development of the 2005-07 budget for each position where the employee has not reached the top step. This applies to agencies with more than 10.0 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 10.0 FTE are provided resources for both merit or step 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 merit or step increases and cost of living adjustments are factored into the calculations as if the position was filled.

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

Over $4.5 billion Total Funds ($1.6 billion General Fund) is budgeted for state employee salaries for 2003-05, representing 12%, of the entire budget. Another $1.5 billion Total Funds ($537 million General Fund), or 4%, is budgeted for retirement system contributions, flexible benefits (e.g., health benefits), overtime, and other personal services costs. The following chart demonstrates total funds spending by expenditure category.



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:

- to cover or backfill 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 1.0 FTE;
- when a position is awaiting an update in the PICS system; and
- to address a specific budget issue when directed by BAM.

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 May 31, 2004, there were 1,526 employees in double-filled positions (not including the Judicial Branch and the Oregon University System).

Why are positions vacant?

At any given time, roughly 10% to 15% of authorized state positions are vacant. 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 of 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. For example, the 2003 Joint Committee on Ways and Means used a list of approximately 6,800 vacant positions in its review. Over 2,100 of these positions had already been eliminated in special session actions to balance the 2001-03 budget but were still included in the PICS information.

- **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). For the 2003-05 biennium, the Governor has implemented a policy of not filling a vacant position for an average of 30 days unless there are safety or health-related risks.

- **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/seven days per week within a correctional facility. This drives the need for more than 1.0 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. Recent examples include the Department of Human Services and the Department of Higher Education's Chancellor's Office.

Review of long-term vacancies (over six months) provides the best opportunity to determine whether positions are still needed by an agency. Even for long-term vacancies, the largest share of unfilled positions still are in the process of being filled (see following table).

Reasons for Long-Term Vacancies for the First Quarter of 2004

	Number of Vacant Positions	Percent Share
Position filled or in the process of being filled	1,252	48.3
Seasonal positions	445	17.2
Used to finance another position, including double-fills	269	10.4
Position is pending a reclassification	119	4.6
Difficulty in recruiting position	114	4.4
Position is abolished but still in the system	96	3.7
Position vacant to generate savings or fund unbudgeted costs	70	2.7
No funding available for position	45	1.7
Position is phased-in later in the biennium	32	1.2
Other, including delayed hiring because of reorganization	151	5.8
Total	2,595	100.0

State agencies must report on a quarterly basis on any position that has been vacant for at least for six months (ORS 291.263). In addition, the Departments of Human Services and 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).

<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 because of 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 of employees leaving employment, as well as benefits and other personal service costs, are factored into the calculation. For the 2003-05 Governor's budget, the vacancy calculation resulted in total funds savings of $19.8 million and General Fund savings of $4.9 million.

The Legislature, as part of its budget process, also reviews vacant positions to achieve further savings. In the 2003 session, the Joint Committee on Ways and Means eliminated 1,016 vacant positions during its review of agency budgets. These actions reduced agency budgets by $68.8 million Total Funds and $37.4 million General Fund. The elimination of vacant positions was a labor intensive process since each position had to be reviewed to determine whether it was necessary to be retained, given the number of reasons for vacancies (as noted above). In addition, a vacancy list is only current on the day it is printed, since positions are always being filled or vacated in the normal turnover of state employees.

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

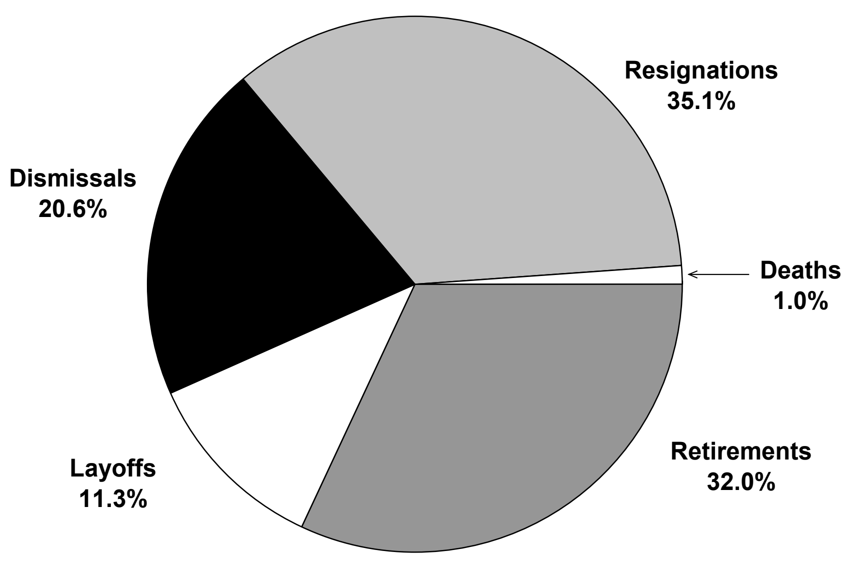
State government is just like any other large employer; a certain number of employees will leave or separate from employment over a period of time. In the past, the annual turnover rate has been approximately 10%. These separations do not include those cases where an employee decides to move from one state job to another.

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 4,065 separations for the 12-month period between January 2003 and January 2004.

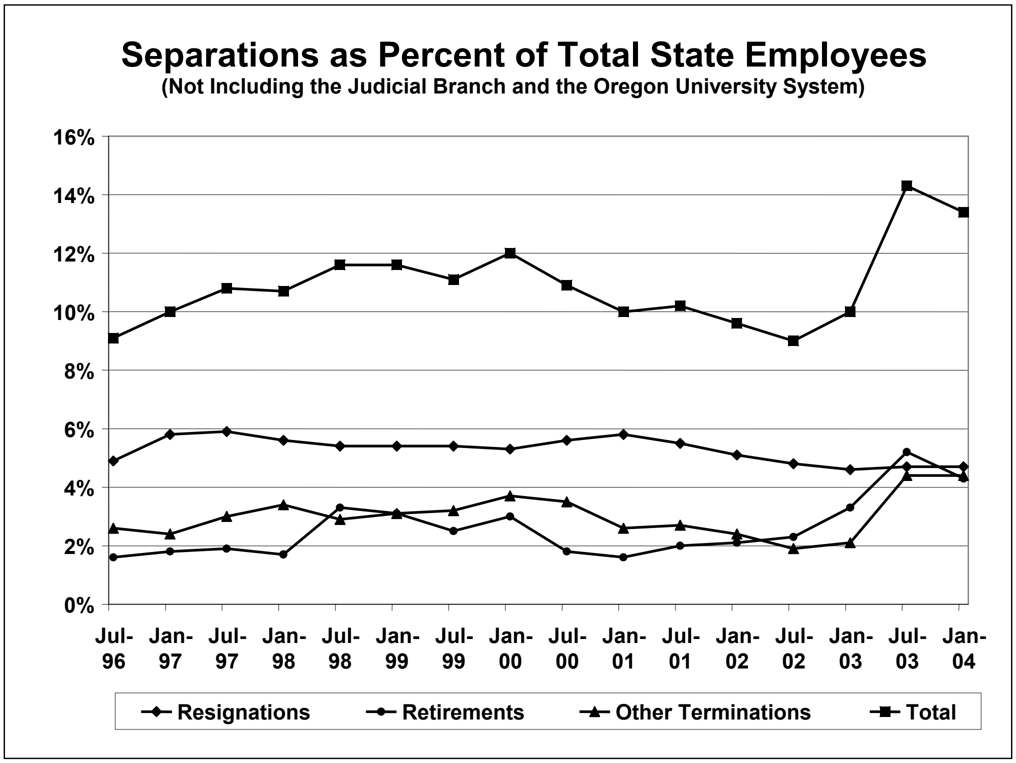
Position Separations By Type

4,065 Separations During Calendar Year 2003*



* Not Including Oregon University System and Judicial Branch Positions

Separations due to retirements and layoffs have increased in the past two years because of changes in the PERS benefit structure and reductions in the state budget. Over the past eight years, the average turnover rate has been roughly 10% for state employees (not the Judicial Branch and the Oregon University System). For the past year, this turnover rate has increased to approximately 14% as demonstrated by the following chart.



Do agencies hire back employees after their retirement?

The recent increase in retirements by state and other public sector employees have brought to light the number of retirees that are employed by state agencies. Recent reforms to the Public Employees Retirement System (PERS) caused a significant increase in retirements. Many agencies hired these retirees back 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. Current DAS policy is to generally hire retirees back as temporary employees. As of May 31, 2004, 505 retired state employees were working for state agencies (excluding the Judicial Branch and the Oregon University System).

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, 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. The closure of the Fairview Training Center represents an example of this preferential hiring practice; many of the displaced Fairview workers received preference on jobs they qualified for with other state agencies.

Certain requirements must be met prior to contracting out services or functions currently provided by state employees. The collective bargaining agreement with the Service Employees International Union (SEIU) is the most specific in its requirements. For any proposal to contract out $30,000 of work annually or 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 employees find either alternative unsatisfactory, the employees may exercise their layoff rights pursuant to the bargaining agreement.

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 Resources 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, Larry Niswender at 503-986-1839, or Ken Rocco at 503-986-1844).