

Item 44: Department of Administrative Services

State Employee Compensation and Benefits Adjustments

Analyst: Paul Siebert

Request: Allocate \$200 million from the special purpose appropriation established for state employee compensation and benefits adjustments, increase Lottery Funds expenditure limitation by \$5.4 million, increase Other Funds expenditure limitation by \$169.1 million, and increase Federal Funds expenditure limitation by \$76.8 million for the combined needs of employee compensation, benefits, and Pension Obligation Bond adjustments.

Description: The Department of Administrative Services is requesting the Emergency Board increase funding to state agencies to support higher employee compensation and benefit costs from previously approved labor agreements for the 2019-21 biennium. A large portion of these increases are the result of providing funding for annual performance pay increases (step increases) for employees not at the top step of their classification along with employers being responsible for a minimum of 95% of an employees' health, vision, dental, and basic life insurance benefits. The estimated cost of these components is over \$76 million General Fund in 2019-21.

Most state employees received the following major compensation adjustments this biennium: (1) increased salary rates by 2.15% effective July 1, 2019; (2) increased salary rates by 3% effective October 1, 2020; and (3) added an additional step to all salary ranges effective July 1, 2020. Other adjustments included selective increases for specific classifications, changes to vacation buyout policies, and creation of new classifications. The total estimated General Fund cost of all compensation and benefits adjustments is \$205,125,089.

In addition to compensation and benefits adjustments, another budget adjustment usually made at the same time is correcting agency by agency estimates for Pension Obligation Bond (POB) payments. POB rates were originally calculated during 2019-21 budget development and are based on the number of employees at an agency. After budgets are approved by the Legislature, the original rates are no longer accurate with costs for some agencies higher than forecasted and others lower. The General Fund cost of these POB adjustments is just over \$4 million. State agency POB costs are higher than originally estimated because the beginning balance was lower than anticipated and the percentage of total state payroll grew faster than the total payroll of the other entities sharing POB costs.

The \$200 million special purpose appropriation will cover approximately 97% of the total General Fund costs. Lottery Funds, Other Funds, and Federal Funds expenditure limitation increases equal all estimated costs; however, some agencies may need Lottery Fund allocation increases.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends the Emergency Board allocate \$200,000,000 from the special purpose appropriation established for state employee compensation and benefits adjustments, increase Lottery Funds expenditure limitation by \$5,442,587, increase Other Funds expenditure limitation by \$169,107,877, and increase Federal Funds expenditure limitation by \$76,848,702 for the combined needs of employee compensation, benefits, and Pension Obligation Bond adjustments.

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Department of Administrative Services
Ball

Request: Allocate \$200 million from the Special Purpose Appropriation made to the Emergency Board for State Employee Compensation and increase Lottery Funds expenditure limitation by \$5.4 million, increase Other Funds expenditure limitation by \$169.1 million, and increase Federal Funds expenditure limitation by \$76.8 million to provide budget authority across state agencies.

Recommendation: Approve the request.

Discussion: The 2019 Legislative Assembly appropriated \$200 million General Fund to the Emergency Board as a special purpose appropriation for state employee compensation changes. Originally, the distribution of the special purpose appropriation was expected during the February 2020 Legislative Session; however, the Session ended prior to the distribution taking place. This request is to distribute the entire \$200 million of that special purpose appropriation and to provide the necessary increases in Other Funds, Federal Funds, and Lottery Funds expenditure limitation to accommodate the compensation plan changes for state employees.

The Department of Administrative Services reported compensation plan changes to multiple interim legislative committees and during the February 2020 Legislative Session. The distribution of the salary pot and expenditure limitation increases will make the budgetary adjustments related to compensation plan changes implemented during the current biennium. Specifically, these include cost-of-living adjustments, step increases, a new top step to salary ranges, and increases in the cost of health benefits.

All of these compensation plan changes have been implemented, employees are receiving increased compensation, and agencies have already incurred significant costs to date. This request is to distribute the General Fund set aside by the 2019 Legislature for this purpose, and to make the necessary increases to expenditure limitation associated with these compensation plan changes.

This request also includes a component to adjust the Pension Obligation Bond (POB) cost estimates for each agency. The estimates were originally calculated approximately two years ago, during the 2019-21 budget development process, and have not been updated since that time. POB estimates are set as a percentage of projected payroll for each agency; however, the collection of POB costs is an assessment on actual payroll. Since the time estimates were originally projected, updated payroll data has become available. Factors driving the POB update include: updated actual POB collection data over the past two years, updates to the number of employees on which POB costs are assessed, updates to the projected salary subject to POB assessments, etc.

The final distribution numbers include the net result of all adjustments described above.

Legal Reference:

1. Allocation of \$200,000,000 from the special purpose appropriation made to the Emergency Board by chapter 644, section 2(1), Oregon Laws 2019, to supplement the

appropriations made by chapters and section, Oregon Laws 2019, as noted in the attachment, for the 2019-21 biennium.

2. Increase the Other Funds expenditure limitations established by the chapters and sections, Oregon Laws 2019, as noted in the attachment, for the 2019-21 biennium.
3. Increase the Federal Funds expenditure limitations established by the chapters and sections, Oregon Laws 2019, as noted in the attachment, for the 2019-21 biennium.
4. Increase the Lottery Funds expenditure limitations established by the chapters and sections, Oregon Laws 2019, as noted in the attachment, for the 2019-21 biennium.



Oregon

Governor Kate Brown

Department of Administrative Services

Office of the Chief Operating Officer
155 Cottage Street NE
Salem, OR 97301

November 4, 2020

The Honorable Peter Courtney, Co-Chair
The Honorable Tina Kotek, Co-Chair
Joint Emergency Board Committee
900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The 2019 Legislative Assembly appropriated \$200 million General Fund to the Emergency Board as a special purpose appropriation to fund the General Fund costs of state employee compensation plan changes resulting from new bargaining agreements ratified and signed during the 2019-21 biennium. The distribution of these funds was delayed from the February 2020 session and subsequent meetings of the Emergency Board as a result of declining General Fund revenue forecasts in response to the ongoing COVID-19 pandemic. The Department of Administrative Services now requests the \$200 million special purpose allocation be allocated to state agencies and that Lottery Funds, Other Funds and Federal Funds expenditures limitations to be increased to accommodate the changes.

Agency Action

This letter seeks allocation of the entire \$200 million special purpose appropriation to affected state agencies for changes to state employee compensation costs and Pension Obligation Bond (POB) payments for each state agency. This routine allocation is commonly known as SalPot Distribution. It also seeks increases of \$5.4 million in Lottery Funds expenditure limitation, \$169.1 million in Other Funds expenditure limitation, and \$76.8 million in Federal Funds expenditure limitation to provide budget authority for these increased costs.

The \$200 million General Fund being requested is to cover the cost of employee compensation plan changes and POB costs. All compensation plan changes have been reported to the various meetings of the Interim Ways and Means Committee and the Legislative Emergency Board by the Chief Human Resource Officer.

One other adjustment has been incorporated into the salary adjustment calculations as is customary during the SalPot distribution. Budgets were adjusted to reflect estimates for Pension Obligation Bond payments for each agency. These estimates were originally calculated at the beginning of the 2019-21 biennium. As such, some agencies were under-budgeted while other agencies had excess budget for this line item.

Action Requested

Allocate General Fund and increase Lottery Funds, Other Funds and Federal Funds expenditure limitations as requested.

Legislation Affected

Various modifications to 2019 budget bills.

Sincerely,

Katy Coba
DAS Director | Chief Operating Officer

CC: Dustin Ball, Department of Administrative Services
Paul Siebert, Legislative Fiscal Office