

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Alfredo Kemm, JBC Staff (303-866-4549)
DATE May 15, 2020
SUBJECT Addendum 2 - Statewide Compensation JBC staff balancing document

STAFF'S MENU OF BALANCING OPTIONS

1. Personal services base reduction (specified percentage)
2. PERA swap (includes suspension of PERA increases)
3. Suspend PERA Direct Distribution and common policy allocations

OTHER BALANCING OPTIONS

4. Furlough policy

PERSONAL SERVICES BASE REDUCTION

Generally, a personal services base reduction:

- Reduces appropriations in personal services lines;
- Is based on a specified percentage reduction; and
- Uses a defined methodology for the calculation of the reduction in affected line items.

Additionally, a personal services base reduction:

- Provides reduced spending authority in department budgets in personal services lines that must be managed by departments through vacancy savings and general operating efficiency savings.
- May require executive actions to manage resources that could include a Governor-initiated furlough.
- **Is not a statewide compensation policy that reduces state employee pay** (in either dollar amount or by the specified percentage; i.e. it is not an "across-the-board salary decrease").

Advantages of a personal services base reduction for balancing purposes:

- Provides a standard method of budget reduction action across all specified departments that affects all affected departments in the same manner.
- Enables the Committee to generate a relatively substantial estimated statewide savings based on a single, percentage-based budget action.

Disadvantages of a personal services base reduction for balancing purposes:

- Treats all affected programs equally and therefore does not provide balancing action reductions with a "scalpel" that considers individual program relative needs (i.e. weighing the merits of programs against each other and prioritizing).

GENERAL FUND ONLY BASE REDUCTION

Staff's savings calculations are generated using the department compensation templates, with savings calculated on the estimated salary base. Thus, savings figures reflect savings across all fund sources.

However, staff would recommend that the Committee limit base reduction action to General Fund only. The advantages to this approach is that:

- It directly addresses the General Fund balancing need without unnecessarily reducing cash, reappropriated, and federal fund sources;
- It provides some flexibility to those programs that could refinance reduced General Fund with other fund sources;
- It reduces the number of adjustments that JBC staff must make, reducing errors, and decreasing turnaround time for inputting changes.

BASE REDUCTION METHODOLOGY

While each program in a department will include a personal services or program line, items other than state employee compensation may be paid from those lines. Thus, methodology for a personal services base reduction may be based on identifying appropriations for state employee compensation only, or may be based on the entire personal services appropriation. Or, in the event that the Committee also wished to consider an operating expenses base reduction, could be based on a similar reduction for operating expenses included in both "operating expenses" and "program" lines.

Methodology that requires adjustments to every personal services and program line, requires staff to go through the specified steps for calculating the reduction for each personal services and program line in all department budgets. This, in many cases, requires coordination and additional information from departments. On the whole, this is a complicated, cumbersome, and time-consuming exercise. Nevertheless, traditionally, base reductions have been effected at each personal services and program line in all department budgets.

A SINGLE POTS LINE ADJUSTMENT IN LIEU OF MULTIPLE PERSONAL SERVICES LINE ADJUSTMENTS

The Committee could consider making a single adjustment to a POTS line in lieu of a reduction to personal services lines. This 'methodology' would enable a General Fund reduction action at a specific line item such as in the Health, Life, and Dental (HLD) line item.

The obvious concern is that this could be misread or misinterpreted to mean that the Committee is cutting Health, Life, and Dental appropriations. In staff's opinion, a footnote could be added clarifying that the reduction to the HLD line is intended to serve as a reduction in lieu of a personal services base reduction. The footnote could clearly communicate the purpose for the reduction and the intention that additional Health, Life, and Dental costs not covered in the appropriation are expected to be paid out of the personal services lines.

Keep in mind, POTS appropriations consisting of Health, Life, and Dental, Short-term Disability, AED, SAED, Salary Survey, Merit Pay, and Shift Differential are not "dedicated" or "restricted" to pay for those benefit items. POTS appropriations are appropriated in one line for each in each department. These appropriations are managed from the executive director's office or central administrative office in each department. These appropriations are then "allocated" to divisions and programs as determined at the department level. Theoretically, these appropriations are being used for the purposes intended in the appropriations. However, money allocated to divisions and programs from POTS appropriations are "moved" into personal services lines for spending by divisions and programs. In other words, POTS appropriations do not pay directly for benefit items; they are rolled

into the personal services line and in that line can be used for any purpose allowed to be paid from that line. Technically and legally, POTS allocations can be used to support non-staff-related program costs that are not otherwise legally restricted. This is a policy trade-off: it provides a simpler budget process and spending flexibility to departments.

Therefore, POTS appropriations could be used to enable a personal services base reduction policy, by reducing the dollar amount, in one or more POTS appropriations, that is equal to the estimated base reduction for each department. Staff recommends this approach and would recommend using the Health, Life, and Dental line as it generally includes the largest POTS appropriation in each department. This methodology, in leaving personal services lines untouched, also gives the most flexibility to departments for managing the base reduction across all division and programs. This methodology, essentially, makes the base reduction a POTS item.

As an example, were the Committee to approve a 5.0 percent personal services base reduction, and approve the methodology recommended above for a POTS reduction, the Department of Agriculture, which includes a FY 2020-21 estimated personal services base of \$6,905,683 General Fund, would require a \$345,285 reduction. The Health, Life, and Dental General Fund appropriation amount of \$907,735 would be reduced to \$562,450 to effect the base reduction.

Rather than apply methodology to every personal services and program line in the Department's budget, staff would make a single dollar adjustment to achieve the same savings result.

PERA SWAP

Staff continues to recommend that the Committee could consider a PERA swap policy in lieu of a General Assembly-directed furlough policy.

Additional advantages not outlined in the JBC staff balancing document:

- The additional percentage paid into PERA by employees would accrue to employees. The additional contribution amount is not simply paid out, but set away or paid into each employee's personal PERA account. So while there is a net pay decrease related to the additional percentage contribution, the employee retains ownership of that contribution.
- A PERA-swap policy does not reduce employee salary as it relates to PERA salary calculations; whereas a furlough policy does reduce employee salary for that purpose.

As previously stated in the JBC staff balancing document, historically, authority over furlough policy is generally accorded to the Governor as executive authority to manage resources; while the legislature has the authority to set appropriations.

A PERA swap – through statutory change and appropriation adjustments – provides the JBC and the General Assembly a mechanism to achieve budget savings that are specifically tied to state employee compensation, in a different manner than a furlough policy.

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SUSPEND PERA DIRECT DISTRIBUTION AND COMMON POLICY ALLOCATIONS

Staff continues to recommend that the Committee consider suspending the PERA Direct Distribution for FY 2020-21. Additionally, staff recommends that the Committee consider delaying future payments from the first day to the last day of the fiscal year. However, staff encourages the Committee to consider suspension of the payment as a first step in any PERA payment reductions. A decision on delaying future payments could be decided in the next legislative session.

FURLOUGH POLICY

The Committee may wish to discuss pursuing legislation to enact a statutory furlough policy. Generally, staff recommends a PERA Swap in place of a General Assembly-defined furlough policy and has no further recommendation for the Committee on this item.