

Personnel Costs and Issues

April 4, 2018

Staff Presentation to the House Finance
Committee

Introduction

Process

- HFC consideration of Gov.'s budget on *personnel related* issues two-fold
 - Proposed law changes addressed by the full committee in article hearings
 - Subcommittees hold individual agency hearings in March and April
- All include staff presentations of proposals followed by agency and public testimony

Personnel

- Overview
- Who is included?
- What are the costs?
- Who decides what?
- How we compare
- FY 2019 Governor's budget issues

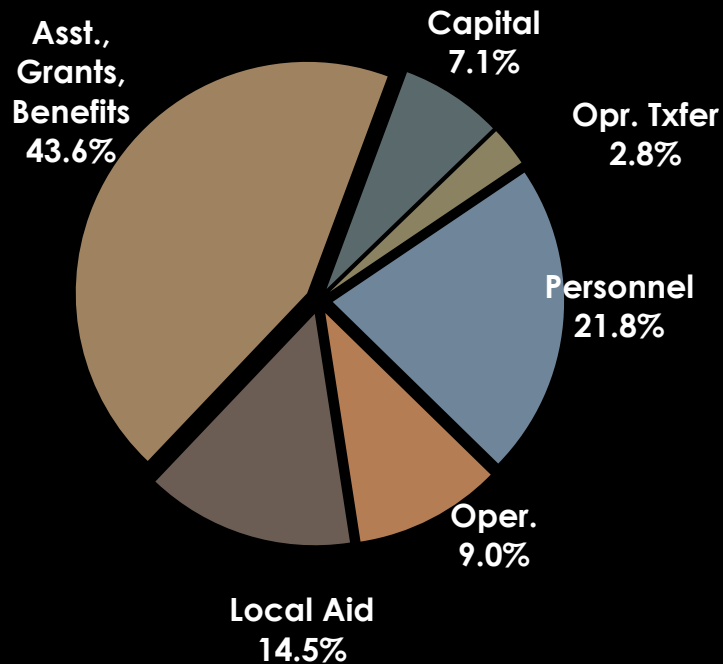
Overview

Overview

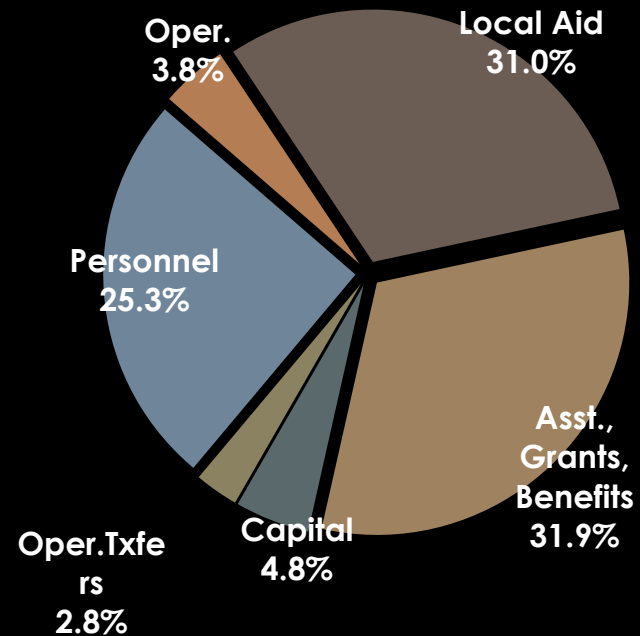
- Major part of state budget
 - 2.7% annual growth from FY 2019 - FY 2023
 - Excludes recently disclosed agreements
- Significant changes in last decade to curtail long term liabilities
 - Substantial portion of ongoing costs are paying off unfunded liabilities
- Growing issue with budget transparency related to staffing
 - Unresolved reporting compliance problems on contracted services

FY 2019 - by Category

ALL FUNDS



GENERAL REVENUES



Who is included?

Personnel Costs: Who is included?

- Direct Employees
 - Salaries and benefits
 - Governed by statutes in Title 36
- Consultants
 - Compensation paid for the services of non-state employee individuals or firms
 - Professional practitioners, independent contractors
 - Increasing accountability measures enacted in past decade

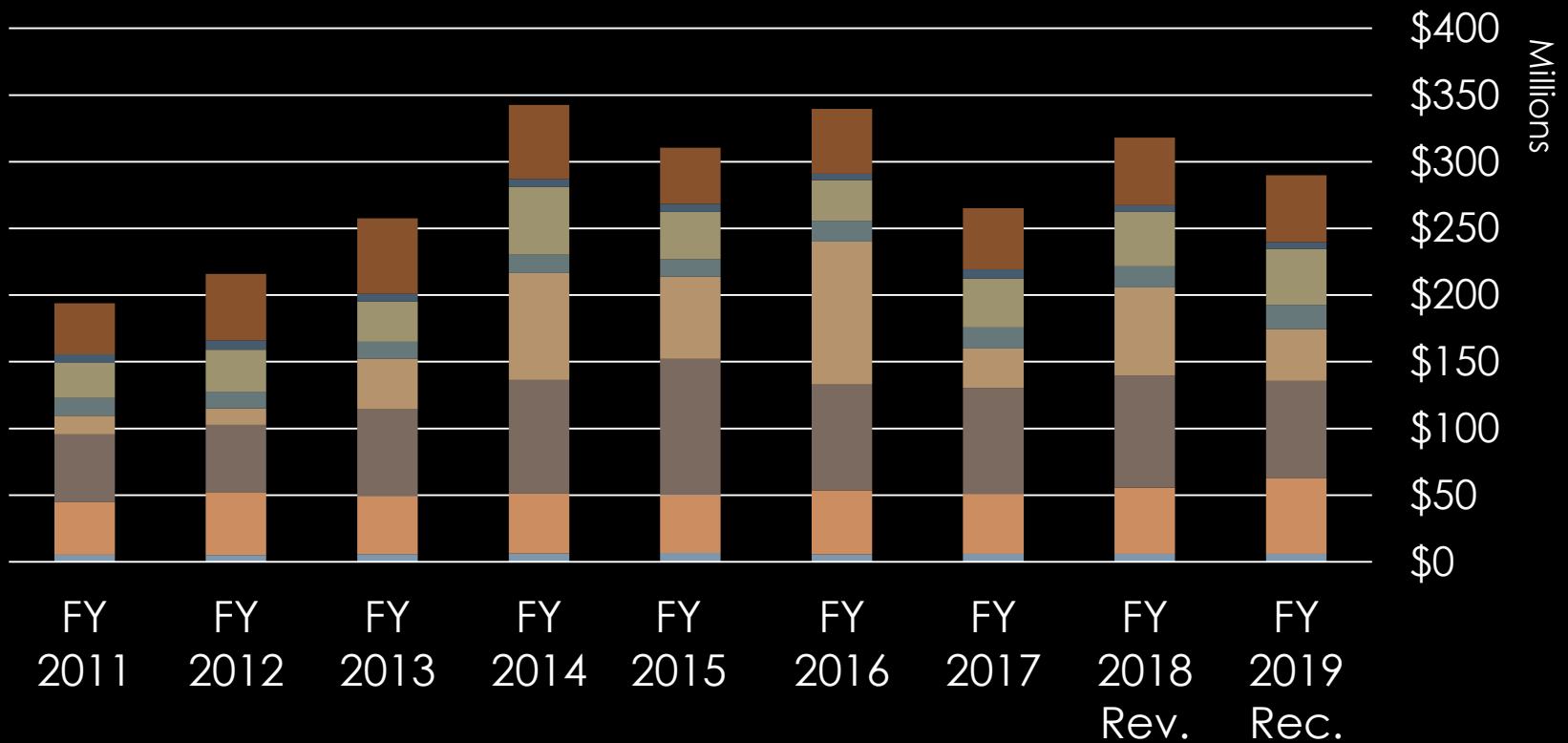
Consultants

- Oversight requirements:
 - Quarterly reports of non-state employee expenses for specified services – 1985 & 2014
 - Copies of contract/agreements over \$150K when services obtained are substantially similar to state employees – 2006 & 2014
 - List all privatization contracts as part of budget request – 2006
 - 5.5% assessment to be paid to the retirement system - Pension Reform 2011

Consultants

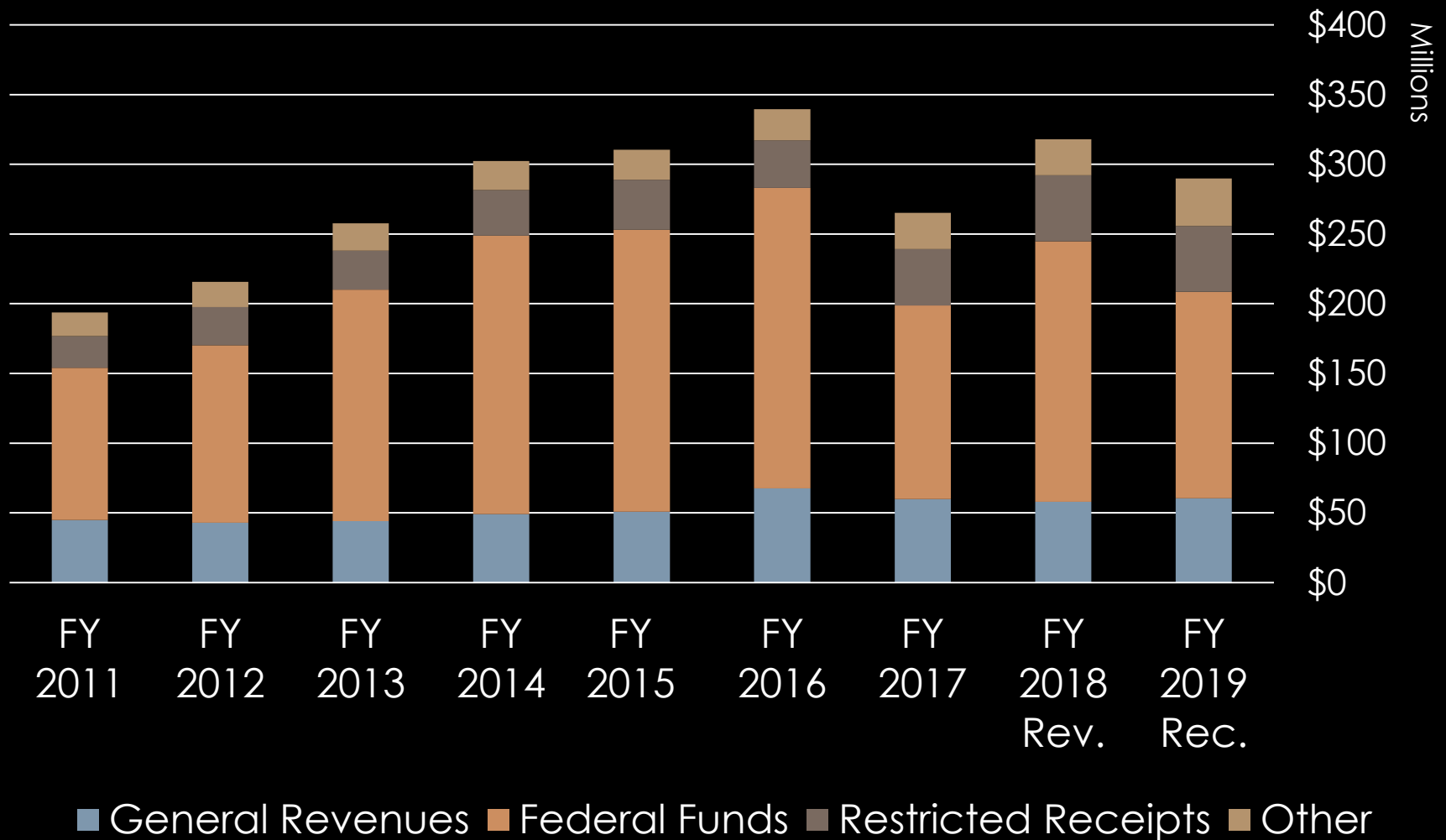
- 2014 Assembly consolidated and streamlined some reporting requirements
 - Agencies provide actual information for the prior fiscal year & projected costs in their budget requests
 - Budget Office will post all contracts & reports
 - State's transparency portal or equivalent website
 - No later than Dec. 1 of each year
 - **Requirement has still not been met**

Consultants – By Services



- Buildings & Groundskeeping
- Design & Engineering
- Financial Services
- IT
- Medical
- Other
- Legal
- Training & Education

Consultants – By Sources



Divisions of State Service

- Classified
- Unclassified
 - Positions specifically established by RIGL 36-4-2 or other statute
 - Employees of elected officials, courts, dept. directors, independent agencies, or public authorities
 - Employees involved in policy making
- Non-classified
 - Positions covered under Board of Education
 - Incl. senior administrative staff and faculty

Divisions of State Service

- Classified Service
 - Competitive - civil service examinations
 - Non-Competitive
 - Positions include routine, laboring, custodial, or domestic tasks; subject to continuing supervision
 - Require licenses, certificates, or registrations
 - Few changes have been made since design and implementation over 50 years ago
 - Has over 1,000 position classifications

Personnel System

- Study & review of personnel system completed in January 2013 found:
 - Current structure, organization and staff of HR division is not sufficient
 - Recruiting process is highly paper-based
 - Filling a position can take up to 6 months
 - Job classification structures do not reflect qualifications to deliver services
 - Career earnings potential for RI state employees is lower than neighboring states

Personnel System

- Recommendations
 - Structure – changes including new chief and overall strategic approach
 - Recruitment & hiring - online application
 - Classifications – update, streamline structure, process and placement of current employees
 - Compensation structure and policies
 - Paid leave and benefits revision

Personnel System

- Personnel Redesign Study Goals
 - Increase state's ability to attract and maintain a high quality workforce
 - Increase flexibility within the classification and compensation systems
 - Increase HR system efficiency and effectiveness
 - Provide a system that is easy to understand

Personnel System

- Personnel Redesign Study
 - In May 2014, Gallagher Benefit Services Inc. was hired to conduct a personnel redesign study
 - Cost \$0.7 million from general revenues
 - FY 2015 – FY 2018
 - Completed August 2017

Personnel System

- Personnel Redesign Study
 - Salary structure
 - Range min: 7.6% higher than market average
 - Range midpoint: 2.5% lower than market
 - Maximum: 11.8% lower than market average
 - Health care insurance
 - 9.7% higher than market median for employer contribution
 - Retirement plan
 - 1.34% points higher than market for maximum employer contribution

Personnel System

- Personnel Redesign Study
 - Paid leave
 - Comparable for holidays, personal days, bereavement, vacation days and sick leaves
 - Above market for carry over vacation days
 - Budget does not include any statutory recommendations specific to findings
 - May have factored into recent collective bargaining negotiations

Employee Status

- Relates to an employee's protection during reorganizations or layoffs
- Referenced in collective bargaining contracts
- Least protection: “temporary” & “probationary”

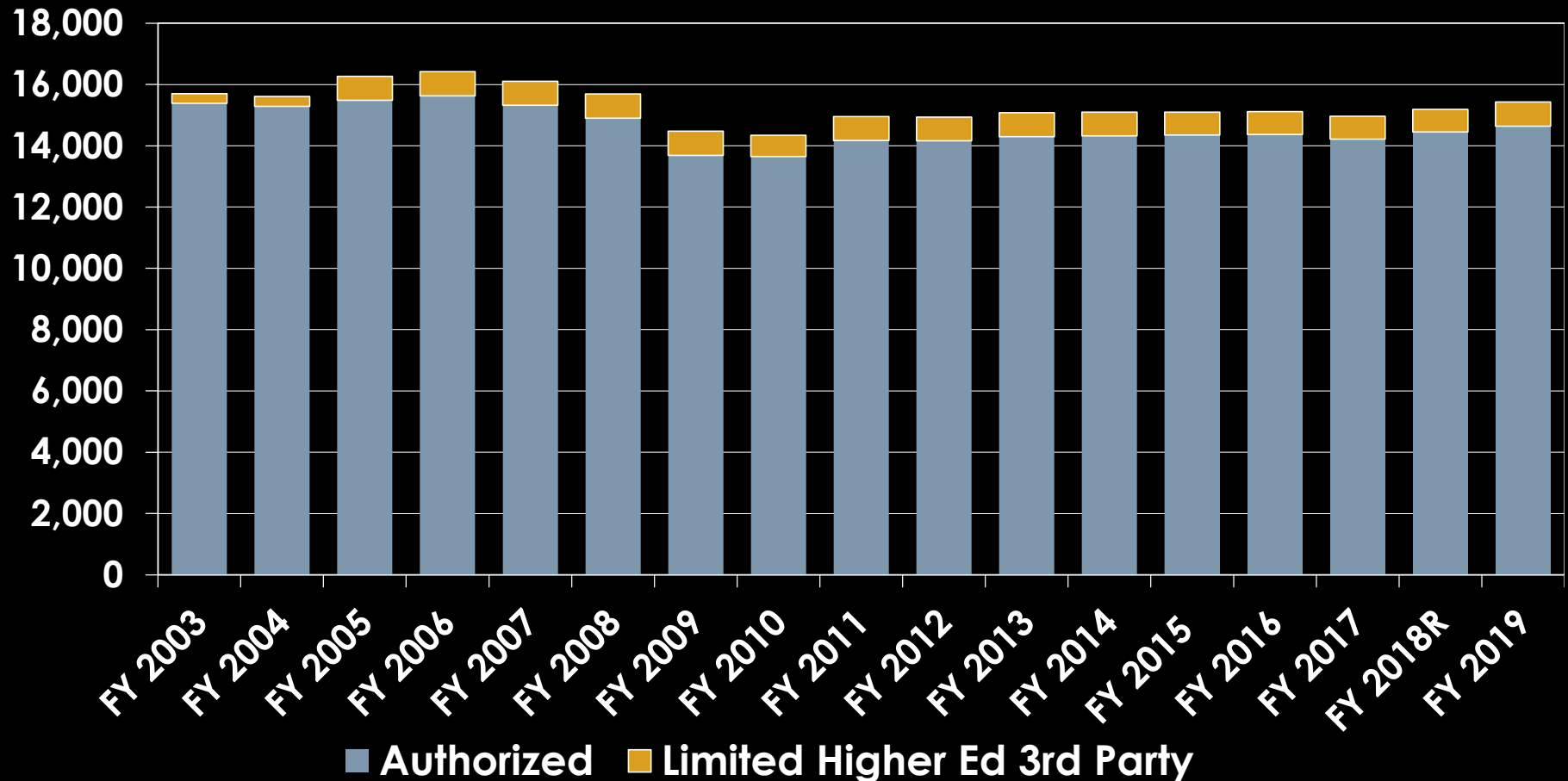
Employee Status – “Statutory”

- Acquired by an employee who has 20 years of service
 - Veterans acquire status after 15 years
- State must find suitable work for employee in case of reorg. or layoff
- Does not apply to employees hired after August 7, 1996
- February 2018: 2,851 employees
 - 128 of total through veterans provision

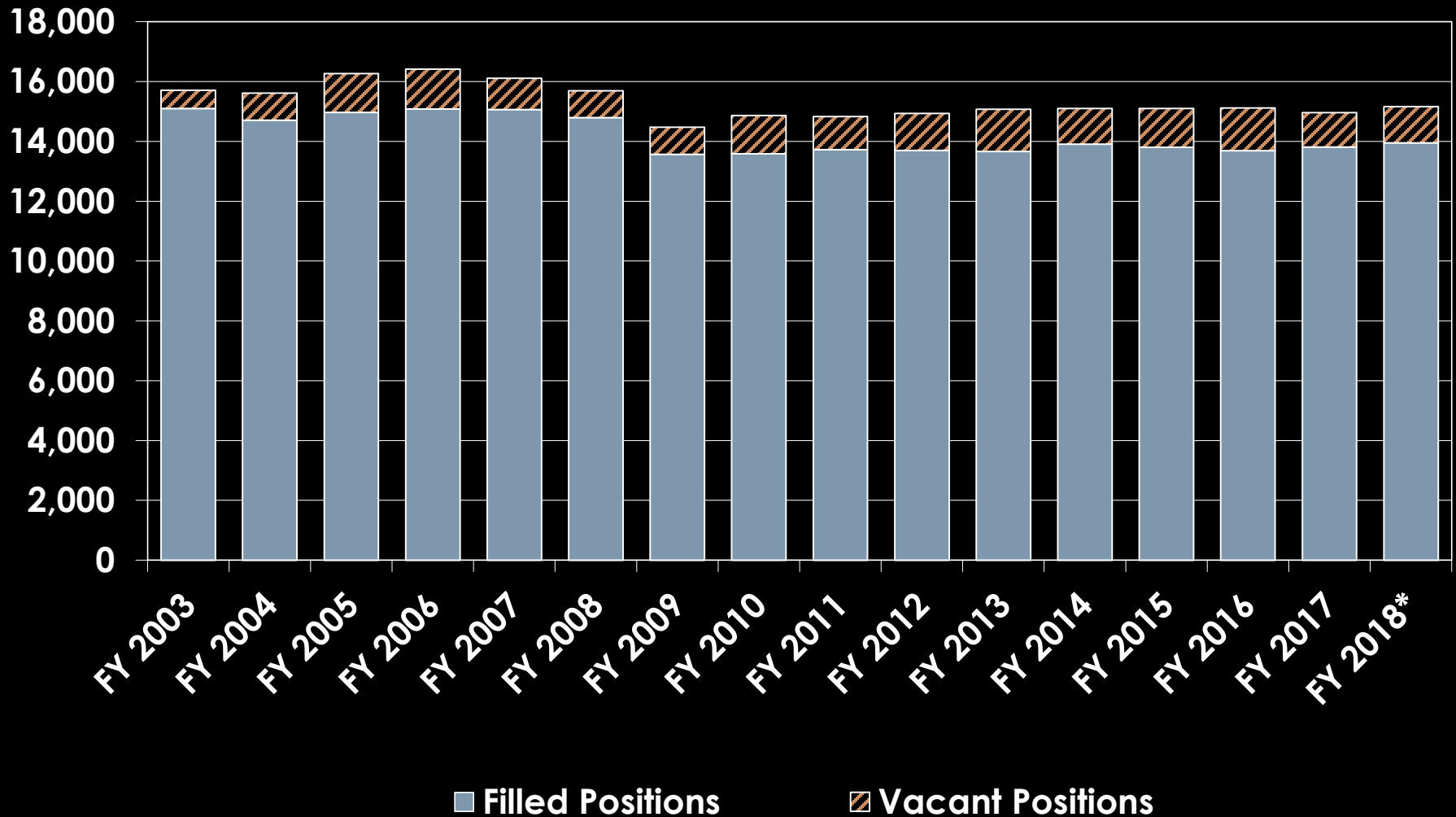
Full-Time Equivalent Positions

- Authorized FTE Levels
 - Budget limits each agency to a maximum allowable number of full-time equivalent positions filled during any pay period
 - Excludes temporary or seasonal workers, individuals in training requisite to employment, such as lifeguards or state trooper classes
 - Excludes consultants
- FTEs not necessarily “funded”

Full-Time Equivalent Positions



Full-Time Equivalent Positions



Recent Notable Changes

- FY 2004 - hiring freeze
- FY 2005 - 462 3rd party higher ed. FTEs
- FY 2006 - 152 FTEs added for colleges and DOC, vacancies increased
- FY 2007 - 420 positions eliminated = 5.0% general revenue funded vacancies
- FY 2008 - 523 vacancies eliminated
- FY 2009 - Retiree health changes
 - Lowest level of filled positions in over 20 years of staff tracking: 13,298

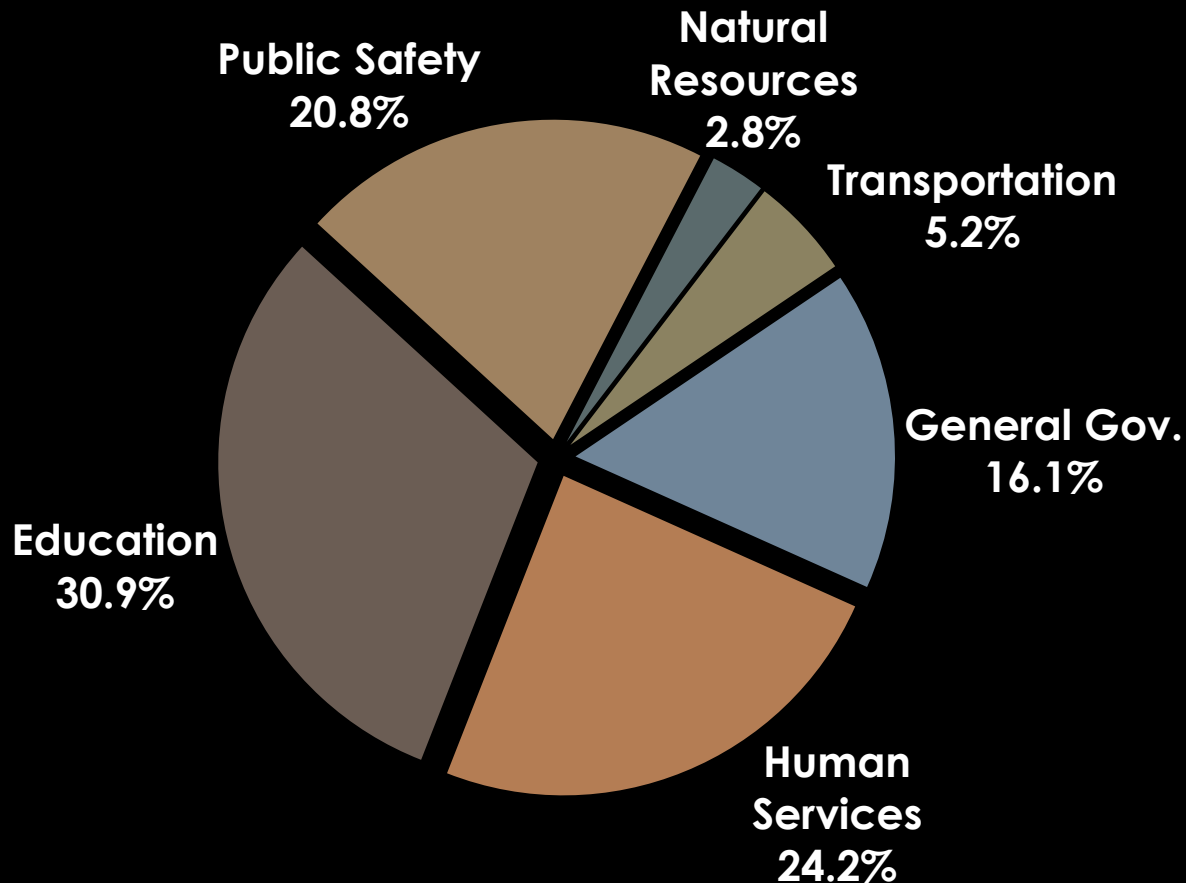
Recent Notable Changes

- FY 2010 & FY 2011
 - 161.0 FTEs for ARRA
- FY 2013 – FY 2015
 - Race to the Top - 36.5 FTE ; UHIP – 57 FTE
- FY 2015
 - 107.8 vacancies eliminated
- FY 2017
 - 225.0 vacancies eliminated
- FY 2018
 - 159 UHIP related FTE

Full-Time Equivalent Positions

- Generally all authorized positions are not filled
 - Hiring freezes
 - Budgeted turnover savings
- Turnover
 - Budgeting less than needed for full staffing
 - Time from when an employee leaves and a new employee is hired
 - At a lower cost
 - Leaves a position vacant

FTEs – FY 2019 Governor



FY 2018

as of 3/17/18	Authorized	Filled	Vacancies
General Gov.	2,365.9	2,192.3	173.6
Human Services	3,715.6	3,252.5	463.1
Education	4,664.7	4,403.3	261.4
Public Safety	3,210.0	2,979.3	230.7
Natural Res.	429.0	392.0	37.0
Transportation	775.0	655.6	119.4
Total	15,160.2	13,875.0	1,285.2

What are the costs?

Personnel Costs: Total

FY 2019 Governor	Gen. Rev.	All Funds
Salaries & Benefits	\$906.6	\$1,750.5
Contracted Services	60.4	289.9
Total (in millions)	\$967.0	\$2,040.4
Share of Total Budget	25.3%	21.8%

- Excludes internal service funds
 - Costs billed to agencies appear in operating category but underlying expenses include salaries and benefits

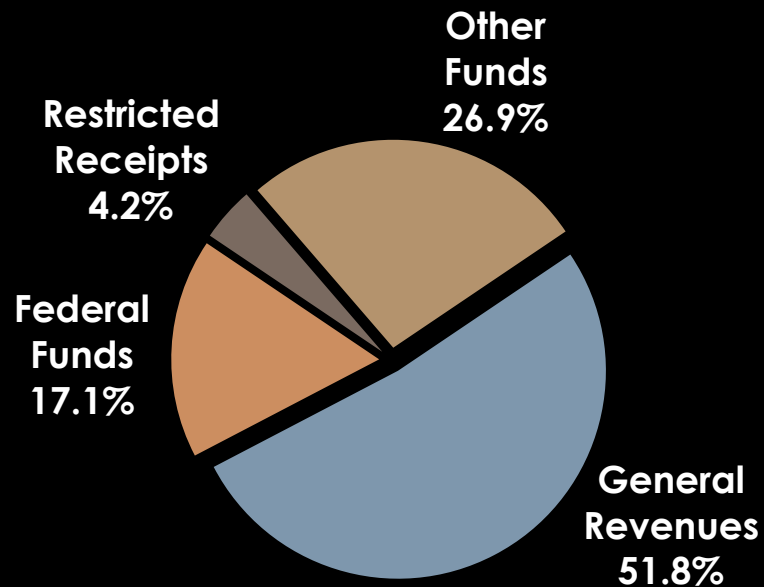
Personnel Costs: Adjusted Total

FY 2019 Governor	Gen. Rev.	Internal Service*	All Funds*
Salaries & Benefits	\$906.6	\$56.9	\$1,807.4
Contracted Services	60.4	5.4	295.9
Total	\$967.0	\$62.3	\$2,102.7
Share of total personnel	39.4%	3.0%	
Share of Total Budget	25.3%	0.7%	22.4%

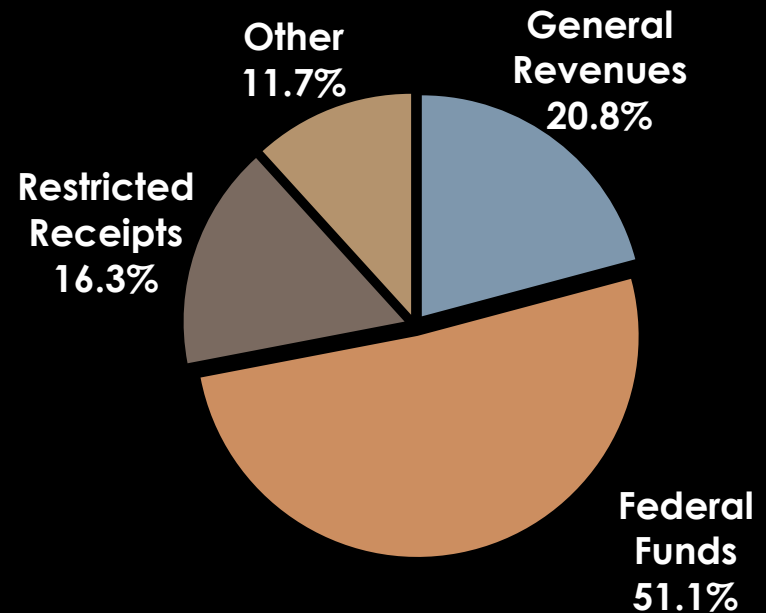
*Corrected from 4/4 hearing to excluded expenses already reflected in unadjusted total, primarily medical benefits

FY 2019 Personnel by Sources of Funds

SALARIES AND BENEFITS



CONTRACTED SERVICES



Personnel Costs: What are they?

- What does a position cost?
 - Salaries
 - Wages and overtime
 - Benefits
 - Direct benefits to employees
 - Health
 - Workers' Comp, unemployment
 - Pension, OPEB
 - Unfunded liabilities
 - Pension, OPEB

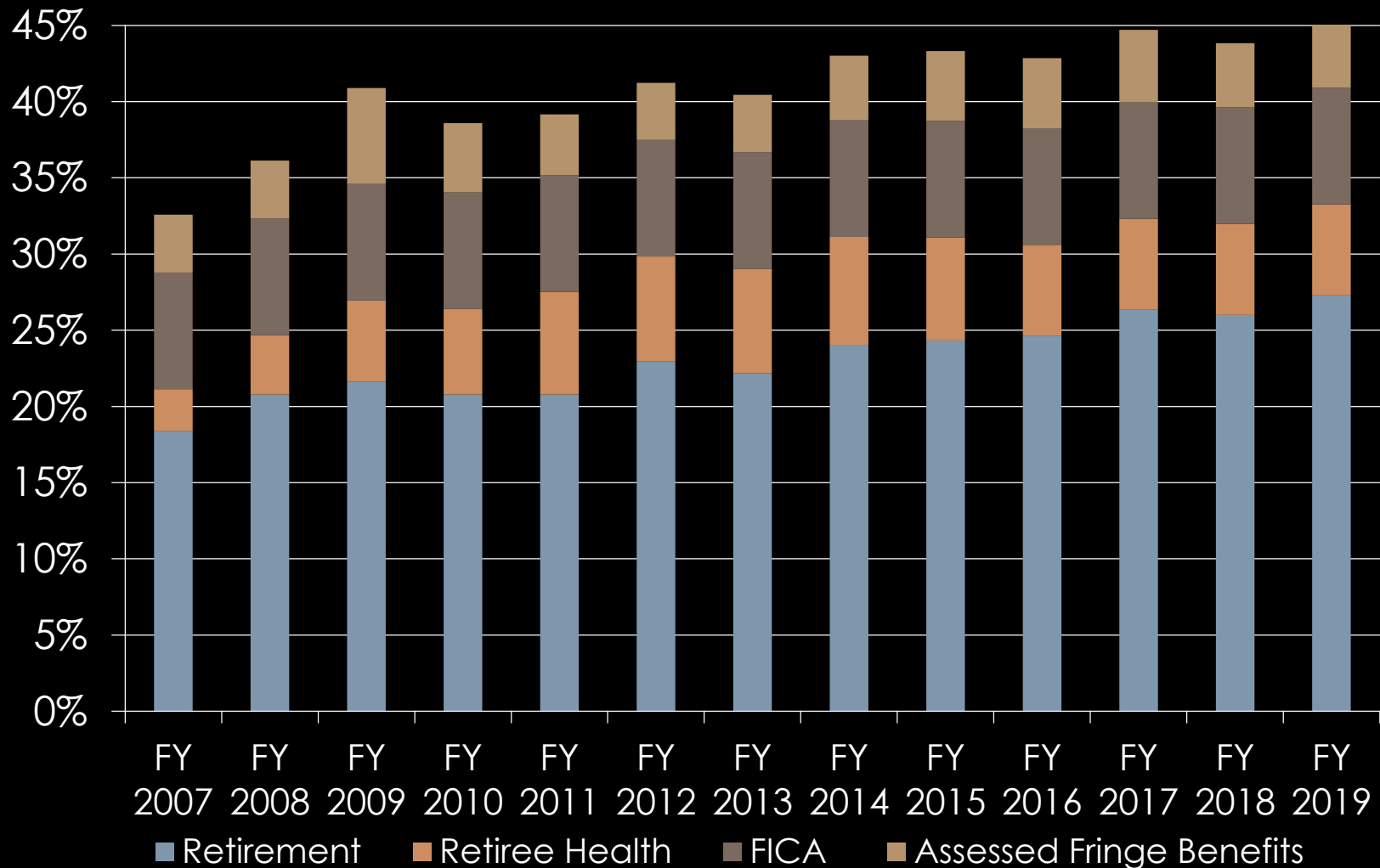
Overtime

Agency	FY 2019 Gov.	% of Rec.
Corrections	\$19,460,403	33.0%
BHDDH	10,194,925	17.3%
Public Safety	6,510,216	11.1%
Transportation	5,555,000	9.4%
Human Services	5,147,348	8.7%
Higher Education	5,072,522	8.6%
Children, Youth & Families	3,651,800	6.2%
All Other	3,321,665	5.6%
Total	\$58,913,879	100%

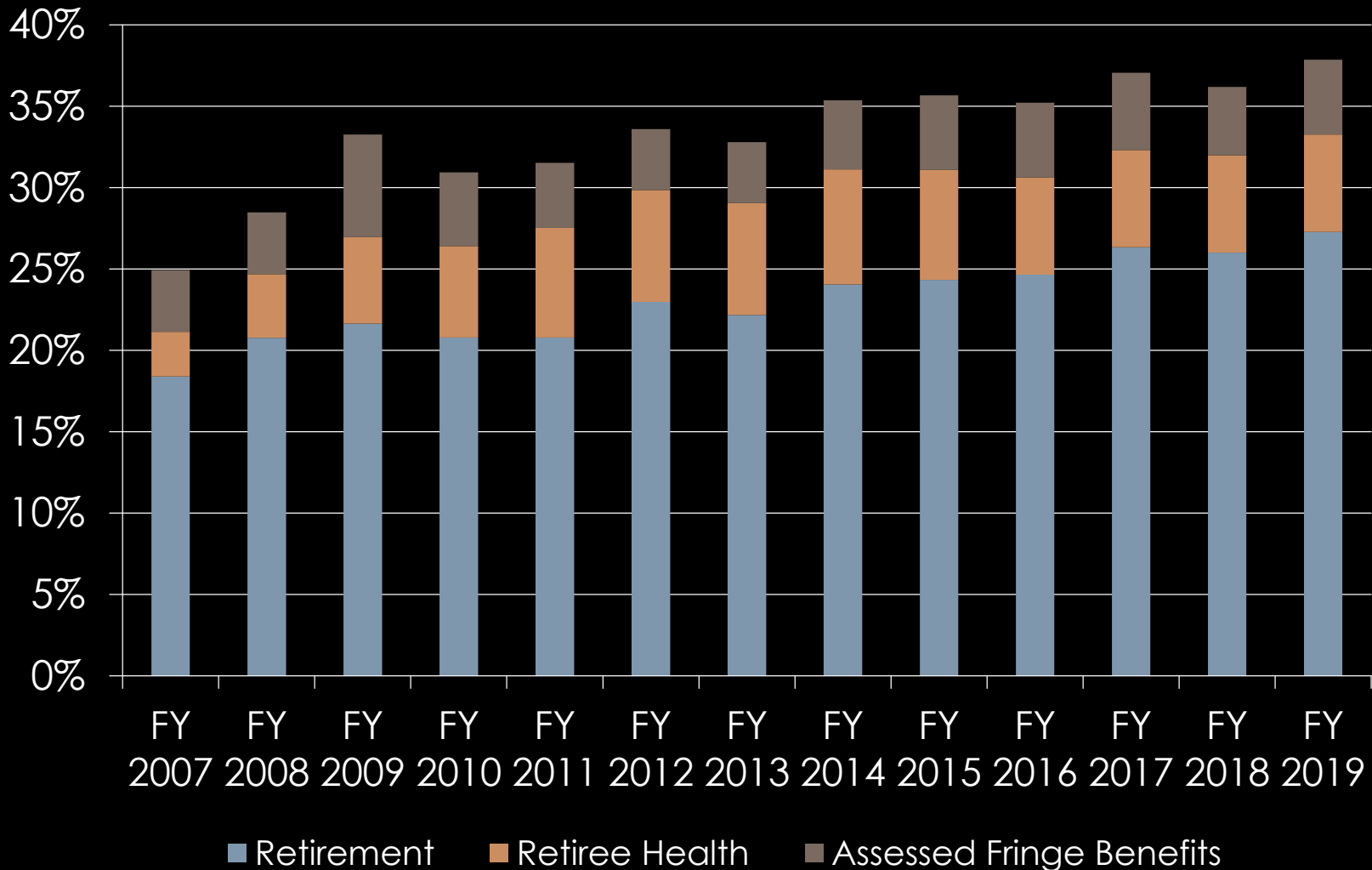
Overtime

Agency	FY 2018	FY 2018 Rev	FY 2019 Gov.
Corrections	\$20.5	\$26.7	\$19.5
BHDDH	7.9	13.1	10.2
Public Safety	5.4	7.4	6.5
Transportation	4.8	6.1	5.6
Human Services	5.1	4.1	5.1
Higher Education	5.4	5.1	5.1
Children, Youth & Families	3.8	3.8	3.7
All Other	4.1	3.1	3.3
\$ in millions	Total	\$57.0	\$69.3
		\$58.9	

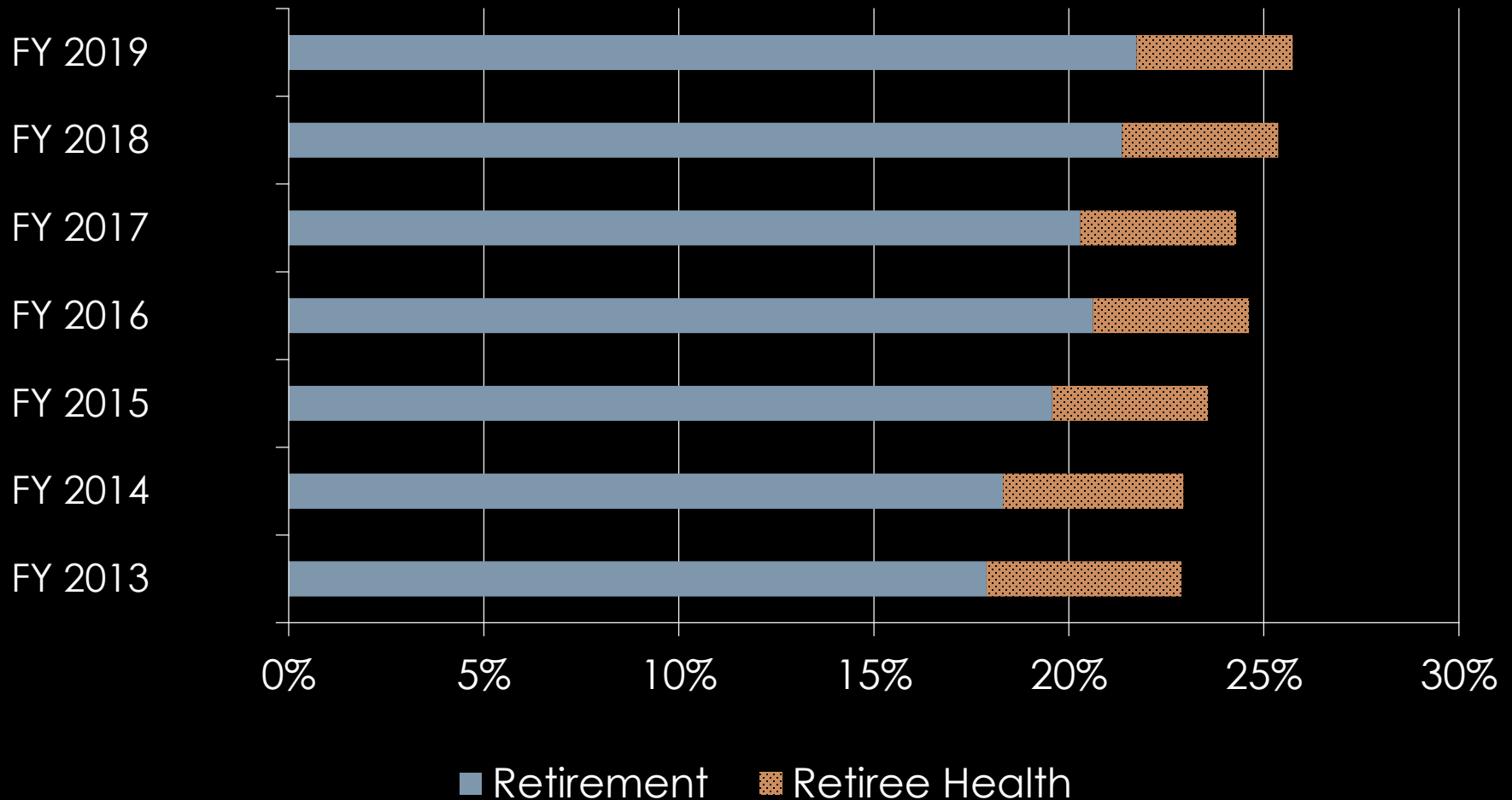
Non-Health Benefits: As a Percent of Salaries



Non-Health Benefits: As a Percent of Salaries excl. FICA



Non-Health Benefits: Unfunded Liability Costs



Health Benefits

- Health Benefits
 - Medical, dental and vision
 - FY 2019 cost - \$212.4 million; has increased by approximately 28% since 2005
 - Employees began sharing in cost of benefits in FY 2005
 - Now pay an average of 20%
- Not expressed as % of salaries
 - Equates to 28.04% for family plan on average salary of \$72,417

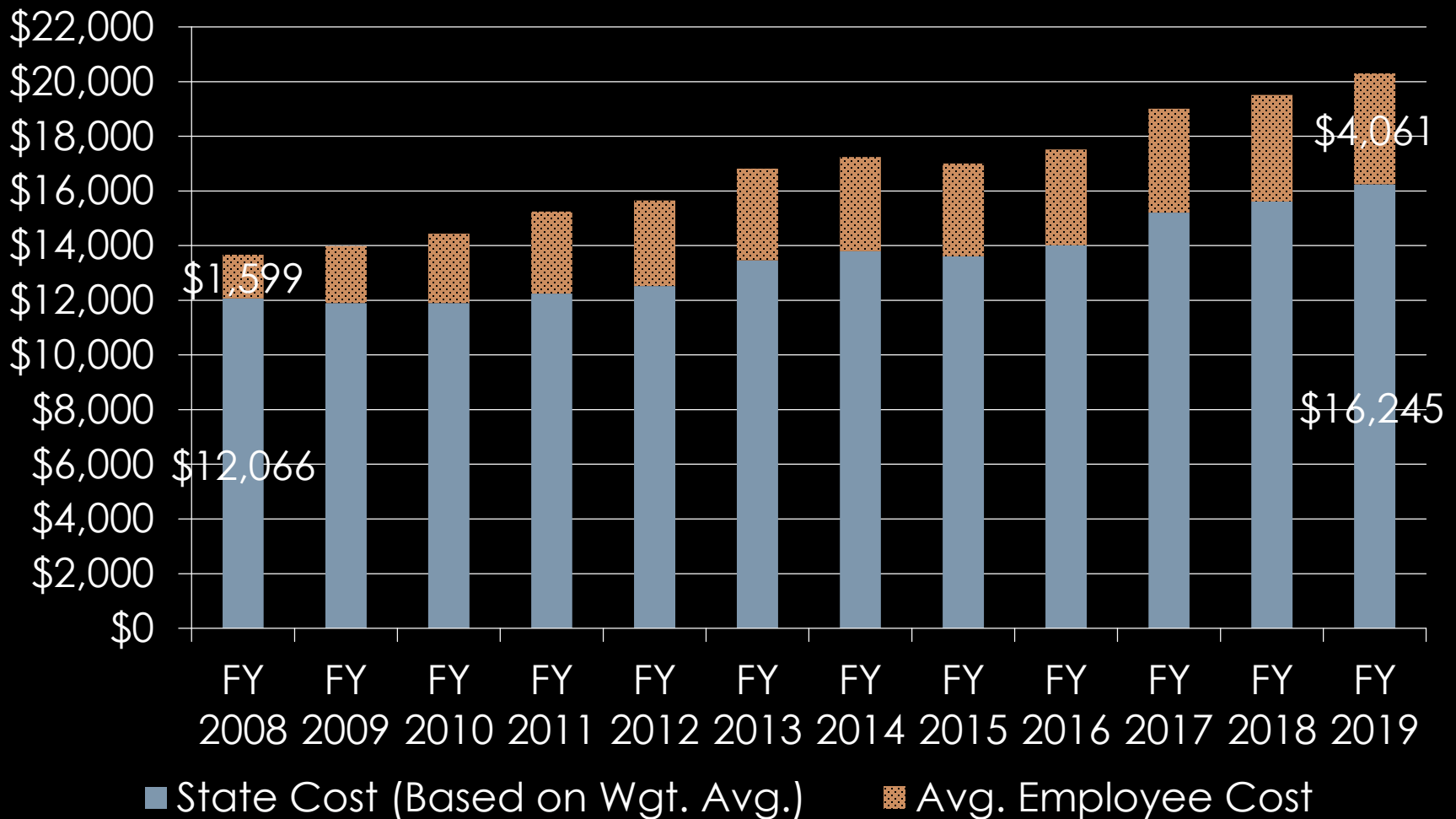
Medical Benefit Waiver

- Started in June 1997 as incentive to opt out of medical benefits
 - Does not include vision or dental
 - Began before employees had to contribute
 - Waiver: \$2,002 through FY 2011
- Waiver reduced to \$1,001 in FY 2012
- 2015 contracts eliminate this for new employees (on/or after 6/29/14) w/state employee spouse

Health Benefits Cost Sharing

CY 2018	Individual	Family	Co-Share
Total Plan Cost	\$8,857	\$24,748	15%-25%
<i>Employee Salary</i>	<i>Co-Share</i>		
< \$49,670	\$1,771	\$3,712	20% -15%
\$49,670 - \$95,481	\$1,771	\$4,950	20%
> \$95,481	\$2,214	\$6,187	25%

Medical Benefit Costs



Assessed Fringe Benefit

- Workers' comp, unemployment, unused leave payments upon termination or retirement
- Caused fluctuations in agency budgets
 - Hard to plan for
 - Often not covered by grants
- State created internal service fund to account for expense

Assessed Fringe Benefit

- Allows cost to be spread over all sources
- Biweekly assessment is applied to the amount of salaries and wages paid from all accounts and funds, effective August 1999
 - FY 2000 rate: 0.17%
 - Since FY 2004 ranged between 3.52% and 4.75%
- Significant increases in FY 2017 and FY 2019
 - FY 2018 credit avoided increase
 - FY 2019 increase to cover payouts for VRI

Assessed Fringe Benefit

- Basic rate is 4.60% for FY 2019
 - Revised from enacted of 4.20%
- Exception Rates
 - Public Safety
 - FY 2018 and FY 2019: 2.0%
 - Eligible for injured on duty; no workers' comp
 - Higher Education faculty
 - FY 2018 and FY 2019: 4.48%
 - No severance payments

Federal Insurance Contributions Act Tax (FICA)

- Federal payroll tax imposed on employees and employers to fund Social Security and Medicare
- Rate is calculated on salaries and overtime
 - Social Security: 6.20%
 - Income limit of \$128,400 (CY 2018)
 - Medicare: 1.45%
 - No income limit

Federal Insurance Contributions Act Tax (FICA)

- 2013 Assembly authorized an alternative retirement plan for:
 - Part-time employees – work less than 20 hours/week
 - Those not eligible for state retirement system
 - Current employees may opt out
 - New employees automatically enroll

Retiree Health and Pension

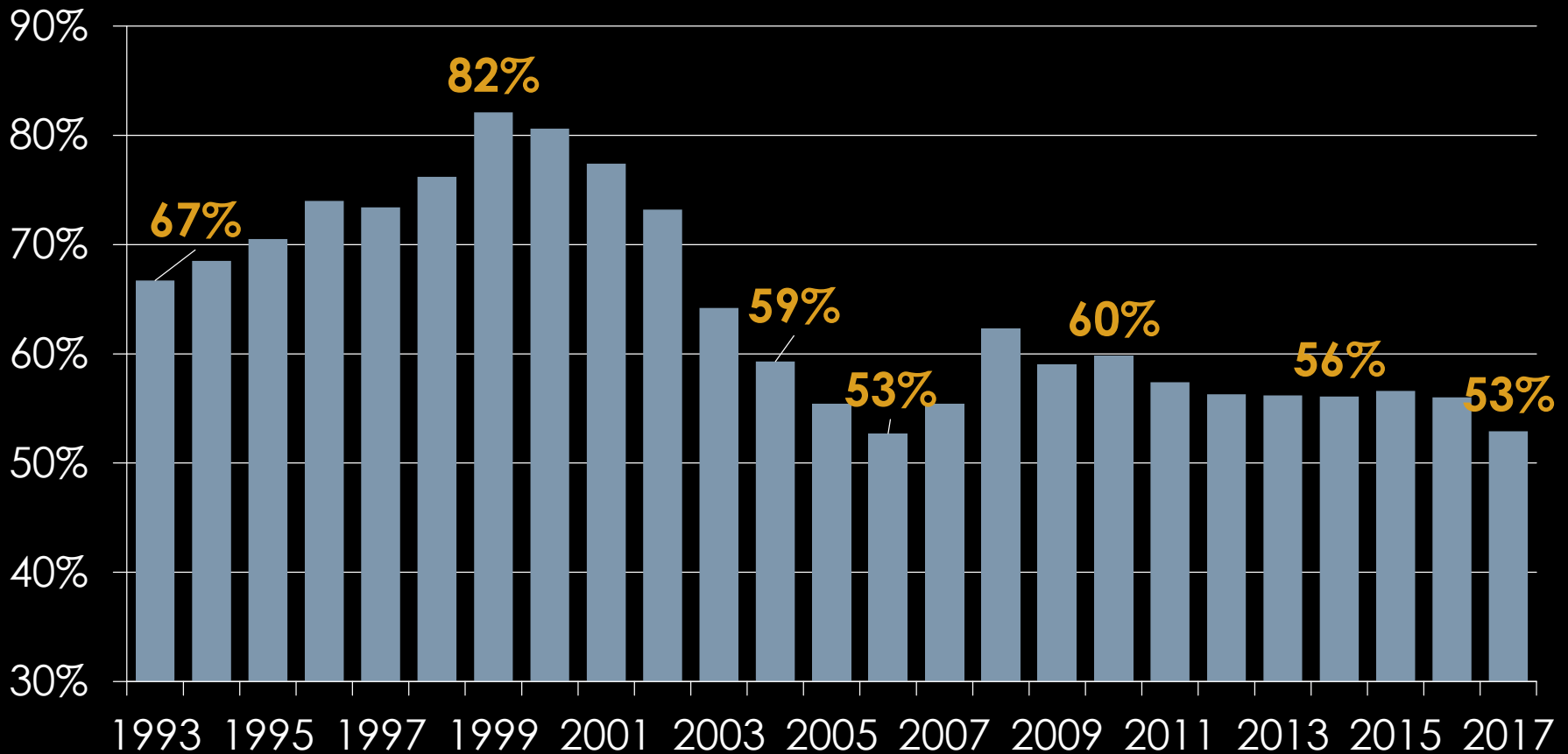
- Several rounds of recent changes to pension and retiree health benefits
- Largely driven by budget pressures
- Pension changes initially targeted to new and non-vested employees
 - Extended to those who had not yet earned the right to retire and eventually impacted those eligible to retire and current retirees

Retiree Health and Pension: Timeline

- **2005** - Initial round of pension benefit reductions, creation of a Plan B
- **2008** - Reductions to retiree health benefits to cut costs and move to actuarial system
- **2009** – Further pension benefit reductions affecting even those vested
- **2010** – Additional cut to pension COLA
- **2011** – Retirement Security Act and subsequent settlement revision

Pensions – Funded Ratio

1993-2017 Valuations (State Employees)



Valuation data applicable for FY 1995 -FY 2019

Retirement – Current Plan

- Rhode Island has a hybrid defined benefit/defined contribution plan
- Defined benefit for public safety
- Higher ed. employees only exception
 - Defined contribution plan
 - State makes 9% payment into a 401K type plan

Retirement – Current Plan

- Individualized retirement age based on years of service for employees not eligible to retire as of 2011
 - Minimum age of 59
 - New employees must work until lower of social security retirement age or 67
- Defined benefit based on five highest consecutive years (up from 3)

Retirement – Current Plan

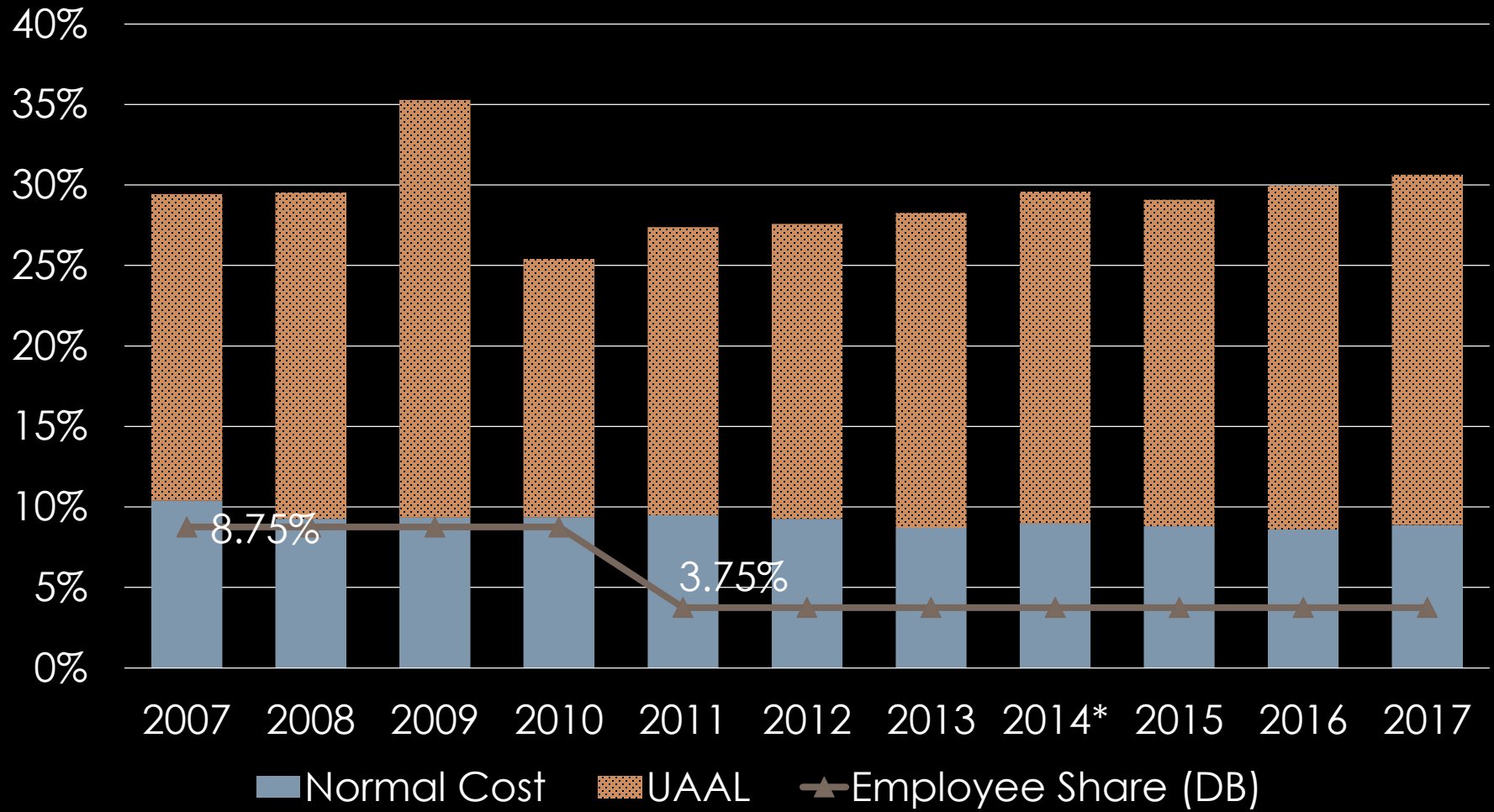
- COLAs granted when pension systems combined funded ratio $> 80\%$
- Linked to investment returns, no minimum and capped at 4%
- Applied to first \$25,000 of a pension, indexed to grow at same rate as COLA – \$0 to \$1,000

Benefit Design: Correctional Officers

- Preserves 2.0% accrual rate, state employees have 1.0%
- Reduces the maximum benefit from 80% to 75%
- Preserves age 55 with 25 years of service; SSRA for less than 25 years
- No defined contribution plan
- Included within State Employees' System

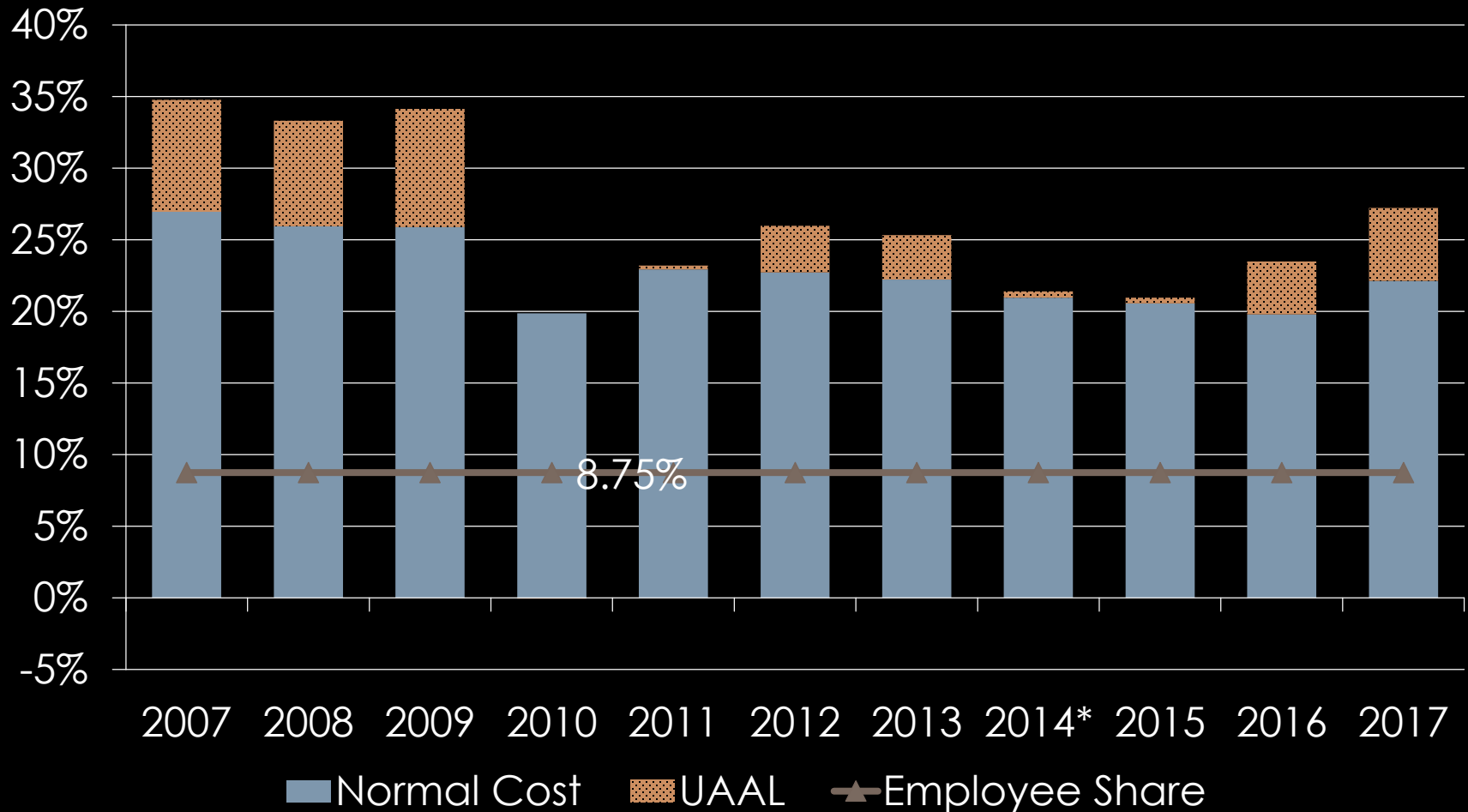
Pensions – Costs

2007-2017 Valuations (State Employees)



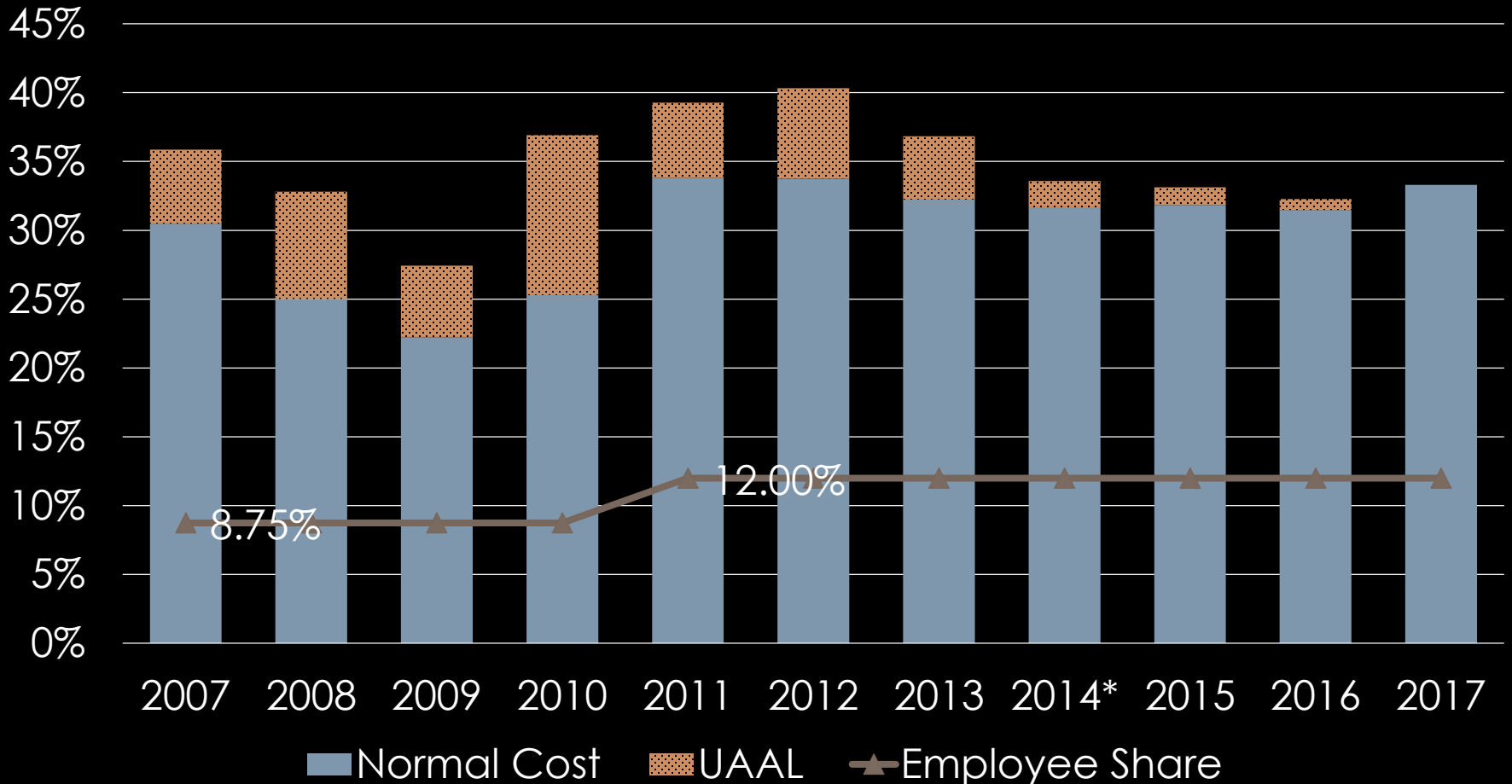
Pensions – Costs

2007-2017 Valuations (State Police)



Pensions – % of Salary

2007-2017 Valuations (Judges)



Pensions

- Public labor unions challenged constitutionality of law
- Proposed settlement in February 2014
 - Maintained most changes
 - Not ratified as needed
- 2015 Assembly codified alternative settlement agreement reached the following year

Pensions

- 2015 Settlement preserved over 90% of savings
 - Intermittent COLA every 4 years instead of 5
 - 1-time \$500 payment to all retirees
 - Changed formula for calculating COLA
 - Allowed those with 20 years to keep defined benefit pensions
 - 2% annual accrual & higher contribution rate
 - Increased state's contribution to DC plan for those with 10-20 YOS

Retiree Health GASB

- GASB mandated that governments include unfunded liability of post employment benefits as part of financial statements
- At the time (2005 Val), unfunded liability was calculated to be \$696.2 million (assuming 5% rate of return & incl. all employee groups)
- Pay-go costs estimated at 3.67% of payroll with growing unfunded liability
- Actuarial funding would cost 6.74% with no benefit reduction

Retiree Health

- At age 65, retirees must purchase Medicare Part B and transition to a Medicare supplemental plan
- Part B includes out patient and doctor's services
- Paid through deduction in Social Security checks
 - Varies by income but roughly \$100 per month

Retiree Health

- State offered self-insured health plan to early retirees (< age 65) and their spouses w/medical & drug benefits
 - State employees and teachers
 - Higher education has separate plan
- State subsidized early retiree plans by offering them at the active rate instead of actuarial cost
 - Older retirees cost more

Retiree Health

Pre-2008 Benefits: Non Medicare Eligible	
Plan cost for retiree	\$8,461
Plan cost for active employee	5,427
State cost to subsidize difference	\$3,034

- State also shared in cost of active rate for its employees
 - 50% - 100% based on age & years of service
 - No additional cost sharing offered to teachers - local district plans vary

Retiree Health – Post FY 2008

- 2008 legislation included significant reductions in benefits to those retiring after October 1, 2008
- Intended to reduce unfunded liability & allow state to move to actuarial funding
- Set up framework for actuarial funding effective July 1, 2008 (2-year delay because of budget pressures)

Retiree Health – Post FY 2008

- Employees retiring after Oct 1, 2008 subject to new rules
- New retirees must have at least 20 years of service and be age 59 to get state subsidy
 - Subsidy is 80% with retiree cost share of 20% of the actual cost of plan
- State employees & teachers allowed to buy plan at 100% of cost

Retiree Health – Post FY 2008

- Pre-reform, retiree health was 3.67% of payroll (pay go)
- For FY 2019, it is 5.98% based on 2015 valuation
- Surge of retirees because of this change impacting both retiree health and the retirement systems

Retiree Health - Medicare Exchange

- 2012 Assembly adopted legislation establishing a Medicare exchange for eligible retirees
 - Offer a wider array of health benefit choices
 - Lower cost through competition
- Savings estimated at \$1.8 million annually all funds, \$1.0 million gen. rev.

Retiree Health – Medicare Exchange

- There were 2 plans for those over 65 with Medicare Parts A&B
 - Supplemental 65: no pharmacy, dental, or vision and no deductibles or copays
 - Annual cost of \$2,705
 - Medicare Advantage HMO: includes limited vision and dental and includes copays
 - Annual cost of \$2,304

Retiree Health – Medicare Exchange

- State set up a Health Reimbursement Arrangement (HRA) for each retiree and deposits state subsidy into account each month
 - Same % of subsidy that retiree is currently getting
 - Maximum state contribution equal to lowest cost plan, adjusted for age, comparable to highest former plan (Supplemental 65)

Retiree Health – Medicare Exchange

- Retiree can choose a lower cost plan and use the balance of funds in the HRA for any IRS approved expense, including:
 - Purchasing a plan for a spouse
 - Dental or vision coverage, and
 - Payment of Medicare Part B premiums
 - Part D coverage

Retiree Health Funding

- From June 30, 2015 valuation
 - Assumed rate of return is 5%

	State Emp.	State Police
Unfunded Liability (millions)	\$530.7	\$55.9
ARC as a % of payroll*	6.05%	34.89%
<i>Normal Cost</i>	2.15%	19.67%
<i>UAAL</i>	3.9%	15.22%
Funded Ratio	15%	29%
<i>*ACA Cadillac tax" impact incl.</i>	0.29%	2.93%

Retiree Health Funding

- Federal Cadillac tax goes into effect in 2022 for “high cost” plans
 - Final regulations have not been issued
- Tax is 40% of cost above thresholds
 - \$10,200 for individual; \$27,500 for family

Example	Annual Cost
Plan	\$12,000
Taxable amount	\$1,800
Tax	\$720

Salaries

- Pay scales are by grade and classification
- Most base salaries are 5 step range w/movement yearly after first 6 months
- COLAs apply to whole base pay grade

Salaries – Cost of Living Adjustments

Fiscal Yr.	Increase	Notes/ Effective date
2005	1.5%	
2006	2.5%	
2007	4.0%	
2008	3.0%	6 furlough days
2009	0.0%	
2010	2.5%	8 furlough days
2011	3.0%	6 mo. delay, 4 furlough days
2012	3.0%	

Salaries – Cost of Living Adjustments

Fiscal Yr.	Increase	Effective Date /Notes
2013	0.0%	
2014	2.0%	April 6, 2014
2015	2.0%	October 5, 2014
2016	2.0%	October 4, 2015
2017	-	
2018	2.0%	<i>January 2018 – Tentative</i>
2019	2.5%	<i>January 2019 - Tentative</i>
2020	3.0%	<i>2.0% July 2019 & 1.0% January 2020</i>

Salaries

- Governor's FY 2019 budget did not include funding for COLAs
 - Most employee contracts expired at the end of FY 2017
- “Gentlemen’s agreement” reached last month
 - Nothing official but elements covered in news reports
 - Medical Benefits changes
 - Doubles current deductibles
 - “wellness rewards”

Longevity

- % increase on base salary once a certain number of years is reached
- Collective bargaining agreements for union employees
 - Different increases for non-classified education employees
 - Governed by General Laws, Title 16
- Personnel policy for non-union employees

Longevity Increases - % of Salary

Years of Service	Education Board	All Others
5	-	5.0%
11	5.0%	10.0%
15	-	15.0%
20	10.0%	17.5%
25	-	20.0%

- 2011 Assembly froze longevity increases for all employees, effective July 1, 2011 or upon expiration of contracts

Cost of a Position – State Emp.

FY 2019	Expense	% of Salary
Direct Salaries	\$72,417	
Assessed Fringe	\$3,331	4.60%
FICA	5,540	7.65%
Retiree Health	4,331	5.98%
Retirement	19,755	27.28%
Subtotal	\$32,957	45.51%
Health Benefits	\$24,748	Family Plan
Minus 20% co share	(4,950)	
Subtotal Benefits	\$52,755	72.8%
Total Cost	\$125,172	

Cost of a Position – State Emp.

FY 2019	Expense	% of Salary
Direct Salaries	\$100,000	
Assessed Fringe	\$4,600	4.60%
FICA	7,650	7.65%
Retiree Health	5,980	5.98%
Retirement	27,280	27.28%
Subtotal	\$45,510	45.51%
Health Benefits	\$24,748	Family Plan
Minus 25% co share	(6,187)	
Subtotal Benefits	\$64,071	64.1%
Total Cost	\$164,071	

Who Decides What?

Who Decides What?

- General Laws – Title 36
 - Classifications
 - Retirement benefits, employee contribution, retiree health benefit
 - Collective bargaining rights and scope
- General Laws – Title 16
 - Board of Education authority
 - Longevity for education employees
- Privatization parameters – Title 42

Who Decides What?

- Collective Bargaining
 - Cost of living adjustments
 - Schedules
 - Medical benefits; employee co-shares
 - Layoffs and leave time
 - Other benefits: incentive pay, education, clothing allowances

Collective Bargaining Units

- FTEs as of April 1, 2018
 - 11,306 union members
 - 3,366 non-union members
- If a contract is renegotiated it is typically done as an amendment to master contract
 - Would not change expiration of contract
 - Example: Governor Carcieri negotiated with Council 94 for furlough days, added as memorandum of agreement to contract

Collective Bargaining Units

- Approx. 50 union contracts
 - 38 unions Executive Branch control
 - Council 94, Local 580, RIBCO, State Troopers
 - Most expired June 30, 2017
 - Higher Education
 - About a dozen contracts
 - Most expired June 2017

How We Compare

State Comparisons – Collective Bargaining, Health Insurance

- Massachusetts
 - Only state specifically excluding all medical benefits from collective bargaining
- Rhode Island
 - RIGL 28-7-49 prohibits agreements from specifying a specific health insurer
 - Does not otherwise prohibit bargaining over health insurance benefits

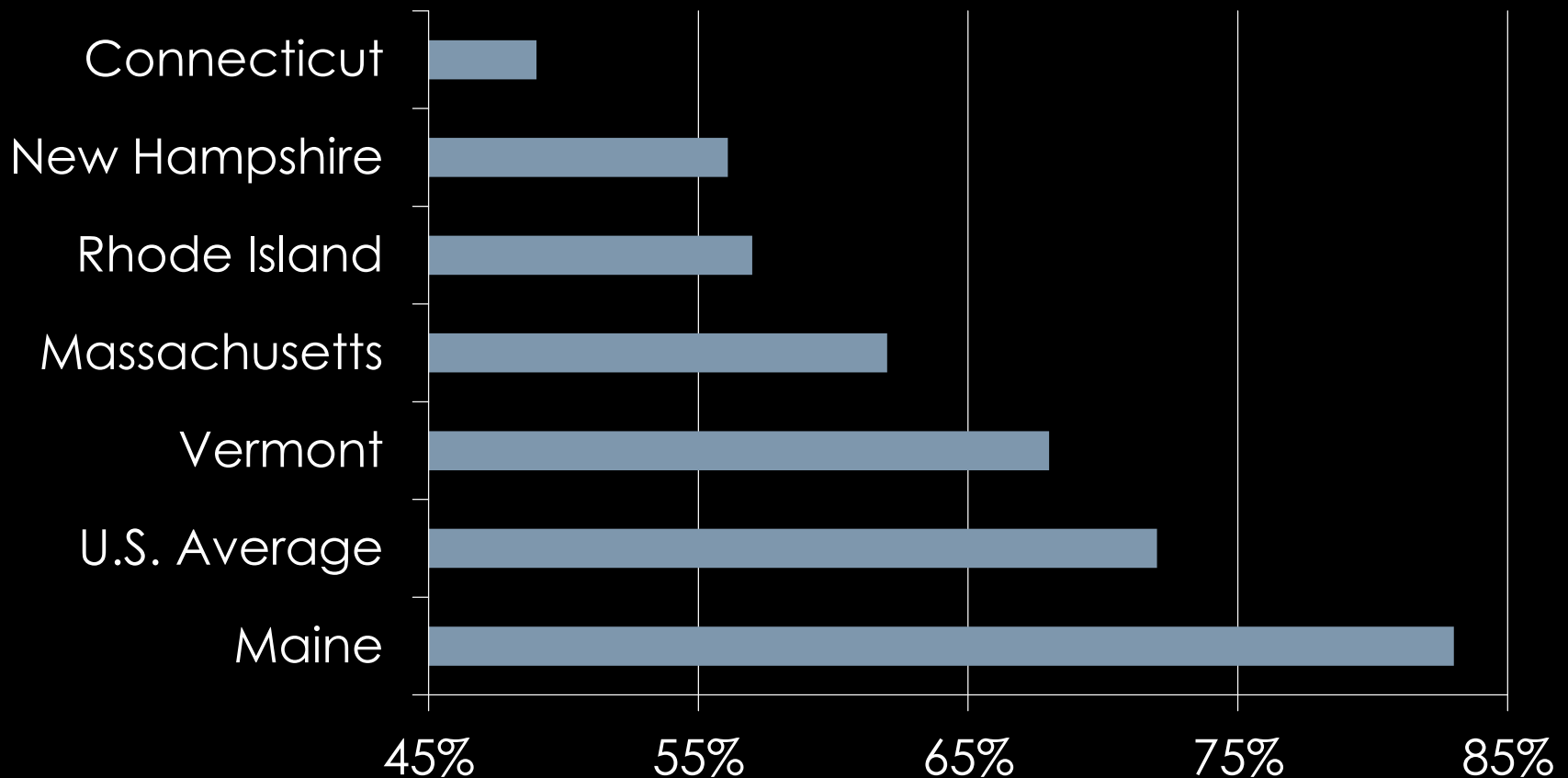
State Comparisons – State Employee Collective Bargaining

State	Wages	Hours	Retirement
Rhode Island	Yes	Yes	No
Connecticut	Yes	Yes	Yes
Massachusetts	Yes	Yes	No
New York	Yes	Yes	No

Table excludes municipalities

State Retirement Systems

Funded Ratio 2015



State Employee Payrolls

	FTE	Avg. Salaries	State Employee as a % Pop	# of Emp/ 1,000 Residents	Rank
Connecticut	62,863	\$78,863	1.76%	18	2
Maine	20,647	\$55,384	1.55%	16	4
Massachusetts	99,315	\$75,165	1.52%	15	5
New Hampshire	19,092	\$63,194	1.45%	15	6
Rhode Island*	18,302	\$76,089	1.74%	17	3
Vermont	14,388	\$68,236	2.30%	23	1

U.S. Census data from March 2016 and staff calculation – appears to include quasi publics not in state FTE count

Statewide Employers

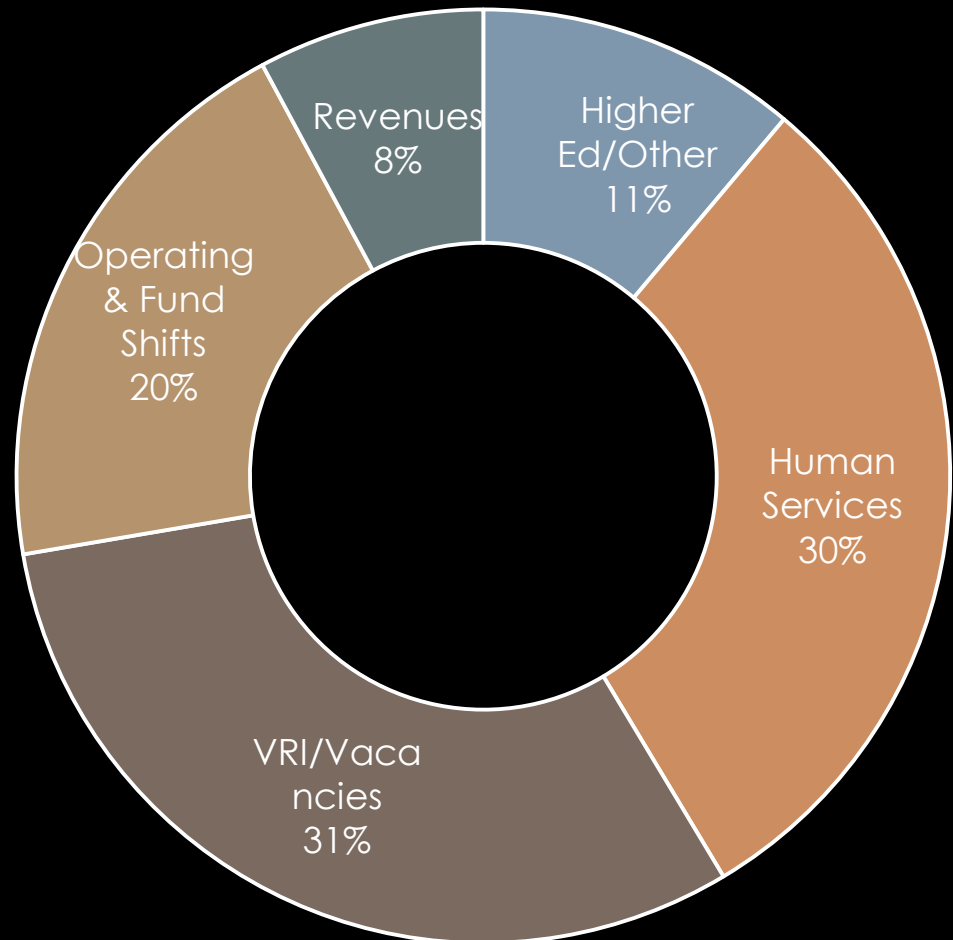
	2015 Individual Plan		2015 Family Plan	
	Average Prem. Cost	Employee Cont.	Average Prem. Cost	Employee Cont.
Connecticut	\$6,478	26%	\$18,269	30%
Maine	\$5,979	21%	\$16,117	29%
Massachusetts	\$6,519	24%	\$18,454	24%
New Hampshire	\$6,573	24%	\$19,208	25%
Rhode Island	\$6,509	23%	\$17,590	26%
Vermont	\$5,861	23%	\$17,835	28%
U.S. Av.	\$5,963	21%	\$17,322	27%
New Eng. Av.	\$6,320	24%	\$17,912	27%

FY 2019 Governor's Budget Issues

Retirement Incentive

- Proposal to help meet enacted savings target of \$25 million in administrative efficiencies
- Announced in early October

\$25 M Undistributed Savings



Retirement Incentive

- Retirement Incentive
 - State employees eligible to retire on/before December 31, 2017
 - Does not apply to all
 - 941 eligible employees
 - Incentive = 2x employee's longevity
 - Capped at \$40,000
 - FY 2018 Savings assumed at \$6.5 million

Retirement Incentive

- Savings assumptions
 - 45% of eligible employees retire – **426**
 - By 1/31/18 for 5 mo. of savings
 - Payouts are from assessed fringe benefit fund
 - Fund generated from all fund sources
 - 60% of vacated positions are filled - **252**
 - at 70% of incumbent's cost in first year
 - Refill of positions takes 4 months
 - Funds one month in FY 2018
 - Deadline changes announced later

Retirement Incentive

FY 2018 Savings Assumptions	
5 months savings employees that retire	\$20.1
1 month cost to refill 60% at reduced cost	(\$1.7)
Gross Savings	\$18.4
Unused Leave Payout	(\$4.8)
2x Longevity Incentive Payment	(\$9.0)
Net Savings All Sources	\$4.6
Allocation of 50% separation costs to AFB Fund	\$6.9
FY 2018 Total Budget Savings	\$11.5
General Revenue Savings – assumes 57%	\$6.5
<i>In millions</i>	

Retirement Incentive

FY 2018 Savings	Original	HFAS
5 mo. savings employees that retire	\$20.1	\$17.1
1 mo. refill 60% at reduced cost	(\$1.7)	(\$1.5)
Gross Savings	\$18.4	\$15.5
Unused Leave Payout	(\$4.8)	(\$4.2)
2x Longevity Incentive Payment	(\$9.0)	(\$7.5)
Net Savings All Sources	\$4.6	\$3.9
Allocation of 50% separation costs to AFB Fund	\$6.9	\$5.8
FY 2018 Total Budget Savings	\$11.5	\$9.7
General Revenue Savings – 57%	\$6.5	\$5.5
<i>\$ In millions</i>		

Retirement Incentive

- Revised budget assumed \$1.9 million in direct general revenue savings from known VRI participants
 - Agency budgets further reduced by another \$4.9 million from general revenues through forced or naturally occurring turnover savings
- Some vacancies have already been filled

Retirement Incentive

Agency	Participants
DOA	35
DOR	9
DLT	18
BHDDH	38
DCYF	17
DHS	33
Colleges	44

Agency	Participants
Courts	21
Corrections	16
DEM	26
DOT	36
Other	54
Total	347

Full-time Equivalent Positions

	Regular	3rd Party	Total
FY 2017 Avg.	13,190.3	619.3	13,809.6
FY 2018 Enacted	14,420.4	739.8	15,160.2
FY 2018 Rev.	14,446.4	739.8	15,186.2
Jan 20 Filled	13,265.3	687.4	13,952.7
Diff from 11/25	(43.0)	32.3	(10.7)
March 17 Filled	13,194.2	680.8	13,875.0
Diff from 1/20	(71.1)	(6.6)	(77.7)
March Diff to Enacted	(1,226.2)	(59.0)	(1,285.2)

Full-time Equivalent Positions

<i>Filled</i>	<i>Total</i>
FY 2017 Avg.	13,809.6
July 7, 2017	13,256.2
Excluding Leg/Jud	12,319.7
Excluding Colleges	9,653.7
September 30	9,685.0
<i>Change to July 7</i>	31.0
<i>March 17</i>	9,572.1
Change to Sept. 30	(112.9)
Change to July 7	(81.6)

Retirement Incentive

Impact to Retirement System Based on % Participating				
Participants	40%		60%	
Unfunded Liability	\$12		\$19	
Funded Ratio	(0.1%)		(0.3%)	
Impact on FY 2020 Rates	0.33%	\$1.0	0.49%	\$1.5
Impact on FY 2019 Rates based on 10-yr amortization	0.42%	\$1.6	0.63%	\$2.5
General Revenue Share		\$0.9		\$1.5
<i>Costs in millions</i>				

Personnel Initiatives

- Retirement Incentive
 - Impact on FY 2019 budget unclear
 - Covering payouts & retirement impacts are budgeted – about 1% of salaries ~ \$2 million GR
 - Savings in FY 2018 mostly not carried to FY 2019
 - Major savings in BHDDH programs appear linked
 - FTE counts very high and hiring controls not apparent
 - Meaningful savings only occur if high percentage are not refilled

Retirement Incentive

FY 2019 Savings Assumptions	Original	Updated?
Value of vacated positions	\$51.5	\$42.0
Fill Half at 70% of prior cost	(21.3)	(18.0)
Repay AFB fund	(6.9)*	(5.8)*
Retirement cost increase	(1.4)	(1.4)
Savings	21.9	16.7
General Revenues – 57%	\$12.5	9.5
*only \$2.3 million appears to be budgeted		

Personnel and Operating

- Salaries and Benefits
 - Increase of 3.0% from enacted
 - General revenues increase 2.7%
 - Reflects updated benefit rates including increases related to retirement incentive
 - Changes in categories affect presentation
- Adds 266 new positions
 - Some are for revenue enhancements
 - Many replace positions that will be held vacant or eliminated

Staffing Changes

	Gen. Gov't.	Human Services	Education	Public Safety	Nat. Res.	Transp	Total
18 Enacted	2,365.9	3,715.6	4,664.7	3,210.0	429.0	755.0	15,160.2
New	112.0	30.6	94.5	67.0	1.0	45.0	350.1
Transfers	38.0	(2.0)	-	(36.0)	-	-	-
Prog. Red.	(11.0)	(4.0)	-	(2.8)	(1.0)	-	(18.8)
Unidentified	(14.0)	-	-	(26.0)	-	(25.0)	(65.0)
<i>Total Chng.</i>	<i>125.0</i>	<i>24.6</i>	<i>94.5</i>	<i>2.2</i>	<i>-</i>	<i>20.0</i>	<i>266.3</i>
FY 2019 Gov.	2,490.9	3,740.2	4,759.2	3,212.2	429.0	795.0	15,426.5

Staffing

FY 2019 Governor Recommendation	
Gross Salaries (in millions)	\$1,117.1
Turnover (in millions)	(42.9)
Turnover %	3.8%
Turnover FTE	592.0
FY 2019 FTE recommended	15,426.5
Funded FTE	14,834.5
Filled as of March 17	13,875.0
Funded but not filled*	945.3

**number skewed by new position requests as well as overtime practices*

Issues

- Transparency issues
 - Staffing authorizations for appointing authorities increasingly separate from funding allocations
 - Governor's office "charging" agencies for staff members based on policy area of responsibility
 - Positions centralized into EOHHS as required under current law still have funding left in sending agencies
 - Was expected to be resolved this year – issue is worse

Issues

- Transparency issues
 - Unclassified positions reported in the personnel supplement
 - Include “non classified” positions
 - Numerous other labeling issues
 - Staff review of statutory authority for unclassified positions shows
 - Likely reporting errors
 - Unauthorized positions

Issues

- Transparency issues
 - Unidentified reductions in agencies against rosters shown in the personnel supplement
 - Usually when new positions are added
 - Dilutes usefulness of the personnel supplement
 - Unidentified adjustments to salary and other cost detail listed
 - Transfers among agencies do not tie out
 - All similar issues make it difficult to track changes and adherence to enacted budget assumptions

Considerations

- Aligning authorized positions with funding allocated and projected need
 - Removes level of flexibility
 - Lower FTE Limits and or program specific limits
 - Current examples in Education agencies
- Current provision for increasing FTE cap outside of budget
 - Via request from Governor and concurrence of Speaker and President of the Senate

Considerations

- Review issues driving overtime use
 - Analysis should consider impact on unfunded liability payments

Personnel Costs and Issues

April 4, 2018

Staff Presentation to the House Finance
Committee
