

DRAFT Report to the Legislative Council

Uniform Personnel Classification and Compensation Plan Subcommittee

Act 796 State Employee Positions Efficiency Study 2021-2022

I. Act 796 of 2021.

Act 796 of 2021, Arkansas Code § 21-5-226 (the “Act” or “Act 796”), requires the Office of Personnel Management (“OPM”) to run a report in July of each year to review the number of positions that have been vacant for two (2) years or more. Those positions are presented to the Legislative Council or the Joint Budget Committee to determine which positions may be utilized during the fiscal year. This action requires approval from the committees. Under the Act, OPM is also required to provide an updated list of the vacant positions five (5) days prior to the beginning of legislative budget hearings. In addition, the Act required that the Legislative Council “study state employee position management, control and efficiency to identify means by which the state can increase efficiency and transparency in state budgeting through the elimination of unnecessary or unused positions at executive branch agencies.”

The Rules of the Legislative Council adopted in May 2021 referred the study required by Act 796 to the Uniform Personnel Classification and Compensation Plan Subcommittee (the “Subcommittee”), directing the Subcommittee to undertake a study in accordance with Act 796 of 2021 regarding state employee position management, control and efficiency. In conducting the study, the Subcommittee was tasked with the following responsibilities:

- Study the possible plans for increasing efficiency and transparency in state budgeting by eliminating unnecessary or unused positions at state agencies within the executive branch;
- Develop recommendations for ways in which the state can increase efficiency and transparency in state budgeting; and
- Summarize the results of the study in a report to be submitted to the Legislative Council no later than December 1, 2022.

II. Background.

A. Position Budgeting Process.

The process for budgeting positions begins prior to the Fall Budget Hearings of a Regular Legislative Session. During the summer months in the year before a regular session, the Office of Budget (Department of Finance and Administration) and OPM (Department of Transformation and Shared Services) send out budget instructions to state agencies for the next biennium. These instructions include how to request new

positions, make changes to existing positions, and eliminate previously appropriated positions. This information becomes the “Agency” request information found in the budget manuals provided to the Arkansas Legislative Council and Joint Budget Committee (ALC/JBC) during the Fall Budget Hearings.

An executive branch working group made up of staff from the Governor’s Office, OPM, and the Office of Budget analyze the agency requests and make recommendations on which requests should be approved or denied. This becomes the “Executive” recommendation listed in the budget manuals.

Also included in the budget manuals are the number of “Authorized” and “Budgeted” positions for the current fiscal year as well as the “Actual” positions from the previous fiscal year. The “Authorized” position information includes the number of positions that are appropriated to the agency in their current appropriation act. The “Budgeted” position information includes the number of positions that the agency budgeted for the current fiscal year during the last Annual Operating Plan. The “Actual” number of positions indicate the number of positions appropriated to the agency during the previous fiscal year.

During the Fall Budget Hearings, the ALC/JBC, along with the Personnel Subcommittee, review the number of current appropriated positions as well as the requested and recommended changes. The final determination made by the ALC/JBC becomes the Legislative Recommendation, which is used to draft appropriation bills for review during the Regular Session.

During the Regular Session, the Joint Budget Committee and its Personnel Subcommittee will again review the appropriation bills that have been drafted for each agency and department. During this process, bills may be amended for various reasons including changing the number of positions in a particular appropriation.

Following the Regular Session, the agencies and departments will work with the Office of Budget to prepare their Annual Operations Plan (“AOP”) as established in Arkansas Code § 19-4-607. During the AOP process, the agencies and departments work to determine how many of their appropriated positions will be budgeted and utilized over the next fiscal year. The number of positions budgeted during the AOP determines the amount the agencies and departments will pay to the Employee Benefits Division (“EBD”) each month over the coming fiscal year.

B. Budgeted Positions and the Employee Benefits Division.

EBD currently receives \$500 each month (\$6000 per year) for each budgeted position at an agency, department, constitutional office, judicial branch agency or legislative branch agency. Per the Office of Budget, in Fiscal Year 2022 the total number of budgeted positions was 34,060. This amounts to \$204 million in funding for EBD for the purposes of providing insurance coverage to state employees, retirees, and their dependents.

If the number of budgeted positions are reduced during a legislative session or during the AOP process, the funding for EBD is reduced accordingly.

C. Efficiency and Transparency.

During the interim period between legislative sessions the Subcommittee receives a Quarterly Employment Report from the Bureau of Legislative Research (BLR) staff based on data provided by the agencies that details the number of authorized (or appropriated) positions, the number of employees, and the number of vacancies as well as other requested data.

OPM, Office of Budget, and BLR staff may also provide reports related to the number of positions, employees, vacancies, etc., as requested by members of the General Assembly.

The data provided during the interim along with the information in the budget manuals during pre-session budget hearings gives the General Assembly a panoramic overview of how many positions agencies have currently, and how many they are asking for moving forward into the following fiscal years.

III. Work of the Subcommittee.

At the July 20, 2021 Subcommittee meeting, Kay Barnhill, the state Personnel Administrator with OPM, reported that there were Nine Hundred Twelve (912) positions that had been vacant for two (2) years or more. Of those positions, Seven Hundred Forty-Six (746) were vacant/budgeted positions and One Hundred Sixty-Six (166) were vacant/unbudgeted positions. The Subcommittee approved the request from OPM to utilize Four Hundred Seventy-Nine (479) of the positions during the fiscal year. The other Four Hundred Thirty-Three (433) positions were to be frozen and unusable by the agencies during that time period.

The members of the subcommittee were invited to a meeting of the Executive Subcommittee of ALC on August 25, 2021, where the members received a report from The Segal Group, Inc., (“Segal”) regarding the stability and health of the states’ insurance programs through EBD. During this meeting, Segal provided a summary of the current financial situation, projections, and recommendations to help stabilize EBD’s finances. Included in that summary report was a section regarding the impact of budgeted positions along with financial projections if the number of positions were reduced. (See, Attachment A, pp. 7-8)

Although outside the work of this Subcommittee, additional work towards efficiency of state agency positions was conducted during the 2022 Fiscal Session Hearings. On January 12, 2022, OPM, as required by Act 796, provided an updated list of positions to JBC that had been vacant for two (2) years or more, including the Four Hundred Thirty-Three (433) positions that had been previously frozen. Then on January

18, 2022, the Joint Budget Committee approved the elimination of Forty-Six (46) positions. None of the Forty-Six (46) positions had been budgeted for the fiscal year.

IV. Recommendations.

To be determined by the Personnel Subcommittee and/or the Arkansas Legislative Council.

B.1

State of Arkansas

BLR Review

Funding Projections

August 2021 / Patrick Klein and Matthew Kersting

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Impact of Budgeted Positions

Funding Impact of Changing the Number of Budgeted Positions:

	Current Positions	Reduced Positions to number of Filled	Reduced Positions w/ Additional Funding
Current Positions	34,000	25,000	25,000
Funding per Position	\$500	\$500	\$680
Federal Portion (~25%)	\$125	\$125	\$170
State Portion (~75%)	\$375	\$375	\$510
Total Funding	\$204,000,000	\$150,000,000	\$204,000,000
Total Federal Funding	\$51,000,000	\$37,500,000	\$51,000,000
Total State Funding	\$153,000,000	\$112,500,000	153,000,000

- Federal funding represents, on average, approximately \$125 of the current funding for each budgeted position (~25%)
 - Funding varies significantly by position, so Federal funding impact would depend on which positions are eliminated
- If the State were to reduce the number of positions from 34,000 to 25,000, an additional \$54,000,000 would be required to fill the budget gap, resulting in a funding need of \$680 per budgeted position
 - The additional funding would need to be negotiated with the Federal government

Financial Projection – Reduced Positions

Arkansas State Employees under a reduction to 25,000 budgeted positions and no change to funding:

	2021	2022	2023	2024	2025
State Funding	\$192	\$150	\$150	\$150	\$150
Employee Funding	111	123	123	123	123
<u>Other Income</u>	<u>18</u>	<u>21</u>	<u>21</u>	<u>23</u>	<u>25</u>
Total Income	\$321	\$293	\$294	\$296	\$298
Medical Claims / Expenses	\$230	\$242	\$253	\$266	\$279
Rx Claims / Expenses	97	105	113	122	132
<u>Plan Administration</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total Expenses	\$329	\$349	\$368	\$390	\$413
Net Income / (Loss)	(\$8)	(\$56)	(\$74)	(\$94)	(\$115)
Total Assets	\$70	\$15	(\$58)	(\$152)	(\$266)

- If funding per position were not increased from the current \$500 to \$680, assets would deteriorate further and faster than the status quo, resulting in a deficit in 2023