



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 362** HLS 16RS 296
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: April 21, 2016	4:30 PM	Author: RICHARD
Dept./Agy.:		
Subject: Requires reduction in number of executive branch positions		Analyst: Alan M. Boxberger

STATE EMPLOYEES OR DECREASE GF EX See Note Page 1 of 2
Requires certain reductions in the number of positions in the executive branch of state government

Proposed law creates the State Government Employment Reduction Program, which provides for a reduction of a minimum of 5,000 positions in the executive branch of state government in each of 3 successive fiscal years, beginning with FY 17 and to accomplish a total savings of at least \$500 million by the beginning of FY 20. Proposed law requires that the commissioner of administration establish the baseline number of positions for each employment reduction unit and the reduction factor applicable to each employment reduction unit no later than September 15, 2016. Proposed law provides that the reduction factor is the percentage of all authorized and appropriated positions for the executive branch of state government as of July 1, 2016, that were authorized and appropriated for each employment reduction unit on that date. Proposed law provides that for each of the 3 fiscal years beginning with FY 16, each employment reduction unit shall reduce the baseline number of positions for the employment reduction unit by abolishing a number of positions at least equal to 5,000 multiplied by the reduction factor for the employment reduction unit and effectuate a savings of at least \$166.7 million per fiscal year up to \$500 million by the beginning of FY 20. Proposed law requires oversight by the Joint Legislative Committee on the Budget (JLCB). Proposed law is effective upon governor's signature.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Ded./Other	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Federal Funds	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

Proposed law provides for a reduction of a minimum of 5,000 positions in the executive branch of state government in each of 3 successive years (15,000 total) to effectuate a savings of at least \$500 M annually by the beginning of FY 20. Proposed law provides that the reduction is to be accomplished through attrition only (meaning that a position is vacant at the time it is abolished). Proposed law may result in potential savings of between \$359.1M and \$400.43M annually, or up to \$1.08B to \$1.2B cumulatively over three years.

To estimate potential savings that may be derived through the provisions of proposed law, the LFO made calculations utilizing two different assumptions. Those are detailed below. Factors that may influence these assumptions in a way that may decrease overall potential savings are enumerated at the bottom of page 2.

First Method: Average Salary of Classified and Unclassified Positions in FY 15

Based on the average FY 15 state salary and related benefits (37.26% of salaries) cost of \$90,172 for unclassified and \$61,407 for classified positions (salary derived from the State Civil Service 2014-2015 Annual Report) and that 63.8% of all positions are classified Full-Time Equivalent (FTE) positions and 36.2% are unclassified, the 5,000 position reduction each fiscal year for the next 3 fiscal years could result in annual savings of approximately \$359.1M in each of Fiscal Years 17, 18, and 19 for a total savings of approximately \$1.08B.

The annual cost savings are calculated as follows:

5,000 x 0.638 = 3,191 classified FTE positions x \$61,407 = \$195.95M
5,000 x 0.362 = 1,809 unclassified FTE positions x \$90,172 = \$163.12M
Total 5,000 FTE positions \$195.95M + \$163.12M = \$359.1M
Total 15,000 positions \$353.1M x 3 years = \$1.08B

The LFO is not able to accurately estimate the savings by means of financing (MOF). However, for illustrative purposes assuming the ratio for the means of financing as depicted within the FY 16 Existing Operating Budget as of 12/1/15 is applicable, and assuming that this ratio would continue in subsequent fiscal years, the savings by MOF per fiscal year would be approximately: **\$115.96M SGF (32.3%), \$52.49M SGR (14.62%), \$55.72M statutory dedication (15.52%), \$134.89M Federal (37.56%) for a total of \$359.1M.**

However, the actual MOF impacted by the 5,000 positions reduced per fiscal year will depend upon the source of funds utilized to fund the positions. Additionally, the FY 17 budget may realize a material shift in means of finance percentages once additional SGF revenues derived by legislative instruments during the 1st Extraordinary Session of 2016 are adopted by amendment to House Bill 1 and after the elimination of one-time monies from various sources used in the FY 16 budget.

Proposed law provides that the reduction in positions should equate to annual expenditure savings of at least \$166.7M per fiscal year. Based upon the LFO calculations above, the projected total expenditure savings could be as high as \$359.1M.

CONTINUED ON PAGE 2

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure.

Senate	Dual Referral Rules	House	
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	<i>Evan Brasseaux</i>
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	Evan Brasseaux Staff Director



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CONTINUED EXPLANATION from page one: Page 2 of 2

Proposed law also provides that the 5,000 per fiscal year T.O. position reduction be accomplished through attrition only and be accomplished without any reduction in the quality or quantity of the work product. Each administrative head of each employment reduction unit is directed to conduct appropriate reorganization studies and develop reorganization plans as necessary to accomplish the position abolishment including reducing management layers and the organization entities within a unit with 2 to 5 positions be consolidated. The LFO is unable to estimate any methodology by which a 15,000 T.O. position reduction can be effectuated over the upcoming 3-year period without a corresponding reduction in quality or quantity of work product, unless those work efforts were supplanted through privatization efforts which would in effect negate a significant portion or all of the potential savings to be derived by replacing state employees with private sector ones, which may or may not produce a cost savings. A reduction of 15,000 T.O. positions compared to the existing 50,948 T.O. positions as of the FY 16 EOB as of 12/1/15 would result in a 29.4% reduction of authorized T.O. positions over the upcoming 3 fiscal years. For informational purposes, the total authorized T.O. positions as of the FY 12 EOB as of 12/1/11 was 72,170 EOB.

Second Method: Reduction of T.O. by Department X Average Salary/Related Benefit Funding per T.O.
For illustrative purposes, reflected below is a calculation of the position reduction factor if the baseline established were to equal the existing operating budget (EOB) as of 12/1/2016 (starting point for FY 17 budget development). The percent of total EOB T.O. represents the total percentage of authorized T.O. positions each agency possesses (from the total of 50,948). Multiplying this percentage by the 5,000 T.O. positions to be reduced annually will derive the pro-rata position reduction required for each department by proposed law. Although the proposed legislation breaks down Higher Education into specified employment reduction units, the reduction of 1,912 positions would be spread among the various employment reduction units within higher education.

<u>Department</u>	<u>FY 16 EOB T.O. Positions</u>	<u>Percent of Total EOB T.O.</u>	<u>Pro-rata Position Reduction</u>
Executive	1,878	3.69%	184
Veterans Affairs	838	1.64%	82
Secretary of State	313	0.61%	31
Dept. of Justice	479	0.94%	47
Lt. Governor	7	0.01%	1
Treasury	54	0.11%	5
Public Service Commission	97	0.19%	10
Agriculture & Forestry	553	1.09%	54
Insurance	225	0.44%	22
Economic Development	110	0.22%	11
Culture, Recreation & Tourism	616	1.21%	60
Transportation & Development	4,194	8.23%	412
Corrections	4,684	9.19%	460
Public Safety	2,414	4.74%	237
Juvenile Justice	996	1.95%	98
Health & Hospitals	5,502	10.80%	540
Children & Family Services	3,409	6.69%	335
Natural Resources	324	0.64%	32
Revenue	700	1.37%	69
Environmental Quality	677	1.33%	66
Workforce Commission	917	1.80%	90
Wildlife & Fisheries	773	1.52%	76
Civil Service	169	0.33%	17
Higher Education	19,483	38.24%	1,912
Other Education	724	1.42%	71
Education	481	0.94%	47
LSU Health Sciences Division	331	0.65%	32
TOTAL	50,948	100.00%	5,000

The total salary and related benefits funding appropriated in FY 16 EOB to impacted agencies as of 12/1/15 equaled \$4,080,189,365. This figure provides an average salary and related benefits expense of \$80,085.37 per authorized T.O. position. Multiplying the average salary and related benefit expense by the 5,000 positions to be reduced provides an estimated annual cost savings of \$400.4M.
As with the first method, the LFO is not able to accurately estimate the savings by means of financing (MOF). For illustrative purposes, assuming the means of financing as depicted within the FY 16 Existing Operating Budget as of 12/1/15 is applicable in subsequent fiscal years, the savings by MOF per fiscal year would be approximately: **\$129.32M SGF (32.3%), \$58.54M SGR (14.62%), \$62.14M statutory dedication (15.52%), \$150.43M Federal (37.56%) for a total of \$400.43M.**

Proposed law also provides for the commissioner of administration to calculate the personnel expenditure reduction factor, which is the percentage of baseline personnel expenditures that are attributable to personnel costs for each employment reduction unit to effectuate an annual savings of \$166.67M. The LFO does not provide an illustrative example of this calculation, because the number of position eliminations necessary to effectuate such a savings falls significantly below the number required the required 5,000 T.O. threshold.

Potential and Definitive Savings Offsets

- 1) Savings derived under both methodologies in this fiscal note would be offset to some degree by increased actuarially determined employer contributions to the state retirement systems. The recommended FY 17 Executive Budget Level Funding for the combined Unfunded Accrued Liability (UAL) Portion of LASERS, TRSL, and LSPRS Plans Employer Contributions totals \$784.48 M. Removing significant numbers of employees from the system will decrease the overall UAL, but will increase individual employer contributions on remaining employees by an indeterminable and potentially significant amount.
- 2) 24.47% of the state workforce has less than 5 years of state service. This is also the portion of the state workforce that realizes the highest annual turnover rates. Proposed law provides that position eliminations be accomplished through attrition of vacant positions. Employees with less than 5 years of service are likely to contribute to a high proportion of turnover, and these employees are also generally compensated at significantly less pay than state workers with more longevity. To the extent that most attrition occurs among employees with less time in state service, potential savings may fall below the overall average salary and related benefits of all state workers. NOTE: 6.47% of the workforce have in excess of 30 years of service and another 5.83% has between 25-29 years of service. To the extent these employees may retire or leave the workforce, the associated potential savings may be in excess of the average.

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<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}		Evan Brasseaux Staff Director