

# BUDGET LETTER

	NUMBER: 03-23
SUBJECT: 2003-04 PERSONAL SERVICES REDUCTION PLANS	DATE ISSUED: August 1, 2003
REFERENCES: EXECUTIVE ORDER D-71-03, BUDGET LETTERS 02-27, 03-17, AND 03-19	SUPERSEDES: BL 03-21 REVISED (ATTACHMENTS ONLY)

TO: Agency Secretaries  
Department Directors  
Departmental Budget Officers  
Departmental Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

**Budget Officers are requested to forward a copy of this budget letter (BL) to departmental Human Resources and Labor Relations Officers.**

BL 03-21 Revised required departments to submit to the Department of Finance (Finance) revised reduction plans by July 31, 2003. It is now necessary for Finance to increase the reductions required by the Budget Act because both the position and dollar targets have increased, and, collective bargaining negotiations have not yet resulted in an adequate level of concessions. Control Section 4.10 now requires the Director of Finance to achieve savings of \$1.066 billion, and to eliminate 16,000 permanent positions, an increase of \$211 million and 3,000 permanent positions from the reduction amounts assumed in BL 03-21 Revised. These new thresholds significantly increase the level of reductions that departments will be required to make, especially in light of the Administration's commitment to provide for public health and safety.

This BL provides information and worksheets for departments to revise their reduction plan to meet higher reduction targets. The worksheets are **due to Finance no later than August 11, 2003**. The only entities excluded from reduction planning are the Legislature, Legislative Counsel Bureau, Bureau of State Audits, Judicial, University of California, Hastings College of Law, and the California State University.

Please note that the reduction plans that departments submit will be implemented at or near their full value. Department directors are once again encouraged to select their reductions carefully, considering program impacts and the effects on revenues, matching funds such as federal funds or reimbursements, or any other funding arrangements that depend on expenditures that will be reduced as part of the reduction plan. Department directors should be prepared to address and defend why they selected the particular positions and the expected programmatic impact of the reductions. As discussed in BL 03-21 Revised, Finance does not anticipate forwarding any state operations deficiency requests to the Legislature except for extraordinary, unplanned situations that are clearly beyond a department director's ability to control.

## **General Fund Reduction Target Now 16 Percent of State Operations**

BL 03-21 Revised required departments to submit to Finance reduction plans that equaled 10 percent of each fund's personal services budget. Reduction plans must now be revised to achieve a reduction of 16 percent of **each** of the department's **General Fund state operations appropriations**. To provide departments with additional flexibility to achieve this target, each department with a General Fund appropriation may now include operating expenses and equipment reductions in its General Fund portion of the reduction plan as long as all of the department's increased payroll costs associated with the GSI are

covered by personal services reductions. In addition, permanent positions abolished by Government Code 12439 can be included in reduction plans. Departments must also revise their reduction plan to reflect final Budget Act decisions.

### **Special and Non-Governmental Fund Target Now 12 Percent of Personal Services**

BL 03-21 Revised required departments to submit to Finance reduction plans that equaled 10 percent of each fund's personal services budget. To achieve the new reduction amounts, reduction plans must be revised to include a reduction of 12 percent of non-General Fund personal services amounts. For special and non-governmental funds, operating expenses and equipment reductions will not be allowed.

These new instructions will provide departments with additional flexibility to achieve reductions in special fund appropriations. Each fund must be reduced sufficiently to cover its share of general salary increases and a one percent contingency. Thereafter, departments may reach the remaining target at a consolidated level. For example, if a department has two other funds that each face a \$60,000 personal services increase and a \$120,000 reduction target, for a total special fund reduction of \$240,000, one fund could have a \$60,000 reduction plan and the other fund could have an \$180,000 reduction. In addition, permanent positions abolished by Government Code 12439 can be included in reduction plans.

### **Position Reduction At Least 16,000 Positions**

Instructions regarding reduction plans have focused on achieving \$1.066 billion in employee compensation reductions. It is possible that the total number of positions eliminated by approved reduction plans will be less than the 16,000 required by Control Section 4.10. If this should happen, additional instructions will be issued to address eliminating the additional positions needed to meet the target.

### **Other Issues to Consider**

It is important that the reduction plans recognize and resolve all anticipated funding problems and one time costs. Departments must plan for any state operations budget shortfalls that could occur in 2003-04. Some potential shortfalls include:

- The budget includes savings of \$50 million (\$30 million General Fund) that may result from workers' compensation reforms. If planned reforms result in savings, an executive order will be issued to reduce state operations appropriations.
- The budget includes savings of \$100 million for the Department of General Services to renegotiate contracts.
- Unemployment insurance costs associated with layoffs. Individuals who are laid off can receive \$370 per week for up to 26 weeks, starting one week after their last day of work.
- The budget may not include sufficient funds for departments to receive 100 percent funding for various miscellaneous salary increases contained in multi-year contracts.
- One-time issues including the inability to achieve immediate savings associated with the layoff process, the impact on salary savings related to the elimination of vacant positions, and the one-time and potentially significant cost of leave buy-outs.

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## Employee Compensation Reduction Worksheets

**Note:** This BL includes revised versions of all of the attachments included in BL 03-21 Revised.

This section contains the instructions and forms for (1) departments to calculate their increased personal services costs, (2) departments to revise their reduction plans, (3) departments to provide scheduling information for a base reduction and potential redistribution of funds, and (4) departments to prepare a one-time shortfall plan.

Departments are reminded that the revised reduction plans are **due to Finance by August 11, 2003**, however, earlier submittals are encouraged for those reduction plans requiring less extensive revisions.

### **Attachment I—Annualized Reduction Plan Cost Calculations (Use a Separate Form for Each Fund)**

Attachment I has been revised into two separate formats. One format is for the General Fund and the other format is for other funds.

Attachment I requires departments to calculate (1) the cost of employee compensation increases that will occur under current compensation provisions, (2) the department's share of the base reduction, (3) the amount of funding that is needed for the department to maintain one percent of personal services as a contingency for uncertainties, and (4) the amount that would be available for redistribution.

Departments must complete a separate form for each fund and provide the amount of budgeted personal services attributed to the fund. Enter only whole dollars and positive numbers in every cell.

**Cell A:** For the General Fund, provide the amount of state operations attributed to the General Fund that is included in the final budget, as adjusted for vetoes. For other funds, provide the fund's appropriate share of the department's 2003-04 personal services budget as reflected in the final budget, as adjusted for vetoes.

**Cell B:** The spreadsheet will calculate this cell automatically.

**Cell C:** Provide the salary savings rate reflected in the 2003-04 Governor's Budget.

**Column D:** Provide the best estimate of the 2003-04 authorized positions by bargaining unit as reflected in the final budget, as adjusted for vetoes.

**Column E:** Provide the annual salary base as reflected in the final budget, as adjusted for vetoes.

**Column F:** Enter the total annual General Salary Increase (GSI) for the Unit Salary Base (based on a 5 percent salary increase for Units 1-4 and 7-21; for units 5 & 6, consult with your Finance Budget Analyst for the appropriate percentage to use).

**Column G:** The spreadsheet will calculate this cell automatically.

**Column H:** The spreadsheet will calculate this cell automatically.

**Column I:** Use the following percentages of Annual Amount of GSI:

Miscellaneous Tier 1	22.5 percent
Miscellaneous Tier 2	17.9 percent
State Industrial	18.7 percent

State Safety	23.4 percent
State Patrol	34.1 percent
State Peace Officer/Firefighter	21.8 percent

**Column J:** Include costs that will increase because of the GSI, such as overtime and recruitment and retention differentials.

**One Percent Contingency:** The spreadsheet will calculate 1 percent of either the personal services total that departments may need to maintain as a contingency for uncertainties. Departments may be allowed to keep the amount of savings generated from implementing the reduction plan as is necessary to fund this contingency. Otherwise, the amount reserved for contingency will be added to the amount available for redistribution.

**Base Reduction:** Attachment IV contains a list of base reductions attributed to each department. Departments must allocate this base reduction to each fund based upon the fund's share of the personal services budget. An executive order will be issued in the fall to reduce departmental budgets by this amount.

**Total Ongoing Budget Shortfall:** The spreadsheet will calculate the sum of the increased employee compensation, the 1 percent contingency, and the base reduction.

**Credit For Excluded Employees:** Provide the amount of savings for the fund that will be generated by not providing excluded employees a GSI. In most cases the amount of the savings will be 5 percent of the employees salaries plus savings associated with salary driven benefits.

**Amount Available for Redistribution:** The spreadsheet will calculate the difference between the Fund Target and the sum of the Total Ongoing Employee Compensation Shortfall plus the Initial Credit For Excluded Employees. This amount will be available to be applied to the dollar reduction requirements, or for redistribution to other departments. The amount calculated for a 1 percent contingency for uncertainties may be added to this total for redistribution.

## Attachment II—Personal Services Annualized Plan Reductions

The reduction plan form contained in BL 03-21 has been revised to calculate the increased targets and to allow the other funds reductions to be aggregated, after each other fund achieves a sufficient reduction to meet its increased personal services. *All departments must submit a revised reduction plan in this new format.*

Associated layoff plans must include all positions identified in the revised reduction plan for elimination that are not currently vacant. The department must inform the Department of Personnel Administration of any changes in reduction plans that will require a revision of the department's layoff plan, as soon as they are known. For funds other than the General Fund, the reduction plans cannot include operating expenses and equipment costs or local assistance costs, except to address budget problems beyond the reduction plans. All position reductions will be permanent.

**Salary Savings Rate:** Provide the salary savings rate reflected in the 2003-04 Governor's Budget.

**Department's Total Number of Positions:** Provide the department's total number of budgeted positions as reflected in the final budget, as adjusted for vetoes. If you have any doubts about what numbers to provide, consult with your Finance Budget Analyst.

**Fund Number/Name:** Provide the name and number for each of the department's funds (add additional columns as needed). Add a column for each of the departments General Fund appropriations and provide the appropriation number.

**General Fund State Operations/Personal Services Target:** For the General Fund, provide the amount of state operations, as reflected in the final budget, as adjusted for vetoes, for each of the department's General Fund appropriations (add as many columns as number of General Fund appropriations). For other funds, provide each fund's appropriate share of the department's 2003-04 personal services budget as reflected in the final budget, as adjusted for vetoes. The spreadsheet will calculate the reduction plan target.

**Fund's Personal Services Increase:** Provide the sum of the Total Increased Salary Driven Employee Compensation and One Percent Contingency for Uncertainties on Attachment I.

**Credit For Excluded Employees:** Provide the amount of savings for each fund that will be generated by not providing excluded employees a GSI. In most cases the amount of the savings will be five percent of the employee's salary plus savings associated with salary driven benefits.

**Net Fund Target:** The reduction plan must equal the Net Fund Target for each individual fund source. For General Fund, the Net Fund Target equals the General Fund State Operations Target minus the Credit For Excluded Employees. For each other fund, the Net Fund Target equals the Fund's Personal Services Increase minus the Credit For Excluded Employees. For the total of all other funds, the Net Fund Target equals the total of all other funds' Personal Services Target minus the total of other funds' Credit For Excluded Employees.

**Position Reductions:** Separate the position reductions by individual reporting units (add additional rows if needed). Since position numbers will have to be provided at a later time, include the position classification and other requested information **for each position** that is being proposed for elimination. The reduction plan may not include any position that is not authorized for 2003-04.

- Include positions that do not require legislative or regulatory changes or substantially impact sensitive programs. In addition, a priority should be placed on eliminating positions that would produce immediate savings, such as vacant positions, temporary employees, and student assistants.
- Amount of Gross Annual Salary should be based on positions being eliminated effective July 1, 2003 and costed at mid-step plus any differentials. The cost of positions should include the GSIs that were scheduled to take effect on July 1, 2003 (5 percent salary increase for Units 1-4 and 7-21; for units 5 & 6, check with your Finance Budget Analyst for the appropriate percentage to use).
- Benefits should be based upon the following percentages of gross salary:

Miscellaneous Tier 1	31.0 percent
Miscellaneous Tier 2	26.4 percent
State Industrial	27.2 percent
State Safety	31.8 percent
State Patrol	42.6 percent
State Peace Officer/Firefighter	30.2 percent

- Descriptions of program impacts should address, for example, effects on service levels, federal funds, reimbursements, and matching funds.

**Non-Position Reductions:** Include any reductions to temporary help or overtime in this section.

**Operating Expenses and Equipment:** For the General Fund only, reductions can be made to operating expenses and equipment provided position reduction targets are satisfied.

### **Attachment III—Personal Services Annualized Plan Scheduling Worksheet**

Provide scheduling information for the base reduction and the amount available for redistribution calculated on Attachment I. An executive order will be issued in the fall to reduce appropriations for the base reduction. An additional executive order may be issued in the fall to reduce appropriations for redistribution to other departments.

### **Attachment IV—Base Reduction Allocation**

This attachment has been revised to reflect the final budget's \$306.5 million base reduction. Note: This base reduction is not tied to any previous augmentation that the department received for employee compensation. Departments must provide on Attachment I the prorated amount of the base reduction to each fund, based upon the fund's share of the personal services budget.

### **Attachment V—One-Time Issues**

Some elements of the reduction plans will take time to implement (e.g., the layoff process). Attachment V provides the method for departments to identify and report to Finance the one-time issues required to implement the Annualized Plan. Examples of one-time issues include the inability to achieve immediate savings associated with the layoff process, the impact on salary savings related to the elimination of the vacant positions, and the one-time and potentially significant cost of leave buy-outs. (Departments are reminded that although vacant positions have been eliminated effective June 30, 2003, the associated dollars currently remain in department budgets.) When determining salary savings flexibility associated with the abolishment of vacant positions, departments should also determine and reflect budgeted salary savings in their calculations. Also, solutions available to fund these one-time shortfalls can originate from the operating expenses and equipment category; however, local assistance appropriations are restricted unless they fund employee compensation.

*Departments should complete this process carefully since deficiencies related to employee compensation will not be considered.* The departments' ability to operate within existing resources is tied directly to the soundness of the decisions incorporated in this process.

If you have any questions regarding this BL, please contact your Finance Budget Analyst.

/s/ KATHRYN RADTKEY-GAITHER

KATHRYN RADTKEY-GAITHER  
Assistant Director

Attachments