



Addressing Budget Shortfalls: Actions and Proposals Affecting the State Workforce

December 17, 2008

444 N. Capitol Street, Suite 642 • Washington, DC 20001 • 202.624-5382 (phone) • 202.624.7745 (fax) • www.nasbo.org

Overview

The majority of states are grappling with mounting budget gaps in current year budgets and the outlook for fiscal 2010 and fiscal 2011 will call for additional budget actions. Amidst this situation, many states are implementing or proposing measures that will result in workforce savings. While the most common strategy is instituting a hiring freeze, states are also implementing or considering layoffs, furloughs, employee buyouts, early retirement, pay reductions, changes in employee benefits, and alternative work schedules.

The following information was obtained from survey responses in the fall 2008 *Fiscal Survey of States*, as well as from governors' announcements, executive orders, and budget reduction plans on state websites. In addition, NASBO has reviewed press accounts of state actions and proposals.

Depending on the nature of the change, governors may be able to implement a change in the workforce, such as a hiring freeze, unilaterally. In other cases, negotiations with employee representatives may have to occur. Other actions require legislative approval. Also, not all agencies would be under the control of the governor. The exceptions are often judicial and legislative branches and may also include higher education.

Some actions and proposals to date include:

Hiring Freezes: About half of the states have already instituted hiring freezes including Arizona, Connecticut, Delaware, New Hampshire, New Mexico, Pennsylvania, South Dakota, Tennessee, and Washington. The reduction in the workforce would depend on the duration of the hiring freeze as well as the extent of exemptions. For example, in Delaware, the hiring freeze does not include the legislature, judiciary, higher education or local school districts, nor does it pertain to previously approved positions in health and safety, 24-hour institutional settings, or employees who are eligible for return to merit rights, as well as critical transition hires.

Furloughs and Other Pay Reductions: States that have instituted or plan to use furloughs include Arizona, California, Georgia, Maryland, and Rhode Island. In Maryland, the furlough plan would be tiered with higher salaried workers required to take more days off than those at lower salaries. In California, the governor proposes to require state employees to take a one day furlough each month between December 1, 2008 and June 30, 2010 and would eliminate pay for two state holidays and premium pay for the remaining holidays.

Layoffs: States that instituted layoffs in fiscal 2008 include Rhode Island, Ohio, and Virginia. For fiscal 2009, in addition to Ohio and Virginia, Arizona, Georgia, and Vermont have either instituted layoffs or may plan to do so. State agencies in Massachusetts are evaluating other

strategies to reduce the workforce including providing incentives for voluntary layoffs, furloughs, and reducing hours.

Eliminate or Defer Pay Raises: Several states have either eliminated or deferred scheduled pay raises or plan to discuss doing so. In Pennsylvania, a pay raise of 2.25 percent scheduled to go into effect for nonunion employees will be eliminated. In New York, a budget reduction plan includes seeking concessions on the costs of the workforce and would seek to eliminate a planned 3 percent increase for fiscal 2010. In New Hampshire, the governor is discussing plans to defer the scheduled pay raise for January 2009. The ability to make changes in previously agreed upon increases varies greatly if these agreements were part of a negotiated bargaining process.

Early Retirement or Buy-outs: Several states have implemented or are considering early retirement or buyout plans in order to reduce the workforce. In New Jersey, an early retirement plan was offered to employees who were at least 58 years old with at least 25 years of service, or at least 60 with at least 10 years of service. The incentives included additional retirement payments and enhanced medical benefits. Tennessee offered an employee buyout program in 2008 that included early retirement. In the previous downturn, 13 states offered early retirement programs. The states that offered early retirement in 2003 were: California, Colorado, Connecticut, Idaho, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New York, Ohio, South Carolina, and Virginia.

Pensions: Public pension plans are affected by the decline in earnings similar to all investors. According to the National Association of State Retirement Administrators and the National Council on Teacher Retirement, most public pension plans will experience higher required contributions due to the loss in market earnings. Typically the required contributions based on pension funding levels are phased in over multiple years. Additional contributions to public pensions will further aggravate tight budgets and may call for changes such as freezing cost-of-living adjustments, increasing employee contributions, or modifying benefits for new employees. In New York, the governor proposes to create a new tier of pension benefits for newly hired employees that would increase the minimum retirement age from 55 to 62.

Health Benefits: States are also exploring ways to reduce their costs for employees' health insurance. In Massachusetts, the governor is proposing to restructure the way state employees pay for health insurance that would change employee contributions from a system based on date of hire to a system based on salary levels and affordability. In New York, the governor proposes to have new employee retirees pay a greater portion of their health care costs.

Alternative Work Schedules: Some other workforce changes include moving to a four-day 10 hour work week or alternative work schedule as has occurred in Washington and Utah. In Washington, savings from lower energy costs is being monitored. In California, the governor proposes to establish alternative work schedules of a four-day 10 hour work week. As employees experience reductions in pay, strategies to maintain or improve morale are important considerations in the goal of providing quality services to citizens.

NASBO will continue to monitor and report on proposals that affect the workforce as well as strategies states are using to address budget gaps.

If you would like additional information, please contact Stacey Mazer (smazer@nasbo.org or 202-624-8431 or Scott Pattison (spattison@nasbo.org or 202-624-8804) in NASBO's Washington, D.C. office.