Fiscal Highlights

Taking the Game Out of Salary and Related Benefit Budget Estimates - Stephen C. Jardine

Prior to 2012 the possibility existed that an agency could estimate the salary and related benefit portion of their budget excessively high. This, in turn, would result in the Legislature providing an agency extra funding for things like cost-of-living increases, retirement rate changes, and health benefit additions. In 2012, the Executive Appropriations Committee (EAC) took action to limit an agency's ability to game estimated salary and related benefit amounts during the budget process. The original information presented, *Vacancies, Turnover Savings, and Personnel Cost Changes*, can be found at: http://le.utah.gov/interim/2012/pdf/00000756.pdf. After discussing this issue, EAC passed a motion to have the Office of the Legislative Fiscal Analyst (LFA) calculate and apply a historical turnover savings (TOS) for each agency including Higher Education. EAC also determined that the turnover savings factor should not be applied to agencies with less than 20 full-time staff because vacancies in these smaller agencies caused greater staffing fluctuations from year to year than in larger agencies. As a result, the LFA has calculated a two-year rolling average of turnover savings and applied those TOS factors to all agency salary and benefit changes since the 2013 General Session. In the initial calculation, it could be seen that several large agencies had estimated salary and benefit budgets nearly 15 percent higher than their actual costs later turned out to be. The TOS calculation for the 2016 General Session contained in the memo *Update on the Turnover Savings Factor Calculation* and dated November 17, 2015 can be found in: http://le.utah.gov/interim/2015/pdf/00005210.pdf. The effect of the EAC motion passed in 2012 has been to reduce the aggregate percentage of calculated TOS factors and to implement a penalty (the TOS factor) for agencies when they do overstate their salary and related benefits budget estimate.

Background

Turnover savings represents the amount of money saved when budgeted positions go unfilled or remain under-filled. Turnover savings is a normal and expected part of the process of losing and then replacing staff in state agencies. However, the possibility previously existed for an agency to overstate its salary and related benefits budget beyond what natural turnover savings would warrant. The cost of staff, as represented through employee salary and benefits, is a large part of many state agency budgets. For agencies where functions are performed primarily by state staff, salary and related benefit costs can represent as much as 80 percent of an agency's budget. For example, the appropriated FY 2016 budget for the Utah State Hospital (USH) is $59.3 million. Of the total USH appropriated budget, $47.2 million or 80 percent is for staff salary and benefit costs. Calculating personnel cost changes is part of the yearly state budget process. This may include calculating cost-of-living (COLA) increases, changes in retirement or health insurance rates, or other related items such as life insurance costs or set asides for post-employment benefits. Calculations are done using agency personnel lists. Including funded vacant positions has the effect of increasing the number of employees on the list. Turnover savings, if applied, either reduces the size of the list or discounts the cost associated with the list.