Turnover Savings In-Depth Study
Performed by the Governor's Office of Planning and Budget
October 2008

Executive Summary

This report, which analyzes turnover savings from all state agencies and other groups that submit budgets to the Governor's Office of Planning and Budget (including Higher Education, Elected Officials, and Courts):

- Identifies the current working definition in Utah for the budget concept of turnover savings
- Examines current Executive Branch guidelines regarding turnover savings for inclusion in annual budget documents submitted by agencies
- Reviews FY 2009 agency practices with regard to the Governor's Office turnover savings guidelines
- Explores any relationship between turnover rates (annually collected and reported by the Department of Human Resource Management) and dollar savings to agencies from turnover
- Looks at potential costs associated with turnover
- Examines the connection between turnover savings and inflationary costs
- Explores how agencies use their turnover savings
- Reviews how the concept of turnover savings is handled in selected other states
- Examines how the component of turnover savings is viewed by individual agencies
- The report concludes:
    1. Utah's working definition for turnover savings is adequate.
    2. Agencies should continue to follow the Governor's Guidelines to calculate and include a reasonable turnover savings factor in their annual budget submissions. Agencies should also include an explanation of how their reported turnover savings was calculated and identify how those savings will be used.
    3. Long-term vacancies in agency budgets should receive further analysis and monitoring. These long-term vacancies are now formally reported as a result of H.B. 378, *State Accounting and Budgetary Procedures Amendments* (Bigelow, 2008 General Session), which states: "the governor shall report, for each line item, the average annual dollar amount of staff funding associated with all positions that were vacant during the last fiscal year".
    4. There exists a relationship between ongoing turnover savings and unfunded inflationary costs that agencies are to absorb within existing budgets.
    5. There are costs associated with turnover that may reduce or eliminate turnover savings.

Introduction

The Legislative Management Committee requested that the Governor's Office of Planning and Budget (GOPB) conduct an in-depth study on a comprehensive approach to turnover savings for inclusion in the Governor's Budget Recommendations. This report

is a result of that study. The in-depth study process can be found in the Budgetary Procedures Act (UCA 63J-1-501).
Utah's state budget is comprised of eight summary expenditure components, one of which is Personal Services. The Personal Services component is comprised of all detail expenditure accounts related to employee salary and benefits. One detail expenditure account within the Personal Services component is Turnover Savings. This account is typically represented with a negative number. The negative number has the effect of reducing the total amount of Personal Services – thus representing an implied reduction in expenditures in this area due to a savings resulting from a budgeted position remaining unfilled or under-filled. Typically, when an agency includes a turnover savings factor that reduces the Personal Services category, the offsetting equivalent amount of money "saved" will be shifted to some other budget category such as Current Expense.

In attempting to address the above policy issues this report asks the following questions:

- What are turnover savings?
- What are the current Executive Branch policies/guidelines regarding turnover savings for inclusion in annual budget documents?
- How did agencies respond in their FY 2009 budget submissions to the current policy suggestion regarding turnover savings?
- Is there any relationship between turnover rates (annually collected and reported by the Department of Human Resource Management) and dollar savings to agencies?
- What costs are associated with turnover?
- What is the connection between turnover savings and inflationary costs?
- How have turnover savings, when they have occurred, been historically used by agencies?
- How is the concept of turnover savings handled in selected other states?
- How is the component of turnover savings viewed by individual agencies?

What are turnover savings?

Turnover savings reflect the amount of money saved when a budgeted position remains unfilled or is under-filled. This working definition is found in the Governor's Budget Guidelines.

There are two different types of turnover savings – ongoing and one-time. Ongoing turnover savings occur when: 1) an incumbent employee leaves and is replaced with an employee earning a lower salary, or 2) a position is left open by an agency which has no intention of filling the vacancy. One-time turnover savings exist when an employee leaves and a position is temporarily open until an employee of a similar salary is hired.

What is the current Executive Branch policy regarding turnover savings for inclusion in annual budget documents?

The yearly Governor's Budget Guidelines includes a directive to agencies to calculate and include turnover savings in their submitted budgets. Under the general heading "Personal Services" and the specific heading "Vacancies and Turnover Savings", the FY2009 Governor's Budget Guidelines included the following:

> *Agencies should budget turnover savings for each program. Turnover savings reflect the amount of money saved when a budgeted position remains unfilled or is under-filled. Turnover savings should be shown as a negative dollar amount in each program's personal services budget.*

How did agencies respond in their FY2009 budget submissions to the current policy suggestion regarding turnover savings?

In FY 2009 budget submissions, only 17 of 42 agencies included turnover savings. Of the 17 agencies including a turnover savings factor, varied approaches were used to calculate the amount. The percentage of turnover savings as compared to total personal services ranged from a high of 13 percent to a low of zero percent as reported by a number of agencies. The review noted a wide variety of approaches by agencies when following the Governor's guideline for turnover savings.

Is there any relationship between turnover rates (annually collected and reported by the Department of Human Resource Management) and dollar savings to agencies?

There is a limited relationship between state calculated turnover rates and dollar savings to agencies. The Department of Human Resource Management (DHRM) issues a report each August/September compiling employee turnover rates by agency. This report was examined in conjunction with this in-depth study. The DHRM *Turnover by Agency Report* (see Appendix I – External Turnover by Agency) shows how many positions turned over in the previous fiscal year. The data is collected and then presented for both internal turnover and external turnover.

There is a common misconception that the turnover rate is equal to annualized turnover savings. The turnover rate captures each change in position. From the DHRM report, GOPB calculated that an 11.4 percent external turnover rate is equal to only a 3.2 percent annualized turnover savings, assuming equal distribution of salaries across all state agencies and vacated positions (see Appendix II – External Turnover Rate vs. Savings).

It was determined that there is a very limited relationship between turnover rates, as shown in the annual DHRM report, and dollar turnover savings. This lack of a direct relationship can largely be explained by the multiple complicating factors surrounding each event referred to as turnover.

What costs are associated with turnover?

There are frequently offsetting costs associated with a turnover event. A survey was sent to all agency heads as well as key budget and finance staff within state agencies (see

Appendix III – Agency Survey Regarding Turnover Savings). Several questions were asked regarding costs associated with a turnover event. Agencies were allowed to specify more than one area in which they spent turnover savings. A summary of the 46 responses follows listed from most frequently to least frequently mentioned:

Training costs for new employees (28)
Advertising and recruitment costs (23)
Overtime costs incurred while positions are vacant (21)
Temporary personnel or contract costs (12)
Salary required for new hires at a higher rate (11)
Lost productivity (10)
More expensive benefit mix for new hires (5)
Double-filling positions in order to adequately train (4)
Salary equity adjustments dictated by hiring decisions (3)
Temporary promotions (i.e. – an acting director) (2)
Equipment and clothing costs associated with new hires (2)
Moving costs associated with some expert positions (2)
Background checks, testing, and screening for new hires (1)
Increased costs due to changes in agency strategy resulting from vacancies (1)

What is the connection between turnover savings and inflationary costs?

Agencies are expected to fund inflationary increases from within existing budgets. Turnover savings can be a vehicle that allows agencies to manage in order to comply with this policy. The FY 2009 Governor's Budget Guidelines included the following language:

Agencies are to fund inflationary increases for FY 2009 within existing budgets.

Similar language is included in the Governor's Budget Guidelines sent to agencies for the FY 2010 budget cycle as well as for budget cycles prior to FY 2009. Agencies have indicated to the Governor's Office of Planning and Budget, through their formal survey responses as well as through informal discussions, that turnover savings is a vehicle an agency has to comply with the directive that it fund inflationary increases from within existing budgets.

How have turnover savings, when they have occurred, been historically used by agencies?

Based upon a survey of all agencies, turnover savings appear to be used for administratively appropriate purposes. Some agencies reported not having a turnover savings and were thus excluded from the numbers reported. A summary of the 46 responses, from most frequently to least frequently mentioned, is as follows:

One-time expenditures (furniture, computers, office equipment, etc) (16)
Staff-related items (administrative salary increases, incentive awards, overtime, etc.) (7)
Inflationary costs (postage, utilities, building maintenance and repairs, etc) (5)

Lapse to the General Fund (3)
Carry funding over to the next year (1)

How is the concept of turnover savings handled in selected other states?

From a survey of surrounding intermountain states, it appears Utah's guidelines formally address turnover savings – only raising two broad questions: 1) should Utah factor turnover savings into the calculation of compensation increases and 2) should Utah have its budget office calculate turnover savings as opposed to having agencies make that calculation? In a survey of surrounding states:

- Four of six include a formal policy statement in the Governor's guidelines regarding turnover savings
- Four of six have the budget office calculate a turnover savings in the budget as opposed to the agency
- Three of six factor turnover savings into the calculation of compensation increases
- Four of six allow the transfer of turnover savings to other expenditure areas

See Table 1 for a summary comparison of states survey and Appendix IV – State Comparison Survey Regarding Turnover Savings for the format of the comparison survey.

Table 1
Seven State Comparison of Turnover Savings Guidelines for Inclusion in Budgets

State	Turnover Savings Instructions	Who Builds In TOS	TOS a Factor in Comp Calc	Allow TOS Transfer to Other Areas
Arizona	No	Budget Office	No	Yes - with exceptions
Idaho	Yes	Agency & B.O.	No	Yes
Montana	Informal	Budget Office	Yes	Yes - with exceptions
Nevada	Yes	Budget Office	Yes	No - separate line item
New Mexico	Yes	Agency	Yes	Yes - with exceptions
Utah	Yes	Agency	No	Yes
Wyoming	No	Budget Office	No	No - separate line item

How is the component of turnover savings viewed by individual agencies?

Based upon a survey sent out to all agencies, the current working definition of turnover savings is adequate. In the survey, all 46 responses felt the current working definition of turnover savings was adequate, although some agencies offered minor technical changes. Of these 33 responses, 13 qualified their response by stating that the definition should also take into account costs associated with turnover.

Conclusions

1. Utah's working definition for turnover savings is adequate.
2. Agencies should continue to follow the Governor's Guidelines to calculate and include a reasonable turnover savings factor in their annual budget submissions. Agencies should also include an explanation of how their reported turnover savings was calculated and identify how those savings will be used.
3. Long-term vacancies in agency budgets should receive further analysis and monitoring. These long-term vacancies are now formally reported as a result of H.B. 378, *State Accounting and Budgetary Procedures Amendments* (Bigelow, 2008 General Session), which states: "the governor shall report, for each line item, the average annual dollar amount of staff funding associated with all positions that were vacant during the last fiscal year".
4. There exists a relationship between ongoing turnover savings and unfunded inflationary costs that agencies are to absorb within existing budgets.
5. There are costs associated with turnover that may reduce or eliminate turnover savings.

Appendix I – External Turnover by Agency:

External Turnover by Agency and Reason (FY 2007)

Agency	Total Employees	External Turnover	Disciplinary Action		Reduction in Force		Abandonment of Position		Resignation		Retirement		Other		Overall External Turnover
Treasurer	17	5	0	0.00%	0	0.00%	0	0.00%	4	23.53%	1	5.88%	0	0.00%	29.41%
Governor's Office	35	6	1	2.86%	0	0.00%	0	0.00%	2	5.71%	3	8.57%	0	0.00%	17.14%
State Auditor	33	0	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0.00%
Administrative Services	381	41	3	0.79%	1	0.26%	1	0.26%	28	7.35%	8	2.10%	0	0.00%	10.76%
Information Technology	832	41	3	0.36%	0	0.00%	0	0.00%	25	3.00%	12	1.44%	1	0.12%	4.93%
Tax Commission	729	99	6	0.82%	0	0.00%	2	0.27%	60	8.23%	21	2.88%	10	1.37%	13.58%
Human Resource Management	173	19	2	1.16%	0	0.00%	0	0.00%	11	6.36%	5	2.89%	1	0.58%	10.98%
Public Safety	1058	94	10	0.95%	0	0.00%	0	0.00%	69	6.52%	14	1.32%	1	0.09%	8.88%
National Guard	187	31	3	1.60%	0	0.00%	0	0.00%	25	13.37%	2	1.07%	1	0.53%	16.58%
Human Services	4314	733	43	1.00%	0	0.00%	9	0.21%	603	13.98%	62	1.44%	16	0.37%	16.99%
Health Department	823	112	6	0.73%	0	0.00%	0	0.00%	77	9.36%	23	2.79%	6	0.73%	13.61%
Education	739	96	7	0.95%	0	0.00%	1	0.14%	70	9.47%	13	1.76%	5	0.68%	12.99%
Corrections	2182	193	28	1.28%	0	0.00%	4	0.18%	116	5.32%	35	1.60%	10	0.46%	8.85%
Environmental Quality	388	35	1	0.26%	0	0.00%	0	0.00%	20	5.15%	13	3.35%	1	0.26%	9.02%
School & Inst Trust Lands	62	5	0	0.00%	0	0.00%	0	0.00%	4	6.45%	0	0.00%	1	1.61%	8.06%
Natural Resources	880	66	1	0.11%	0	0.00%	0	0.00%	44	5.00%	21	2.39%	0	0.00%	7.50%
Agriculture	191	7	0	0.00%	0	0.00%	0	0.00%	2	1.05%	4	2.09%	1	0.52%	3.66%
Workforce Services	1938	162	12	0.62%	0	0.00%	3	0.15%	124	6.40%	20	1.03%	3	0.15%	8.36%
Alcoholic Beverage Control	242	33	3	1.24%	0	0.00%	3	1.24%	22	9.09%	3	1.24%	2	0.83%	13.64%
Labor Commission	106	15	2	1.89%	0	0.00%	1	0.94%	12	11.32%	0	0.00%	0	0.00%	14.15%
Commerce	239	26	3	1.26%	0	0.00%	0	0.00%	18	7.53%	5	2.09%	0	0.00%	10.88%
Financial Institutions	52			0.00%		0.00%		0.00%		0.00%		0.00%		0.00%	0.00%
Insurance	74	7	0	0.00%	0	0.00%	0	0.00%	6	8.11%	1	1.35%	0	0.00%	9.46%
Public Service Commission	9	2	0	0.00%	0	0.00%	0	0.00%	1	11.11%	1	11.11%	0	0.00%	22.22%
Community & Culture	158	12	0	0.00%	0	0.00%	0	0.00%	6	3.80%	5	3.16%	1	0.63%	7.59%
Department of Transportation	1561	136	12	0.77%	0	0.00%	0	0.00%	80	5.12%	35	2.24%	9	0.58%	8.71%
Total	**17624**	**2003**	**148**	**0.84%**	**1**	**0.01%**	**24**	**0.14%**	**1447**	**8.21%**	**314**	**1.78%**	**69**	**0.39%**	**11.37%**

Appendix II – External Turnover Rate vs. Savings:

External Turnover Rate vs. Savings FY 2007	
Turnover Rate	11.4%
State Agency Employees	17,624
Employees Who Left State Government	2,003
Avg Days Vacant	73
Total Days Vacant for Employees Who Left State Government	146,219
Annual Working Days	261
Total State Employee Days	4,599,864
Percentage of Turnover Savings	3.2%

<u>Appendix III – Agency Survey Regarding Turnover Savings</u>:

The Governor's Budget Guidelines include the following statement:

VACANCIES AND TURNOVER SAVINGS

Budget for and fund only those vacancies that are likely to be filled in FY 2009 and FY 2010. Do not include contingency positions, i.e., positions that, regardless of funding source, will only be filled under unusual or unanticipated circumstances. The inclusion of contingency positions could lead to funding reductions through the elimination of those positions by GOPB or the LFA.

GOPB will not recommend positions that are not fully funded.

Agencies should budget turnover savings for each program. Turnover savings reflect the amount of money saved when a budgeted position remains unfilled or is under-filled. Turnover savings should be shown as a negative dollar amount in each program's personal services budget.

Turnover Savings Questions:

1. In the Governor's Budget Guidelines, turnover savings is defined as: the amount of money saved when a budgeted position remains unfilled or is under-filled. Do you have any qualifications or edits to this definition? Do you feel this definition accurately describes the topic? How does your agency define turnover savings?

2. Given the budget guidelines shown above, describe in some detail how your agency will calculate a reasonable turnover savings amount for inclusion in your FY 2010 budget submittal?

3. What other factors are you aware of in your agency which complicates the concept of turnover savings? Do you have any basis to quantify these other complicating factors?

4. In your agency, are there also costs associated with turnover? Can you define these costs and put a dollar amount in the past fiscal year (FY 2008) to these components? For example, are there additional advertising, recruitment, training, and overtime costs?

5. In the past when your agency has had turnover savings, what types of expenditures have you applied the turnover savings towards?

Appendix IV – State Comparison Survey Regarding Turnover Savings

1. Do your Governor's Office (or Executive Branch) budget guidelines include a formal policy or procedure to agencies regarding turnover savings? Could we get a copy of the language?

2. How is turnover savings typically reflected by an agency in its annual budget submission? Does the agency include turnover savings in its budget submission? Does the Governor's Office (or Executive Branch budget agency) do any procedure regarding turnover savings once it has received an agency's budget submission?

3. How does a turnover savings component factor in to budget year calculations for compensation and benefit increases?

4. If an agency does have turnover savings, do your state's procedures allow the agency to move the savings to another category of expenditures?

5. If your budget process includes no formal guidelines or procedures related to turnover savings, does the topic of turnover savings ever come up in any other way? If so, how? For example, is the budget adjusted in some other way that would take into account turnover savings?

6. Are turnover savings in your state offset in any way by costs associated with turnover?