MINUTES OF THE MEETING
INSTITUTIONS AND CULTURAL EDUCATION SUBCOMMITTEE
50TH LEGISLATIVE SESSION
January 13, 1987

The fifth meeting of the Institutions and Cultural Education Sub-Committee was called to order by Chairman Ron Miller on January 13, 1987, at 8:10 a.m. in Room 202-A of the Capitol Building.

ROLL CALL: All members were present as were Keith Wolcott, Senior Analyst for the Legislative Fiscal Analyst's Office (LFA) as well as Julie Emge, Secretary.

VACANCY SAVINGS:

Dave Hunter, Budget Director from the office of Budget and Program Planning (OBPP) spoke to the committee regarding the executive's position on vacancy savings. He distributed exhibit 1 explaining that the handout was a break-out of vacancy savings by funding source.

Mr. Hunter suggested the committee could address some issues of how vacancy savings is applied, if it is going to continue and under what conditions. The executive applied a 4% vacancy savings to all agencies regardless of size. He stated, it was applied to all funds with the exception that vacancy savings was not applied to elected officials. Vacancy savings was applied to every position in the Governor's office excluding the Governor and Lt. Governor, he advised, and in the Supreme Court, vacancy savings was applied to administrative positions but not to the justices or district court judges. He said the LFA has applied vacancy savings to elected officials - the Governor, Lt. Governor, Secretary of State, State Auditor, Public Service Commissioners, etc. but has recommended to exempt Supreme Court Judges and District Court Judges.

He recommended that the committee make one other exception by exempting the faculty at the University System in terms of how the formula is applied. A 4% vacancy savings was applied to the support part of the formula but was not applied to the faculty positions, Mr. Hunter said.

Keith Wolcott indicated that the LFA recommended the same in regards to the University faculty.

Mr. Hunter informed the committee that a vacancy savings of 1.68% was suggested for prison guards based on historical experience and that all posts must be covered.

Mr. Hunter believed that the LFA does not apply vacancy savings to agencies under 20 people, which include the LFA, the Environmental Quality Council, the Consumer Council, and the Arts Council.

He felt the committee should also address the question of a size difference if vacancy savings was applied and if so what should it be. The executive argument, he advised, is that vacancy savings should be applied regardless of the size of the agency; if a very small agency does not have a vacancy savings, they have a choice to request a supplemental as a way to fix the problem and vacancy savings should be applied uniformly to all agencies regardless of size. He stated they have real serious concerns as to whether or not the pool concept will work.

Representative Menahan asked why there was a discrepancy between the prison as opposed to Warmsprings, Boulder and Eastmont.

Mr. Hunter responded by questioning if the department has the flexibility to deal with the total budget, can they cover shifts, and is it as critical that they cover shifts in other institutions? He contended that it isn't. He pointed out that the smaller amount of turnover there is, the harder it is to meet the vacancy savings.

Representative Menahan was concerned that nothing was going to be said about a vacancy savings being applied at Boulder and at other developmentally disabled institutions.

Mr. Hunter replied that some special provision for prison guards is needed and that a 4% vacancy savings was applied to the employees of the prison that were not in the guard category.

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Chairman Miller asked how vacancy savings would apply to an agency, such as the School for the Deaf and Blind, that consisted of 10 small departments of under 20 people.

Hunter responded as long as the agency or department has the flexibility that is allowed in the program transfer language they can make up for the loss, but if they cannot transfer funds between programs there is a possibility of having real problems.

Chairman Miller stated concern that they might hurt vital programs by not filling positions and using the vacancy savings.

Mr. Hunter advised that there are some vacancy savings that do not need to be funded that will not impact agencies. He feels that with 4%, agencies can live with vacancy savings without any impact on their operations.

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Chairman Miller asked if after the 1985 session, did they not aim at basically 4%, and the bottom line was that only 2.7% vacancy savings was achieved in dollars.

Mr. Hunter replied that they would have to achieve it, because if agencies were budgeted at 4%, and they only achieved the 2.7%, the only outcome would be that the agencies either overexpended their budget or they took the additional money out of their operational expenses.

Mr. Wolcott agreed with Mr. Hunter and stated he thought they achieved more than 4%. He said the bottom line Representative Miller was talking about is that the goal (4% last session) was the same as this session; but when taking the actual vacancy savings and applying it against the total personal services budget statewide, it comes out to be 2.8% of the total personal services budget, because it was not applied to the University faculty and some agencies did not have the 4% applied.

Representative Miller stated that they have to look at a pool to cut down on vacancy savings.

Senator Bengtson stated it was frustrating to apply vacancy savings regardless of size to all agencies and she also had problems with the pooling as to its workability. She wondered if it was fair to judge each agency on the kind of record and historical turnover they had and how cuts throughout the year have affected them. She stated that, as far as Institutions is concerned, they did not have any excesses in the budget and she was uncomfortable in trying to apply a 4% vacancy savings to their budget. She thought poor management would be rewarded and good managers would take it in the shorts again.

Mr. Hunter stated he hasn't seen agencies that haven't been able to handle the vacancy savings through some management means and he didn't believe the problem was as bad as the members have been led to believe.

Representative Menahan commented that he would like to have Mr. Hunter state that they have the most minimum program available at the state hospital and will cut it further as a management tool and use vacancy savings as that management tool. He said that is what is being done and that is what should be stated is being done.

Senator Bengtson stated it is better to refine the present policy, (she didn't believe it necessary to apply it evenly across the board) and at the same time have a pool that could be used - a combination of both. She asked Mr. Hunter if he preferred the

4% because it was simpler to do. She felt something was being done wrong with the budgets - either too much was being put in the operational budget because there was money to transfer into personal services.

Mr. Hunter said if the members flipped through the LFA budget and just added up the amount of money appropriated compared with the money spent, that they would find there are more dollars transferred from personal services into operational expenses than the other way around.

He recommended the committee go with the across-the-board 4% and make exceptions. He advised that alternatively in the 1985 biennium, a pool was created that appropriated to the Governor's Office general and other funds and that was the year that the pay plan was funded with vacancy savings. He noted that almost no funds were allocated from that pool with very few applications taken for funds. There was in excess of $1 million appropriated to the pool and approximately $100,000 was spent; he testified, and the rest reverted. He suggested that if the committee decided to go with a pool, it be created by making a direct appropriation to the pool.

Mr. Hunter stated the other alternatives proposed for funding the pool, (going into agencies and taking money at the end of pay periods or taking money as vacancy savings occurs and putting into a pool for agencies to apply for,) would destroy the management flexibility in state government.

Senator Haffey said that the same flexibility is absolutely gone for all those agencies to whose budget is applied a vacancy savings percentage that is right on target with the agency's vacancy savings. He stated the argument is the same in either case, if he understood Mr. Hunter right.

EXECUTIVE SESSION

VACANCY SAVINGS:

Mr. Wolcott handed to the committee copies of a portion of the Legislative Finance Committee (LFC) Minutes of September 13, 1986. See Exhibit 2.

Mr. Wolcott read the summary of the September 4, 1986 report on vacancy savings (Exhibit 3, Page 27).

As per the minutes of the LFC meeting (Exhibit 2, page 35), Mr. Wolcott stated that the committee did vote to continue vacancy savings and recommended to the full legislature to continue use of vacancy savings, as stated by motion to adopt Issue 1, Option A. On page 39 of the LFC minutes Senator Haffey moved to ADOPT under Issure 2, Option F to change 2.5 percent to 0 percent and to establish a pool. The LFC adopted Option F.

Chairman Miller asked Senator Haffey to explain why the percentage jumped from 0% to 4%. Senator Haffey stated the 4% vacancy savings is a "shotgun" or forced approach. He stated that it is attainable for some agencies but not for others; there are some areas where vacancies exist; if the vacancy is there, it is not going to impede the flow of work and will not affect people who need the direct services.

The School of Deaf and Blind, the prison guards, direct care for the developmental center, and the Montana State Hospital are appropriate for 9% vacancy savings, he commented, the judgement could come from the subcommittee to apply 0% to 4%, depending on the area.

Senator Haffey felt that the flexibility should be able to exist for each subcommittee for judgement of 0 to 4%. He suggested if they produce a policy for the legislature to use in the appropriation subcommittee and it becomes a bill, then they should adhere to the Finance Committee's direction to their staff on pages 39, 40, 41 of the minutes. (Exhibit 3) He suggested the committee amend it with explicit identification of the type of work being done as a consideration when setting the 0% to 4%. He believed the 4% was abuse of vacancy savings and a copout cut.

Senator Bengston agreed with Senator Haffey that the flexibility was needed in the appropriations process as well as in the subcommittee's. She also stated that it is important to mandate the agencies to use the Payroll, Personnel, and Position Control System (PPP) so that the information is easier to track. The historical record cannot be determined if the information is not input into the system, she contended.

Senator Haffey stated, in order to put this in a bill, they need to define (1) a workgroup or agency which could be more of a characterization or direction in the bill for subcommittee use. (2) A statement of precisely what pooling is; i.e., do we appropriate an explicit amount that agencies may come to and request money because their vacancies are not what they expected.

There was discussion of supplementals. It was stated that the Governor did not look with favor upon supplementals and that it was easy to say that an agency could come in for one if there was an emergency; but many times, the supplemental will be requested and not given.

Senator Bengtson moved for the purpose of drafting a bill to have 0% to 4% used as the vacancy savings and to leave the judgement of where to set the vacancy savings within the 0% to 4% to the individual subcommittees. She also clarified that vacancy savings would be applied to all agencies regardless of size and to all funds, and elected officials and the university system's faculty would be exempt from vacancy savings.

Senator Haffey suggested two criteria as a guide for the appropriation subcommittee's on how to use the 0% to 4%: (1) the size of the work group and (2) the type of work being done. He stated there needs to be an establishment of need to get money from the pool.

Mr. Hunter asked if they had a problem, who would have control of the pool and who would have to establish the procedures for application and write the criteria in the law.

Mr. Wolcott stated there was no way to determine which would be natural vacancy savings and which would be forced. The legislature would like to apply a natural vacancy savings as close as possible to apply a rate adjusted to each agency, he said.

Senator Haffey stated that the amount appropriated should be reduced and a half million dollars should be appropriated with any money remaining to be reverted. The appropriation would be general fund money and other fund authority would be broken down into the correct proportion.

Senator Bengtson also stated that the agencies would have to be put in the PPP with the exception of the University System who could not be put in the system; and therefore, would not be allowed to apply for money from the pool. The judicial branch, legislative branch and vo-techs, not currently on the system, would need to be put on, she noted.

Senator Haffey suggested that Mr. Wolcott meet with the persons in the Budget Office involved with allocating funds from the pool in the 1983-85 biennium for the purpose of establishing rules for application for creating the pool.

Senator Bengtson MOVED to direct Mr. Wolcott to draft a bill emcompassing the wishes and discussion of the members.

Senator Haffey seconded the motion. All were IN FAVOR with Representative Menahan being excused.

Chairman Miller told the committee that supplementals for the Department of Institutions would be taken up at the next day's meeting.

ADJOURNMENT: There being no further business to come before this committee, the hearing was adjourned at 9:40 a.m.

Ron Miller

REPRESENTATIVE MILLER, CHAIRMAN

Julie A. Emge

JULIE EMGE, SECRETARY

DAILY ROLL CALL

INSTITUTIONS AND CULTURAL EDUCATION SUB COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1-13-87

NAME	PRESENT	ABSENT	EXCUSED
Rep. Miller, Chairman	✓		
Sen. Bengtson, Vice Chairman	✓		
Sen. Haffey	✓		
Sen. Tveit	✓		
Rep. Menahan	✓		
Rep. Menke	✓		

CS-30

Exhibit 1
1/13/87
Vacancy Savings
~~George~~ David Hunter

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING

TED SCHWINDEN, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

M E M O R A N D U M

To : David Hunter

From : Terry W. Johnson TWJ

Subject : Vacancy Savings and Termination Pay Data

Date : January 12, 1987

The following table reflects the amounts the Executive Budget contains for vacancy savings. Since the budget system does not maintain expenditure data by funding source, the total vacancy savings amounts were allocated based on approximately a 39/61 percent general fund/other fund split.

Vacancy Savings Table

Funding Source	FY 88	FY 89
General Fund	$4,746,725	$4,845,910
Other Funds	7,372,953	7,290,585
Totals	$12,119,678	$12,136,495

During fiscal year 1986, state government expended $3,239,672 on termination pay. Since this information is available on the Statewide Budgeting and Accounting System, detail by funding source is available. General fund expenditures were $686,375 and other fund expenditures were $2,553,297.

Exhibit 2
1/13/87
Vacancy Savings
Keith Wolcott

Representative Winslow requested a vote on Senator Van Valkenburg's motion that the Legislative Finance Committee have legislation prepared to strike the words repair and maintenance from the definition of construction and increase the dollar amount to $100,000 on the amount that needs to be approved by the legislature. The motion was voted on. A roll call vote was requested. The motion failed by a vote of 7 to 5.

Representative Winslow stated that there was a legislative session between the time that this problem was apparent and the time the repairs were done. Ms. Feaver stated she was following the past policy of not bringing it to the legislature. It was considered a repair item that the general services budget is used for, not a Long Range Building Program item.

Representative Bardanouve suggested that the Department of Administration adhere to the $25,000 rule unless there is an emergency and the Governor declares an emergency.

Representative Winslow requested a vote on Senator Regan's vote for Option 3, take no action. A roll call vote was taken. The motion passed by a vote of 9 to 3.

VACANCY SAVINGS STUDY (H:1:124)

Mr. Keith Wolcott, Senior Fiscal Analyst, presented his report entitled "Vacancy Savings Study." (EXHIBIT 16)

Representative Bardanouve asked for a clarification of "non-discriminatory." Mr. Wolcott stated that it meant that the savings was distributed amongst all agencies of state government; they all share in the amount of vacancy savings.

Senator Van Valkenburg moved to adopt Issue 1, Option A, which reads "Issue 1: Should vacancy savings continue to be applied in the budgeting/appropriation process? Option A: Continue to apply vacancy savings in the budgeting/appropriation process. The motion passed unanimously.

Representative Donaldson asked whether there was historical data to go back to? Mr. Wolcott stated that you really can't go back. You can go back and find out what the vacancy savings actually achieved, but to try and determine how much was forced or how much was natural, would be very difficult.

Representative Winslow asked how difficult it would be to go with Option F, where a pool would be established to receive reversion? Is that a difficult process? Mr. Wolcott stated that it would take time and some thought.

Representative Bardanouve asked for input from the Office of Budget and Program Planning. Mr. Dave Hunter, Director of the Office of Budget and Program Planning, stated that if there was an issue here, that falls under, "if it is not broke, don't fix it," it seems that this is the one. He thought that if there was a real problem with vacancy savings and termination pay, you would see a lot more supplemental requests in the regular session to fund those termination pay problems. He would argue that you have a pool now, the general fund reserve. If agencies have a real problem with that and they can justify it to the legislature, they can come in and ask for a supplemental to cover the cost. He did not think that vacancy savings was a real problem for agencies. He was not surprised by what the survey showed for agencies that say that they don't want vacancy savings. He said he did not mean to be critical of the staff as he appreciates the legislature by resolution asked the Legislative Finance Committee and the Office of the Legislative Fiscal Analyst staff to make a study. When you make the trade-off between $10 or $11 million more for other policy choices versus something that in our view has not been a dramatic problem, he thought that the choice was pretty clear. He thought vacancy savings was something you could live with. As long as agencies were given the flexibility with program transfers and the existing things they have today, he thought you could live with the 4 percent number. He suspects that the executive branch would recommend again in the 1987 session that 4 percent be applied, that it be done on every agency regardless of size, and that the subsequent session would have the ability to fix a problem through the supplemental process if there was a real problem and an agency could convince the legislature that there was.

Representative Bardanouve asked whether the budget office had given a review of layoffs. Mr. Hunter said yes. Representative Bardanouve asked whether anything was said in regards to what impact there was on agencies' vacation and sick leave pay. Have you had any indication of what happens there? Mr. Hunter stated that he did not have a handle on those numbers. Representative Bardanouve stated that with that the layoffs, there must have been a considerable dollar payout. Mr. Hunter stated he was not certain that this was true. He thought that in a lot of cases when you make layoffs the union contracts require that the least senior person be laid off. Your least senior person was likely to have the smallest amount of accumulation of vacation and sick leave. He did not think the layoffs were as much of a problem as when you get the unexpected retirement or resignation of somebody who has been with the agency for a long time and has a lot of vacation and sick leave. In layoffs, those people tend not to have a lot of termination pay.

Representative Miller said that Mr. Hunter's first statement was "don't fix it if it is not broken," then he immediately said "every agency is going to be given a 4 percent vacancy savings." The vacancy saving study shows that you can't take a 4 percent vacancy savings in institutions. Mr. Hunter stated that he would back off in regards to the prison. They would have to make some exceptions, but that you also have applied 6 percent vacancy savings to Boulder River School and Hospital for example. He thought on an agency basis that institutions was not too far away. It has been applied with some discretion and he thought that was appropriate.

Representative Bardanouve asked whether basically agencies with 20 employees have been left without vacancy savings. Mr. Hunter stated that according to the 1985 session, that was correct. Representative Bardanouve asked whether there were any historical records? Mr. Hunter stated that the recommendation to the legislature in the 1985 session was to apply it regardless to the number of employees. The Office of the Legislative Fiscal Analyst's recommendation was to use, he thought the number was 25 and they ended up using 20. That was what the legislature adopted. He thought that there were vacancy savings in agencies smaller than that. The Office of Budget and Program Planning is smaller than that and the Office of the Legislative Fiscal Analyst's office is smaller than that. Both of these offices in the last year have purchased computers out of vacancy savings. There was some money there that was appropriately saved.

Representative Bardanouve said that smaller agencies may have a smaller vacancy savings applied and you would not have to use 4 percent. Mr. Hunter stated that what happens is that the smaller agencies have tended to vary more. If you have an agency where you have four, five or six people and one person quits, their vacancy savings is going to be very high. If nobody quits, it will be zero and they will have a problem. The flexibility in big agencies allows you to average out those variations.

It is not necessarily less in small agencies; it is just that they do not have the ability to average it out. It seems that the appropriate way to do it is to go ahead and apply a consistent percentage and either allow those agencies to come in for a supplemental or apply for some kind of pool that takes care of somebody like the Commissioner of Political Practices that goes through a whole biennium and nobody quits.

Representative Bardanouve said it is hard to believe that there is absolutely no vacancy among several thousand people in the University System. Mr. Hunter stated that he would agree with this statement. He also would find it hard to believe that there were no vacancies.

Representative Bardanouve asked if there are any estimates of what possible vacancy savings would be used for the entire University System. Mr. Hunter said that they really do not. The difficulty is that we have a number of agencies that aren't on the Payroll, Personnel, and Position Control System (PPP) where we really do not have good data available. As bad as it is on the PPP system, there is no information about the University System in regards to what their actual vacancies are. There has been some argument over the years of whether or not the University System should be required to put their positions, including their faculty, on the PPP system. They have consistently and effectively resisted that. With the University System, you would end up, particularly with this session, making some kind of arbitrary choice of saying that we are going to apply some percentage to the University System without any data with regard to faculty.

Senator Haffey moved in Issue 2, that we adopt Option F and change the 2.5 percent to 0 percent and establish a pool which captures the problem of the small agencies relative to the large agencies.

Representative Bardanouve asked what kind of a pool will be established. Will it be short in dollars so that we will have to freeze so many dollars in a pool?

Ms. Rippingale stated that the Legislative Finance Committee must make a report to the next legislature, so your motions here would be reported to the next legislature. This would not disrupt what we are going to do with the Office of Budget and Program Planning, in terms of trying not to have minute differences in the budget base.

Mr. Wolcott stated that the vacancy savings break in each appropriation has been established between 0 and 4 percent and that is a reduction to the appropriated amount. The pool is then established based on the reversions in excess of that budgeted.

Representative Bardanouve stated that if an agency runs into trouble right now, they can come in for a supplemental appropriation. The legislature has not really criticized any agency when its budget was short because of vacancy savings. Mr. Hunter stated that in Option F, you are making three policy choices. Two of them have been done before. One is a dramatic change in the budget process. You can apply vacancy savings at varying rates depending upon agency. This has been done in the past; it is not a big change and is not a big deal. You can establish a pool to deal with vacancy savings. This has been done in the past in the 1985 biennium where the 1983 legislature made a specific appropriation to the budget office to allocate to agencies to take care of problems with vacancy savings. In the creation of a pool a direct appropriation has been done before; it is not a problem. The next step that Option F takes is to say that you take a pool that establishes a reversion where we collect that money from agencies, not just general fund, but presumably federal funds, state special revenue funds, and other funds and would allow agencies to apply for that. The problems were discussed with the data in determining what is vacancy savings. You are really creating a whole new procedure in terms of the budget process that is not going to be easy and is not going to be without some real time consuming provisions. If you create a pool and the legislature makes an appropriation directly to that pool, then that appropriation would have to be both general fund and other fund authority. That is the way the pool was done in the 1985 biennium and you can make that work. If you fund the pool by requiring reversions from agencies, then there would be a lot of complexities that would be very difficult to deal with.

Ms. Rippingale suggested that a vote be made on the concept of how the committee would like to move.

Senator Haffey moved that for Issue 2, we adopt Option F and change the 2.5 percent to 0 percent and establish a pool which captures the problem of the small agencies relative to the large agencies. The motion passed. Representatives Bardanouve, Miller, and Peck voted no.

REVENUE ESTIMATING ADVISORY COMMITTEE (H:2:604)

Mr. Dave Hunter presented a request from Mr. Bill Mathers in regards to the Revenue Estimating Advisory Council. The committee was requested to have the staff of the Office of the Legislative Fiscal Analyst appear before the Revenue Estimating Advisory Committee at its October meeting and present its revenue estimate. This would allow the Revenue Estimating Advisory Committee to make its best recommendation to the Governor. The intent was not to remove the Office of the Legislative Fiscal Analyst's ability to estimate revenues independently and make a separate recommendation to the legislature in January, but to have clear legislative input from the expertise of the Legislative Finance Committee to the process of estimating revenues.

Exhibit 3
1/13/87
Keith Wolcott
Vacancy Savings

Small agencies are particularly vulnerable to termination pay, especially when the termination occurs within the last month of the fiscal year. In the first year of the biennium if the appropriation is insufficient to pay the termination costs the agency may seek a supplemental. However, should a termination occur in the last month of the second year of the biennium and the agency appropriation is insufficient, the agency simply cannot meet its obligation. Section 17-8-202, paragraph (2) of the Montana Codes Annotated, prohibits the Department of Administration from charging any appropriation unless the balance of the appropriation is available and adequate. If no appropriation is available for the payment of a claim, the department shall audit it and, if it is a valid claim, transmit it to the Governor for presentation to the legislature. The terminating employee has the right, according to Section 39-3-305, paragraphs (1) and (2), MCA, to receive all unpaid wages within three days unless he would otherwise receive the wages on the next regular payday for the pay period during which he terminated. These two laws obviously create a delima for a manager who is unfortunate enough to have an employee terminate in the last month of the second year of the biennium and insufficient appropriation available to pay the termination costs.

A statewide pool for such contingencies is an alternative to supplementals, special appropriations, and varying vacancy savings rates by agency.

SUMMARY

It is clear that vacancy savings exists within state government. Montana's legislature not only recognizes this fact, but has moved since the 1979 legislature, to use vacancy savings as an important budgeting tool. This is evidenced by the move from individual agency vacancy savings allocations by subcommittees in the 1979 legislative session to the application of "across the board" vacancy savings in the 1985 legislative session. Montana is among the majority states who recognize and deal with vacancy savings in the budgeting/appropriations process. Although the methods of applying vacancy savings vary from state to state, the underlying purpose for doing so is common to all. That is, to recognize the existence of vacancy savings and to account for and manage its effect on government resources.

The legislature is aware of some problems that result from the application of vacancy savings. This is evidenced by the passage of House Joint Resolution 43. The in-state survey responses indicated that agencies would prefer that no vacancy savings be applied or that a different method be developed for application in the budgeting process. However, as shown in the analysis, the problems surrounding vacancy savings are not limited to the legislature's application of vacancy savings to agency budgets. The state's accounting systems have capabilities beyond current operational mandates. If utilized fully, these systems could provide the information necessary to track and project vacancy savings. Also pointed out, are inconsistencies in recording information in SBAS which further compound the problems of accurately analyzing and projecting vacancy savings. The following issues and options may not end the debate surrounding the application of vacancy savings, however, action by the legislature on these issues will provide a clear direction for the future application of vacancy savings.

ISSUES

Issue 1: Should vacancy savings continue to be applied in the budgeting/appropriation process?

Option A: Continue to apply vacancy savings in the budgeting/appropriation process.

Option B: Do not apply vacancy savings in the budgeting/appropriations process.

Issue 2: If vacancy savings is to be applied, what method should be used to apply vacancy savings in the appropriation process?

Option A: Line item personal services and FTE levels in the appropriation and require a reversion of the unexpended balances. This reversion could be made at the end of each pay period, monthly, quarterly, or at the end of the fiscal year.

Option B: Apply vacancy savings to each agency budget based on historic experience with adjustments for unusual circumstances.

Option C: Apply vacancy savings to each agency budget based on an incremental method which scales the vacancy savings rate to the number of FTE in each agency. Under this method smaller agencies would have less vacancy savings applied than larger agencies.

Option D: Apply vacancy savings to each agency budget based on the global method as in the current biennium.

Option E: Adopt a method similar to the one used in New Hampshire, where personal services are fully funded within the appropriations act for all authorized FTE. Establish a central pool to which all vacancy savings realized would revert each pay period. Establish procedures to enable agencies with valid personal services problems to apply to the central pool for relief. The balance remaining in the pool at year end would revert to the appropriate fund.

Option F: Apply vacancy savings to each agency budget at a rate of 2.5 percent to 4 percent and establish a pool to receive reversion of any actual vacancy savings in excess of that budgeted. Allow agencies with valid personal service problems, (large termination payouts, less than anticipated vacancy savings, etc.,) to apply to for relief from funds in the pool. All or part of the balance remaining in the pool could revert to the appropriate fund at fiscal year-end.

Issue 3: Should a pool be established for termination pay?

Option A: Establish a central pool to pay terminating sick leave and vacation pay.

Option B: Take no action.

Issue 4: If vacancy savings is applied, should there be a way to accurately identify and track the vacancy savings that corresponds to the method of application?

Option A: Require the Office of Budget and Program Planning and the Department of Administration to develop specific vacancy savings recording procedures on the Statewide Budgeting and Accounting System, (SBAS) and the Payroll, Personnel, and Position Control System, (PPP) which correspond with approved operational plans. These specific procedures should include: the five information elements defined in the analysis section on page 22.

Option B: Take no action.

KW2:vss

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

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JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

January 8, 1986

TO: Legislative Finance Committee

FROM: Jim Haubein
Principal Analyst

SUBJECT: Operational Plan Control

INTRODUCTION

This report examines the state's budgeting controls and procedures which are to insure that expenditures are made in accordance with approved operational plans as required in House Bill 500.

BACKGROUND

Article VIII, Section 12 of the Montana Constitution requires the legislature to insure strict accountability in law of all funds spent by the state. Three sections of the law to control state spending and restrict it to the legislatively appropriated levels are relevant to fiscal control problems in this report.

Section 7 of House Bill 500 requires spending to be in accordance to approved operational plans. Section 7 reads as follows:

> Section 7. Operating budgets. Expenditures may be made only in accordance with operating budgets approved by the approving authority. The respective appropriations are contingent upon approval of the operating budget by July 1 of each fiscal year. Each operating budget shall include expenditures for each agency program detailed at least by personal services, operating expenses, equipment, benefits and claims, transfers, and local assistance. However, if any agency allocates its appropriations to the second expenditure level in the state accounting system, separate operation plans need not be submitted to the approving authority.

Section 8 of House Bill 500 allows program transfers within an agency, but these transfers must be for justifiable reasons and are limited to 5 percent of the total agency budget. Section 8 reads as follows:

> Section 8. Program transfers. The approving authority may approve agency requests for program transfers, within each fiscal year, not to exceed 5% of the total agency budget unless such a transfer is specifically prohibited by this act or by statute. A request for a transfer accompanied by a justification explaining the reason for the transfer must be submitted by the requesting agency to the approving authority and the Legislative Fiscal Analyst. Upon approval of the transfer, the approving authority shall inform the fiscal analyst of the approved transfer and the justification for the transfer.

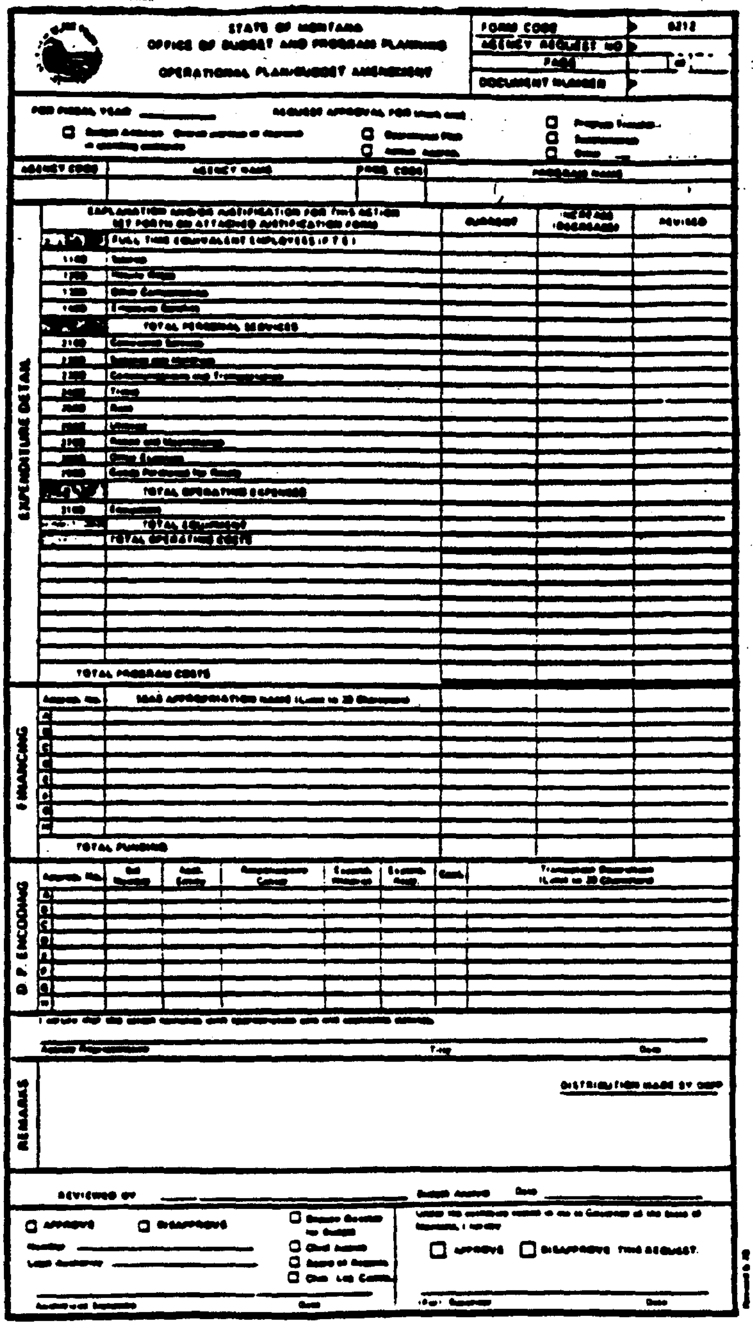
Sections 17-7-401 to 17-7-405, MCA, allow the executive to approve a budget amendment if certain criteria and procedures are met. Section 17-7-404(4), MCA, which requires the legislative fiscal analyst to review each budget amendment, reads as follows:

> (4) The legislative fiscal analyst shall review each proposed budget amendment that has been certified by the approving authority for compliance with statutory budget amendment requirements and standards and shall present a written report of this review to the legislative finance committee. Within 10 days after the meeting of the legislative finance committee that considered the budget amendment, the legislative fiscal analyst shall submit the committee's report to the approving authority.

PROBLEM

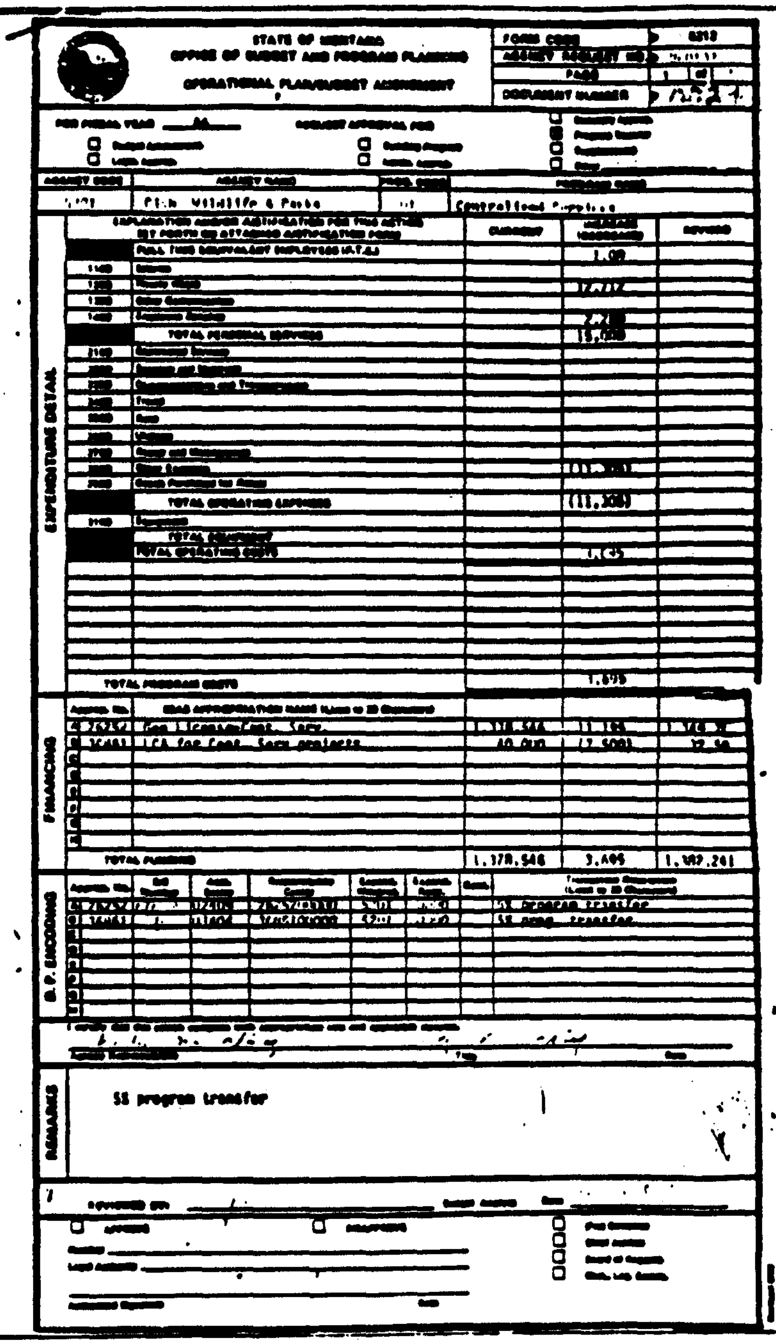
The problem which led to this report was our need to evaluate the programmatic impact of changes being made on the operational plan/budget amendment form (B212). An example of the B212 form is shown in Illustration 1.

Illustration 1
Copy of Operational Plan/Budget Amendment Form B212



The B212 form is reviewed to determine if the operational plans are in compliance with legislative action, to monitor the agency program transfers as allowed in House Bill 500, and to review budget amendments as required by Section 17-7-404(4), MCA. During these reviews, the analysts have noted that the current and revised columns of the B212 are frequently not completed. An example of this is shown in Illustration 2.

Illustration 2
Department of Fish, Wildlife and Parks B212 - Program Transfer #29



Fish Wildlife & Parks

Controlled Supplies

TOTAL PROGRAM COSTS 3,695

TOTAL FUNDING 1,378,546 3,695 1,382,241

SS program transfer

Illustration 2 shows the Department of Fish, Wildlife and Parks' program transfer request of \$3,695. The analyst is not able to tell from this form the allocation of the current or revised spending authority.

To determine the current spending level, the analyst can: (1) find the original approved operational plan and adjust it for all B212's processed to date; or (2) look up the budget allocation in the Statewide Budgeting and Accounting System (SBAS). With the current level authorized spending level allocation determined, the analyst should theoretically be able to add the new change to the present current level and obtain the revised authorized allocation of the spending authority. However, when attempting to determine the current spending level for the B212 in Illustration 2, the two methods did not result in the same answer. As neither the agency or the budget office (the approving authority) has indicated its representation of the current level spending authority on the B212, the analyst is unable to determine the final result of the B212 change.

Table 1 illustrates how the answers varied between the approved operational plan method and the operational plan allocation in the Statewide Budgeting and Accounting System (SBAS). The approved operational plan, which is required by House Bill 500 and ties to the legislative appropriations, is brought up to date by adjusting it for all approved B212's. The example in Table 1 is for the Department of Fish, Wildlife and Parks centralized services program as was Illustration 2.

Table 1
Department of Fish, Wildlife and Parks - Centralized Services
Comparison of Approved Operational Plan to SBAS

Object of Expenditure	Initial Approved Op. Plan	Program Transfer Doc #29	Op. Plan Changes Doc #92	Revised Op. Plan	December SBAS	Differences SBAS versus Op. Plan
Personal Svs.	$1,034,477	$15,000	$16,524	$1,066,001	$1,092,934	$ (26,933)
Operating Exp.	2,078,460	(11,305)	(16,524)	2,050,631	2,213,134	(162,503)
Equipment	546,936	-0-	-0-	546,936	532,500	14,436
Fed. Grants	40,000	-0-	-0-	40,000	-0-	40,000
Transfers	235,000	-0-	-0-	235,000	100,000	135,000
Total	$3,034,873	$ 3,695	$ -0-	$3,938,568	$3,938,568	$ -0-

Note the revised approved operational plan budget allocations do not equal the operational budget allocations in SBAS even though the totals agree. There has been a shift in the budget from equipment, grants, and transfer categories to personal services and operating expense categories.

SBAS was designed to be a budgeting system as well as an accounting system. If the budget allocations do not tie to the approved operational plans, then the capabilities of SBAS are not being utilized. SBAS, the official state accounting system, is utilized by program managers to monitor their program expenditures as compared to their budgets. It is also the permanent state financial record used as a base for budgets analysis and financial reports.

It is important that SBAS reflect the approved operational plans, as: (1) there is not always a readily available record of the approved operational plan available, even to managers who deal directly with the fiscal operations of an agency; (2) program managers are relying on SBAS records to monitor program expenditures; and (3) SBAS is the only permanent record of budget allocations.

To further illustrate the problem in determining the "real" operational plan and to show that significant dollar amounts and policy questions are also involved, Table 2 was prepared. This table shows the operational plan differences for the Department of Highways' Construction Program as they appear in the difference source documents for the month of November.

Table 2
Department of Highways' Construction Program
Comparison of Operational Plans-November 1985

	November SBAS	Oper. Plan Change DOH Doc # 15	Dept. of Highways Budget Status Report November
FTE	N/A	650.40	650.40
Personal Services	$ 17,759,276	$ 16,558,740	$ 17,759,276
Operating Expenses	192,405,912	193,367,189	192,405,912
Equipment	217,976	217,976	217,976
Total	$210,383,164	$210,143,905	$210,383,164

Table 2 shows that there is $1.2 million more allocated to the personal services budgets in SBAS and the department's internal budget status report than was approved by the approving authority as shown on the department's operational plan change in November. These additional funds were allocated by the department from operating expense to personal services without going through the approving authority. This unapproved allocation to personal services was discovered by our office when answering a legislative request about vacant positions in the highway department. During this review, the highway department represented that the internal budget allocation, equivalent to SBAS, was the spending plan being pursued by the department, not the approved operational plan.

Moving the $1.2 million from operating expenses to personal services involved policy decisions of importance to the legislature. Some implications of these policy decisions are:

1. Although no more FTE are being added to the highway department, the department budgeted $1.2 million more in personal services than it requested and received from the legislature. This increase is due to hiring staff at higher salaries. Despite the higher personal services bud-

get, 8 percent of positions in the program are vacant in fiscal 1986 to date.

2. The budget on SBAS establishes a higher on-going personal services base, even if not all employees are retained. Those who are may be at a higher level than represented to and funded by the legislature, and

3. The increased personal services was budgeted by removing contractor payments for actual road construction costs. This change reduces the amount of public services (specifically roads) provided by the department. To maintain its construction program in the future, the department may request additional spending authority in contracted services from the 1987 legislature. Thus, both the personal services and contracted services components of the expenditure base may be increased from legislative intent.

CONCLUSION

The law clearly states that expenditures may only be made in accordance with approved operating budgets. Operational plan forms are not always complete and thus there is sometimes no current record of the approved operational plan. The program allocations recorded in SBAS do not always conform to the approved operating budgets. In some cases, there is agency representation that the approved operating budget does not meet its intended expenditure plan. This lack of control on the approved operational plan and the underutilization of SBAS capabilities makes it extremely difficult to ensure the law is being met. It also becomes time consuming to review these records when trying to sort out fiscal problems. And the only permanent state record of budget allocations does not necessarily represent the approved operational plan which makes research into prior years' records unreliable.

ISSUES

Issue 1. Should the official state SBAS records tie to the approved operational budgets which are required in House Bill 500?

Option A. Recommend that the budget office ensure that the operating budgets in SBAS are the same as the approved operating budgets.

Option B. Take no action.

Issue 2. Should the B212 forms be fully completed showing the current spending levels, increases and decreases, and revised spending levels which tie to the approved operational plan?

Option A. Recommend that the budget office direct state agencies to fully complete the B212 forms.

Option B. Take no action.

Issue 3. Does the committee wish to clarify the boiler plate language in House Bill 500, Section 7 and require that the budget allocations in SBAS tie to the approved operational plan?

Option A. Amend Section 7 to read as Follows:

> Section 7. Operating budgets. Expenditures may be made only in accordance with operating budgets approved by the approving authority. The respective appropriations are contingent upon approval of the operating budget by July 1 of each fiscal year. Each operating budget shall include expenditures for each agency program detailed at least by personal services, operating expenses, equipment, benefits and claims, transfers, and local assistance. ~~However, if any agency allocates its appropriations to the second expenditure level in the state accounting system, separate operation plans need not be submitted to the approving authority~~. These approved operating budgets will be recorded in SBAS and can only be amended by the approving authority.

Option 2. Do not amend the general appropriation act boiler plate language.

VISITOR'S REGISTER

INSTITUTIONS SUBCOMMITTEE

~~AGENCY(S)~~ VACANCY SAVINGS DATE January 13, 1987

DEPARTMENT

NAME	REPRESENTING	SUP-PORT	OP-POSE
Dave Depew	MPEA		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.

FORM CS-33A
Rev. 1985

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

September 4, 1986

TO: Legislative Finance Committee

FROM: Keith Wolcott, Senior Fiscal Analyst
Jim Haubein, Principal Fiscal Analyst

SUBJECT: Vacancy Savings Study

The 1985 legislature, through House Joint Resolution 43, requested the Legislative Finance Committee to study vacancy savings. House Joint Resolution 43 requires the committee to:

1. Study the use of vacancy savings in setting funding levels for government agencies.
2. Identify the advantages and disadvantages of using vacancy savings in the budgeting process.
3. Report its findings and recommendations to the 50th Legislature.

VACANCY SAVINGS DEFINITIONS

Vacancy savings is the difference in dollars between the full cost and the actual cost of all authorized positions for a budget period. Vacancy savings is utilized in budgeting to more accurately reflect the amount needed to support or fund staff. The aggregate amount of vacancy savings consists of the following factors:

1. Position Savings - The money saved as a result of having a position open at any time during the fiscal year. These savings occur in two ways:

a. Position vacancy during the normal time it takes to recruit a new employee. Also referred to as "natural" vacancy savings.

b. Position vacancy during the period the position is held open by management to save funds to remain within the budget. Also referred to as "forced" vacancy savings.

"Forced" vacancy savings is the intentional creation of vacancy savings for the express purpose of saving financial resources. Vacancy savings may be "forced" in a number of ways for a variety of reasons. The following illustrates some of the methods used to "force" or create vacancy savings:

i. Hold vacant positions open until the required dollars are saved.

ii. Downgrade a position(s) to a lower grade.

iii. Voluntary leave without pay to create the necessary savings.

It is impossible to determine to what degree vacancy savings is "forced" within agency budgets because there is no method of recording forced vacancy savings separately from natural vacancy savings in state records.

2. Turnover Savings - Results from filling a vacated position with a person whose pay is less than the salary of the employee who terminated.

3. Negative Turnover Savings - Results from filling a position with a person whose pay is higher than the salary of the person who terminated. This may occur as a result of promotions, hard recruiting situations, applicant experience, or union bid

contracts. A hard recruiting situation results when there are few or no qualified applicants for the job classification to be filled. This may also occur when the pay level for a particular job classification in state government falls below a comparable position outside of state government.

4. Termination Pay - Separation pay for those employees terminating. This separation pay is for:
   a. Unused annual leave payable at 100 percent of the hourly wage at the time of termination.
   b. Unused sick leave at 25 percent of the total accrued payable at the hourly wage at the time of termination.
5. Position Upgrades/Downgrades - All upgrades, either agency requested or classification upgrades approved by the personnel division through the appeal process, during an interim must be absorbed by the agency. Upgrades increase the cost of authorized positions. Downgrades increase the amount of vacancy savings.

HISTORICAL BACKGROUND

Vacancy savings has been applied to agency budgets using various methods since it was first used statewide in the 1981 biennium. When first applied statewide, vacancy savings was primarily based on historical experience program by program. However in the last three bienniums a more global method has been used by the legislature to apply vacancy savings.

The 1979 legislature applied vacancy savings program by program for the 1981 biennium with individual rates varying from 0 to 10 percent. The vacancy savings factors were applied to the agency budgets in the subcommittees and were ultimately part of the individual appropriations. The general exception to the application of vacancy savings was the university system. The faculty of the university systems did not have a vacancy savings factor applied although non-faculty staff did.

The 1981 legislature applied vacancy savings for the 1983 biennium by reducing budgets in the general appropriation bill approximately 1 percent. In addition, the appropriation to the Governor's Office for the pay plan was 96.5 percent of the amount required to fully fund the pay plan. The following excerpt from the Office of the Legislative Fiscal Analyst's "Appropriations Report" describes what occurred.

> Agency budgets in House Bill 500, the general appropriations act of 1981, contained funds for the base level personal services before pay raises. Only about 1 percent vacancy savings had been taken out of the personal services appropriations in House Bill 500. The legislature took a 3 percent vacancy savings as a normal average for the state and another ½ percent which could be accommodated by Governor Schwinden's 2 percent cutback of state employees. Therefore, part of the pay plan cost was already funded in House Bill 500.
>
> The executive concurred that they could fund the state pay plan as presented in House Bill 840 for non-legislative agencies and would not present any supplemental appropriation request to the legislature based on pay plan factors. An additional $1.6 million was appropriated to the Office of Budget and Program Planning for teaching faculty at the six universities and college units. This is a contingency appropriation to be disbursed to the university units only if and to the extent 3½ percent vacancy savings is not realized.

With 1 percent vacancy savings applied to personal service budgets and the 3.5 percent reduction to the pay plan, the net vacancy savings factor applied to the 1983 biennium appropriations is 4.4 percent for fiscal 1982 and 4.3 percent for fiscal 1983 for all agencies except the university system who had just the 3.5 percent applied in the pay plan. However, $1.6 million was appropriated in the pay plan as a contingency for the university faculty. The vocational-technical centers and community colleges were funded entirely, including pay raises, within the general appropriations act with no vacancy savings applied. Table 1 illustrates an example of the vacancy savings applied to a regular state employee using a single position at grade 12.

Table 1
Calculation of Vacancy Savings Rate for the 1983 Biennium

Year	Grade/Step	Salary	Percent Change
1981 Pay Matrix	12/6	$16,240	0.0
1982 Pay Matrix	12/7	18,140	11.7
1983 Pay Matrix	12/8	20,244	11.6

\- - - - - - - - - - - - - - - - - - Fiscal 1982 - - - - - - - - - - - - - - - -

1982 Pay Matrix	$18,140		
1981 Pay Matrix	16,240		
Pay Matrix Increase	$ 1,900 - (18,140 X .035) =	$ 1,265	Pay Plan Bill
1981 Pay Matrix	$16,240 X .99 =	16,078	Approp. Bill
Total Salary Funded for Fiscal 1982		$17,343	

\- - - - - - - - - - - - - - - - - - Fiscal 1983 - - - - - - - - - - - - - - - -

1983 Pay Matrix	$20,244		
1982 Pay Matrix	16,240		
Pay Matrix Increase	$ 4,004 - (20,244 X .035) =	$ 3,296	Pay Plan Bill
1981 Pay Matrix	$	16,078	Approp. Bill
Total Salary Funded Fiscal 1983		$19,374	

\- -

Comparison of Salary Funded to Pay Plan

Fiscal Year	Salary Funded	Pay Matrix	Percent Funded	Vacancy Savings Rate
1982	$17,343	$18,140	95.61	4.4
1983	19,374	20,244	95.70	4.3

This method of applying vacancy savings on a statewide basis is the first time the legislature used a global method of applying vacancy savings. It is global in the sense that through the pay plan all agencies, regardless of size or actual experience, who were under the statewide pay plan had the same vacancy savings rate applied.

The 1983 ~~legislature~~ authorized current level personal services at 100 percent of the approved FTE levels in the General Appropriations Act for the 1985 biennium. The pay increases were authorized at an average of 4 percent each year of the biennium but only $9.7 million of pay plan funding was appropriated for the biennium. The balance needed for the pay plan had to be achieved through vacancy savings generated by the agencies.

The following excerpt from the Office of the Legislative Fiscal Analyst's "Appropriations Report" explains the process used for the 1985 biennium.

> Contained within individual agency budgets is the majority of funds appropriated for personal services costs during the 1985 biennium. House Bill 902 appropriates an additional $9.7 million of general fund to implement the pay schedules contained in that bill. The Governor's Office has authority to allocate funds in that appropriation with the provision that no vacancy savings be required in instructional contract faculty within the Montana University System.
>
> The appropriations for personal services costs in House Bill 447, the general appropriations bill, and House Bill 902 are not sufficient to fully fund all authorized FTE's during the 1985 biennium. Recognizing this problem the legislature incorporated two types of flexibility in the appropriation bills.
>
> 1. House Bill 447 allows agencies to make program transfers up to 5 percent of the total agency budget unless specifically prohibited by other language or statutes.
>
> 2. House Bill 902 authorizes the transfer of unexpended agency appropriation balances in the first year of the biennium to the second year to offset the cost of the pay plan increases.
>
> In the April 28, 1983 memo, the budget director outlined his plans for allocating the $9.7 million appropriated to his office for the purposes of implementing the statewide pay plan. Because approximately $3.5 million will be required to fully fund contracted faculty at the university system units, $6.2 million is available to be distributed among other state agencies and university staff other than faculty. The budget director anticipates

the need for $600,000 to assist small agencies where vacancy savings and other cost cutting measures do not offset the cost of pay plan increases. The remaining $5.6 million in the appropriation has tentatively been allocated by the Governor's budget director to agencies based on the budget cuts each experienced with the reduction in inflation factors for utilities and for overall operational expenses of general fund agencies. To reduce pay plan costs, the budget director encouraged agencies to hold vacant positions open at least four weeks beyond any sick leave or vacation pay out.

The 1985 legislature applied at least a 4 percent vacancy savings factor to most state agencies with more than 20 full-time equivalent employees (FTE) in House Bill 500, the 1987 biennium general appropriations bill. The notable exceptions for the 1987 biennium were instructional contract faculty of the university system and security guard positions at the prison which had no vacancy savings applied. Not applying vacancy savings to the prison security guards is a departure from past practice. This departure results primarily because even though turnover occurs in prison guards, no vacancy savings is realized. Prison posting of the on-duty guards requires that all posts are covered. If a vacancy occurs, a substitute must occupy that post out of the existing workforce which usually involves the payment of overtime. Therefore, the vacancy has to be filled as soon as possible to avoid paying overtime.

SURVEY

To help determine how vacancy savings is used in government and the advantages and disadvantages of its use, two separate surveys were conducted. One survey was sent to the other 49 states to determine how other states deal with vacancy savings. The other survey was sent to 32 agencies within Montana.

OUT-OF-STATE SURVEY

Of the 49 states surveyed, 34 responded. The out-of-state survey asked each state:

1) Do you apply vacancy savings;

2) if not, describe how you budget personal services;

3) if so, describe the method used to apply vacancy savings; and

4) list the advantages and disadvantages of your state's method.

The responses to these questions are discussed below.

1. DOES YOUR STATE ACCOUNT FOR VACANCY SAVINGS IN THE BUDGETING/APPROPRIATION PROCESS?

Do Not Apply	Apply	Inconclusive
Arkansas	Alaska	Idaho
Indiana	Arizona	Kentucky
Michigan	Florida	Nebraska
Missouri	Hawaii	New York
North Carolina	Kansas	Tennessee
North Dakota	Louisiana	
Ohio	Maryland	
Oregon	Minnesota	
South Dakota	Mississippi	
West Virginia	Nevada	
Wyoming	New Hampshire	
	New Jersey	
	New Mexico	
	Oklahoma	
	Rhode Island	
	South Carolina	
	Texas	
	Vermont	

Eighteen or 53 percent of the respondents do apply vacancy savings in the budgeting/appropriation process while 11 or 32 percent do not. The remaining 5 respondents had inconclusive responses.

2. IF YOUR STATE DOES NOT ACCOUNT FOR VACANCY SAVINGS IN THE BUDGETING/APPROPRIATION PROCESS, PLEASE DESCRIBE YOUR STATE'S PROCESS OF BUDGETING FOR PERSONAL SERVICES.

The 11 states that do not account for vacancy savings in their budgeting/appropriations process basically begin their personal services budgeting with a budget base-year using all authorized positions to which a legislatively determined increase factor is applied to cover pay increases. Position additions or deletions to the authorized levels are considered separately.

(a) Nine of these states then line item personal services in the appropriation act with unexpended balances automatically reverting or lapsing at the end of the appropriation period.

(b) Indiana, in addition to the above, maintains a contingency fund for valid problems experienced by the agencies.

(c) Michigan appropriates personal services as part of the total agency appropriations; therefore, the actual vacancy saving realized either becomes part of the reversion or is used for other expenditures.

3. PLEASE DESCRIBE THE PROCESS USED TO APPLY THE AFFECT OF VACANCY SAVINGS IN YOUR BUDGETING/APPROPRIATION PROCESS.

The responses to item 3 may be grouped into the four basic categories:

1) Vacancy savings is applied based on historical experience with adjustments for unusual circumstances;

2) vacancy savings is applied in increments based on the size of the agency workforce adjusted for actual experience;

3) full funding is appropriated for personal services with periodic reversions of the actual vacancy savings experienced to a central pool; and

4) the respondent's methodology was either unclear or the description did not specifically address a policy or process.

Each one of the categories, 1 through 3, includes a list of advantages and disadvantages.

Category 1: Historical Experience

There are 12 respondent states; Arizona, Florida, Hawaii, Kansas, Louisiana, Maryland, Minnesota, Mississippi, New Jersey, Rhode Island, Texas, and Vermont, who apply vacancy savings using a historical analysis with subjective application of adjustments for unusual circumstances. In four of these states the Governor's budget office or the agencies are required to submit budget requests with vacancy savings factors applied. The legislature then will make any adjustments they determine appropriate. The remaining eight states in this category apply vacancy savings rates to the agency budgets during the appropriation process using historical experience. Adjustments to the experienced factors are made up or down for unusual circumstances such as classification upgrades, hard to recruit positions, high turnover in low salaried positions, or previous vacancy savings reductions which have caused abnormally high vacancies to be maintained.

The advantages listed by these respondents are:

1. The dollars saved can be used to fund other priority programs which might otherwise be unfunded.
2. Salaries are kept more in line with legislative intent.
3. The flexibility allows the legislature and the state's administrators to apply both objective and subjective criteria on establishing and adjusting vacancy savings factors.
4. Personal services appropriations are reduced to a level that reflects actual costs.
5. Diversion of savings in salaries to other objects of expenditure are limited.

The disadvantages listed by the respondents are:

1. No disadvantages.

2. With termination pay as an unfunded liability, when budget entities experience a large number of terminations or large single payouts, the entities must then force more vacancy savings to cover the cost.
3. An overestimation of vacancy savings may cause undue hardship on the agencies' appropriation.
4. Vacancy savings is subject to manipulation by the agencies, the budget analysts, and the committees to reach desired results.
5. An agency's ability to accomplish its goals may be impaired if their budget is reduced too much for vacancy savings.
6. Relies heavily on historical data which must be reliably accurate or requires more subjective adjustments.
7. The historical vacancy savings rate may not continue thereby either overappropriating or underappropriating for the personal service needs of the agencies.

Category 2: Incremental Vacancy Savings

Three of the responding states apply vacancy savings incrementally based on the size of the workforce, (FTE), and the agencies' actual vacancy savings experience. These three states are Alaska, New Mexico, and Oklahoma.

In Alaska, the Governor submits the budget based on standard rates:

FTE	Percent
Less than 10	0
11-20	1
21-30	2
31-50	3
51 and over	4

The Alaska legislature, in its review of the budgets, may adjust these rates up or down based on their review and judgement. New Mexico applies a similar method; however, using the following criteria: historic rates, subjective analysis, and the application of vacancy savings for any year should not exceed 50 percent of the historic trend for agencies with 10 to 50 employees or 75 percent for larger agencies.

For example, if an agency employing 40 people experienced a 4 percent vacancy savings in the base budget year, and the historic trend was also 4 percent, the maximum vacancy savings that could be applied would be 2 percent. For an agency with more than 50 employees and the same rate experience, the maximum vacancy savings that could be applied is 3 percent.

While Alaska uses five FTE levels to categorize vacancy savings rates and New Mexico uses two, Oklahoma only applies vacancy savings to large agency budgets such as their Department of Corrections with nearly 3,500 authorized positions.

The advantages listed by these states are;

1. Vacancy savings rates take into account the difficulty of small agencies to force savings when they do not have turnover and need all of their employees.
2. Basing vacancy savings on historical trends, does not limit the flexibility to consider unique circumstances in setting the rates.
3. It is easy to explain, compute, and get the agencies to accept.

The disadvantages listed are:

1. Standardized rates based on the number of employees does not necessarily reflect historical reality.
2. There is no guarantee that the historical trends are an accurate predictor of future experience.
3. Oklahoma felt their method was too limited in its application of applying vacancy savings only to large agencies and not applying vacancy savings to small agencies who also experience vacancy savings.

Category 3: Periodic Reversion or Distribution Using a Pool

Under this method authorized positions are fully funded with some variation on a central pool to either allocate personal services funding based on actual experience or collect vacancy savings as it occurs. Three of the responding states, Nevada, New Hampshire, and South Carolina use some form of pooling to deal with vacancy savings.

Nevada appropriates 100 percent of all position costs to each state agency before authorized salary increases. State general fund dollars are appropriated at a percentage of the total required for approved salary increases to a central pool to be distributed on an as needed basis. For the 1987 biennium, salary increases were appropriated at 80 percent of the need resulting in an overall vacancy savings rate of 2.2 percent.

South Carolina allocates employee compensation on a quarterly basis and only for actual requirements in addition to what other vacancy savings rates that may be applied.

New Hampshire uses a somewhat different approach. Personal services are divided into three categories; permanent employees, temporary employees, and additional federally funded positions. Permanent personnel are appropriated by FTE and salary for each agency at 100 percent. Any excesses or shortages in personal service appropriations are adjusted through a salary adjustment fund. Transfers, other than those from the salary adjustment fund, can be made into, (but not out-of), permanent personnel. Temporary personnel are line-itemed in the operating budgets. These positions are restricted only by the dollar amount appropriated or available within the agency budget for transfer to fund temporary personnel positions for periods not exceeding one year. Additional federally funded positions from new or expanded grants are authorized by the Legislative Fiscal Committee for periods not exceeding the grant period. The following are excerpts from New Hampshire statutes providing for quarterly reversions of the vacancy savings generated and making the funds available ~~for~~ transfer to agencies where it is deemed necessary.

> 99:4 SALARY ADJUSTMENT FUND Whereas the appropriations for personal services in state departments and institutions include an annual increment for each position, and whereas upon occasion due to vacancies and personnel turnover, salaries, increment increases and longevity as provided by the appropriations are not needed for said positions, each quarter the department of administration and control shall transfer said amount from the departmental or institutional appropriation to a special account to be known as the salary adjustment fund. This fund shall lapse at the end of each fiscal year and revert to the appropriate fund. Under no circumstances will this fund be used for temporary positions or new positions. Upon the certification of the director of personnel, subject to the approval of governor and council, the salary adjustment fund shall be available for transfer to departments and institutions in amounts that are deemed necessary to comply with RSA 98[1].

> 9:17-c EMPLOYEE BENEFIT ADJUSTMENT ACCOUNT Whereas the appropriations for employee benefits in state departments and institutions may upon occasion not be totally needed for each position due to vacancies and personnel turnover, the department of administration services shall transfer said amount quarterly from the departmental or institutional appropriations to a special account to be known as the employee benefit adjustment account. This fund shall lapse at the end of each fiscal year and revert to the appropriate fund. Upon the certification of the commissioner of administrative services, subject to the approval of governor and council, the employee benefit account shall be available for transfer to departments and institutions in amounts that are deemed necessary to pay the state's required proportionate share of any legally authorized employee benefit. Notwithstanding the provisions of RSA 9:16 and 9:17[2], no transfer shall be made from any appropriation for employee benefits to any other appropriation for any other use or purpose except as provided in this section.

These states list the advantages of pooling vacancy savings as:

1. It is unnecessary to compute a savings figure for each budget.
2. Distribution to agencies from the pool is done near the end of the fiscal year when actual data is known.

---

[1]RSA 98 is New Hampshire's statue covering personnel compensation, (pay matrices). . .

[2]RSA 9:16 and 9:17 are statutes outlining New Hampshire's limits on transfers and appropriations.

3. The cost of legislatively approved pay raises is controlled to the level ~~of~~ actual cost only.

4. The salary dollar pool is controlled centrally, not in the agencies.

5. There have been substantial reversions to the general fund from the pooled appropriations.

6. When applied without exemptions, it is "nondiscriminatory" in that all agencies share the burden or responsibility for savings equally.

7. Quarterly reviews and adjustments to the salary adjustment fund facilitate flexibility and cash flow.

8. Procedures for new federally funded personnel allow the state to take advantage of new federal grants while maintaining control of personnel positions.

9. Provisions in the biennial budgets (see below) provide for the elimination of vacant permanent personnel positions which is an additional means of controlling expenditures.

406:12 Personal Services Limitation (Chapter 406:12 (II))

I. Other provisions of law notwithstanding, the total number of permanent classified positions for any department or agency for the biennium ending June 30, 1987, shall be limited to the number of full-time and permanent classified positions authorized as of June 30, 1985, reduced according to paragraph II, plus such new positions as are authorized by the general court.

II. The total number of positions authorized shall be reduced by the number of positions which have been vacant for the entire period of the 60 days immediately preceding:

(a) June 30, 1985, for all agencies and departments except as provided in subparagraph (b); or

(b) May 31, 1985, for instructional personnel at the technical institute and the vocational-technical colleges.

III. For the purposes of this section, the term "vacant" shall not include the position of any person on approved leave, paid or unpaid.

IV. The executive head of the department or agency shall determine which positions shall be filled within the limitations of the appropriations for the department or agency, and the personnel classifications as authorized in this act, and the numerical limitations imposed by this section.

V. With respect to agencies having an authorized complement of 5 permanent classified positions or less, the authorized number of positions shall not be reduced under this section. The provisions of this section shall not apply to the veterans' home, or to the New Hampshire hospital.

The disadvantages as listed in these three states are:

1. The potential danger of not appropriating sufficient funds to the pool.
2. It potentially penalizes those agencies that are "lean and mean," and their staffing requirements are minimally met.

Category 4: No Specific Policy

There are five respondent states who either do not have a specific statewide policy or whose response was unclear or not specifically described. They are, therefore, unuseable for the purposes of this report.

IN-STATE SURVEY

The second survey conducted was of 32 agencies within Montana's system. This survey was used primarily to corroborate the historical background presented earlier in this report and to seek ideas and comments on the current use of vacancy savings and alternative methods if the system were to change. Of the 32 surveys sent out, all but two were returned.

In order to obtain a cross section of agency opinion on the use of budgeting vacancy savings the following questions were made a part of the survey:

1. WHAT DO YOU PERCEIVE AS THE OVERALL EFFECT OF VACANCY SAVINGS AS APPLIED TO YOUR BUDGET? DOES IT HAVE ADVANTAGES? DOES IT HAVE DISADVANTAGES?

Of the 30 respondents, only four cited any advantages while one, who had no vacancy savings applied, cited no vacancy savings applied provided flexibility. The advantages listed are:

(a) Vacancy savings provides a budget balancing mechanism during legislative sessions. (It was not clear from this response if this is only for the legislature or if the agencies can also use this.)

(b) Properly applied vacancy savings allows expected services to be delivered without excess appropriations being made.

(c) Vacancy savings can serve as a source to fund the pay plan.

While there was limited response on advantages there was an abundance of responses citing the disadvantages of applying vacancy savings to the budgets. The following are consolidated disadvantages as cited by the agencies:

(a) The application of vacancy savings reduces flexibility and makes it difficult to accomplish agency goals.

(b) Positions left vacant to meet budgeted vacancy savings are subject to elimination.

(c) When vacancy savings cannot be produced from personal service budgets then operating or equipment budgets must be used which has the affect of reducing overall budgets.

(d) Applied to federally funded programs, vacancy savings reduces federal financial participation and/or may reduce federally funded jobs in Montana.

(e) Forcing vacancy savings does not allow overlap in filling positions so the incumbent can train their replacement.

(f) In small agencies, the application of vacancy savings in excess of actual experience persistently erodes the base budget.

(g) In programs delivering services directly to the public or where workloads are already backlogged, forced vacancy savings hurts services and the image of state government.

The above responses were not entirely unexpected so a companion question was included in the survey immediately after the above question.

2. HOW WOULD YOUR AGENCY LIKE TO HAVE VACANCY SAVINGS HANDLED BY THE LEGISLATURE?

The responses to this question can be consolidated into the nine categories listed below.

(a) Do not apply vacancy savings to the budgets.

(b) Apply vacancy savings based on actual experience. Suggestions for an appropriate historical base ranged from using the previous three years experience to the previous five years of actual experience.

(c) Appropriate personal services at 100 percent and line item personal services in the appropriations act. With no allowable transfers into or out-of personal services, any balances remaining at fiscal year-end would revert to the appropriate funds. There were suggestions to also line-item the FTE levels in the appropriations act.

(d) If the legislature is required to make cuts do not use vacancy savings, instead identify specific program cuts to be made.

(e) Do not apply vacancy savings to non-general fund programs and/or small programs.

(f) Apply vacancy savings rates based on the size of the personal services budget. Example provided:

Personal Services Budget	Vacancy Savings Rate
Less than \$500,000	0.5%
\$ 500,000 - \$1,000,000	1.0%
\$1,000,000 - \$2,000,000	2.0%
\$2,000,000 - \$3,000,000	3.0%
\$3,000,000 and up	4.0% and up

(g) Appropriate a statewide vacancy savings amount to a central pool managed by The Office of Budget and Program Planning. Agencies could then apply to the pool through some justification process for aid if they cannot meet the vacancy savings applied to their budget.

(h) Appropriate 100 percent of the personal services budget required to fund all authorized positions. Then establish a central pool to which unused personal service appropriations are refunded each pay period. The pool could then be used in the manner set out in option (g) above for agencies who encounter problems in their personal services budget. The pool balance would revert at year-end.

(i) When positions are left vacant to force vacancy savings, do not subsequently delete those positions.

SUMMARY OF SURVEYS

Many of the agency responses parallel those from other states. The data from these surveys will be used in the analysis section later in this report.

The out-of-state survey shows that the states who do not apply vacancy savings in the budgeting/appropriations process, line item personal services within the appropriation and the appropriation balance due to vacancy savings, revert. Therefore, each of these states must appropriate more for personal services and limit overall budget flexibility in the agencies by using a line item personal services appropriation.

The states that do apply vacancy savings in the budgeting/appropriations process basically use one of two methods; 1) after calculating vacancy savings using either a historical basis or an incremental basis, the personal services appropriation has been decreased for vacancy savings; or 2) personal services funds are distributed to agencies from a central pool based on actual need or vacancy savings is reverted to a central pool as it is incurred.

The common advantages listed for applying vacancy savings were:

1. The dollars saved by applying vacancy savings can be used to fund other priority programs or reduce the overall revenue required to fund government.
2. The application of vacancy savings reduces personal services appropriations to a level that reflects actual costs.
3. The application of vacancy savings limits the diversion of savings in salaries to other objects of expenditure.

The common disadvantages of applying vacancy savings were:

1. An overestimation of vacancy savings may cause undue hardship on an agency's appropriation.
2. Vacancy savings is subject to manipulation by the agencies, the budget analysts, and the committees to reach desired results.
3. Vacancy savings may impair an agency's ability or flexibility to accomplish its goals if their budget is reduced too much.

The results of the in-state survey generally echoes the responses of the out of state survey. It seems clear, however, from the in-state survey that the agencies would prefer that:

1. Vacancy savings not be applied to their budgets in the appropriations process, or
2. if the application of vacancy savings in the appropriations is not eliminated, then a different method should be used to apply vacancy savings.

ANALYSIS

The earlier sections of this report have: 1) defined vacancy savings, 2) reviewed historically how Montana has applied vacancy savings, 3) illustrated methods used by other states concerning the application of vacancy savings, and 4) summarized responses by state agencies to a questionnaire concerning the application, effect, and method of applying vacancy savings. This analysis will provide some perspective to the meaning of vacancy savings in the state budget and define some of the problems encountered when calculating, projecting, and applying vacancy savings.

BUDGET IMPACT OF VACANCY SAVINGS

The 1987 biennium application of vacancy savings reduced overall appropriation levels by approximately $21.7 million for the biennium, $11 million of general fund and $10.7 million of other funds. Article VIII, section 9 of the Montana Constitution requires that appropriation by the Legislature shall not exceed anticipated revenue. Therefore, had the legislature not applied vacancy savings, $11.0 million of additional general fund revenues or program reductions would have been needed to balance the budget.

Table 2 shows the dollar amounts of vacancy savings calculated using percentages ranging from 2 to 5 percent as well as the appropriated level of vacancy savings for the 1987 biennium. A comparison between the vacancy savings calculated at 4 percent of the total personal services and the appropriated fiscal 1987 vacancy savings, shows the appropriated is $9 million lower than the 4 percent that was recommended in the executive budget for the 1987 biennium. This difference results from not applying vacancy savings to university contract faculty, Vo-Tech centers, prison security guards, and agencies with fewer than 20 FTE. Had the legislature applied a 4 percent vacancy savings factor to the university faculty, an additional $6.6 million of general fund would have been saved in the 1987 biennium.

Table 2
Comparison of Vacancy Savings Rates

	Fiscal 1986	Fiscal 1987	Total
Total Personal Services	$376,194,188	$390,371,302	$766,565,490
	- - - - - Vacancy Savings - - - - -		
2.0 Percent	7,523,884	7,807,426	15,331,310
2.8 Percent (Appropriated)	10,692,360	10,991,179	21,683,534
3.0 Percent	11,285,826	11,711,139	22,996,965
4.0 Percent	15,047,767	15,614,852	30,662,619
5.0 Percent	18,809,709	19,518,565	38,328,274

CALCULATION OF VACANCY SAVINGS

Although Montana's Statewide Budgeting and Accounting System, (SBAS) and Payroll, Personnel, and Position Control System, (PPP) provide a tremendous amount of detailed information, neither system currently provides a consistent, comprehensive accounting of vacancy savings.

The attributes required to calculate vacancy savings by program are:

1) the total amount required to pay for all legislatively authorized FTE including authorized pay increases,

2) the total dollar amount of vacancy savings applied to the total personal services budget,

3) the actual cost of personal services by object of expenditure,

4) the cost of grade changes in authorized positions, and

5) the cost of unauthorized positions filled.

The Statewide Budgeting and Accounting System, (SBAS) has the capabilities to provide a consistent comprehensive and accurate accounting of attributes 1, 2, and 3 above. However, current operational procedures do not mandate that agencies use the capabilities offered by SBAS particularly in allocating attributes 1 and 2 above by program. For an example of the problems of operational plan control and budget allocations on SBAS, see the attached Operational Plan Control report presented to the Legislative Finance Committee in January 1986.

The Payroll, Personnel, and Position Control System, (PPP) also has the capabilities to provide an accounting of attributes 1, 2, 4, and 5. Although the cost of position upgrades, attribute 4, may take more than a little effort to identify and calculate, especially in large programs. Again, as with SBAS, current operational procedures do not mandate that agencies use the capabilities offered by the PPP system. In addition, there is no systematic monitoring of the two systems to ensure that the detail in PPP ties to SBAS and is kept updated.

ACCURATE AND CONSISTENT INFORMATION

Inconsistent recording of actual expenditures can have considerable impact in projecting future vacancy savings rates. One such inconsistency was discovered when reviewing the results of the in-state survey. It was discovered that not all state agencies are recording terminating vacation pay the same way. The following example illustrates the inconsistent recording of terminating pay and points out an area in which the state's accounting records are inconsistent.

Example: Two employees give two week notification to their employer of their intent to terminate on the same day. Assume both employees have 90 hours of accrued vacation leave credits and 150 days of sick leave credits on that day.

Scenario 1: The employer agrees to allow one employee to take two weeks (80 hours) of vacation and extend the effective date of termination another two weeks. Therefore, when the employee leaves, he is kept on the payroll for the two additional weeks as vacation and then paid the balance of his vacation credits (ten hours) plus his additional vacation accrued (4.62 hours) for the two weeks and 25 percent of his sick leave credits in a lump sum. The agency, in turn, codes the extended two weeks of the terminating employee's salary to vacation pay on SBAS and the lump sum payments to terminating sick leave and terminating vacation.

Scenario 2: The other employee terminates with the 90 hours vacation credits and 150 hours of sick leave credits. The employer pays a lump sum payment to the terminating employee coding the entire amounts to terminating sick pay and terminating vacation.

There are two major differences in Scenario 1 and Scenario 2. (1) The employee in scenario 1 received an additional accrual of 4.62 hours of vacation pay and 3.69 hours of sick leave because of the extended termination date, and (2) although both employees terminated at the same time, SBAS reflects considerably different figures for terminating vacation pay. The employee in Scenario 1 would reflect terminating vacation for only ten hours plus the 4.62 hours accrued during his two week vacation period while the employee in Scenario 2 reflects terminating vacation for 90 hours. The following table compares the difference based on grade 12, step 6 employees.

Table 3
Comparison of Terminating Vacation Pay For Scenario 1 and 2

Scenario	Hourly Rate	Vacation Hours	Sick Leave Hours	Vacation Pay	Term. Vac. Pay	Term Sick (25%)	Total
1. 2 Week Vacation	$9.346	80	-0-	$747.68	$ -0-	$ -0-	$ 747.68
1. Lump Sum	9.346	14.62	153.69		136.64	359.10	495.74
Total 1		94.62	153.69	$747.68	$ 136.64	$359.10	$1243.42
2. Lump Sum	$9.346	90	150	$ -0-	$ 841.14	$350.48	$1191.62
Difference		4.62	3.69	$747.68	($704.50)	$ 8.62	$ 51.80

Although the total dollar effect of Scenario 1 over Scenario 2 is only $51.80, there is a significant difference, $704.50 or 42 percent, in the amount reflected in the state's accounting records for terminating vacation pay. Since termination pay is not appropriated, any termination pay decreases the available appropriation after vacancy savings is applied. The extent that individual agencies are inconsistent could have considerable impact on determining the amount of actual terminating vacation pay and thus the vacancy savings calculations. Since the state accounting records are inconsistent, the effect of termination pay on vacancy savings cannot be accurately calculated.

TERMINATION PAY

Table 4 shows the statewide actual amount paid for terminating sick pay and vacation pay for fiscal years 1981 through 1985 as recorded in SBAS. There was a considerable increase shown in SBAS between fiscal 1982 and 1983. Since fiscal 1983, termination pay recorded in SBAS has averaged about $2.4 million a year.

Table 4

Statewide Terminating Sick Pay and Vacation Pay

	1981	1982	1983	1984	1985
Term. Sick Leave	$ 701,196	$ 500,793	$ 668,827	$ 872,265	$1,009,17
Term. Vacation Pay	1,085,072	1,075,995	1,663,143	1,475,166	1,467,12
Total	$1,786,268	$1,576,788	$2,331,970	$2,347,431	$2,476,295

Note: These figures do not include benefits.

In both fiscal 1984 and 1985 termination pay, an unbudgeted expenditure, accounted for approximately 0.7 percent of the total personal services budgets. Therefore, when a vacancy savings rate of 4 percent is applied, the actual vacancy saving rate is 4.7 percent because of not budgeting termination pay.

POOLING

Some states, as reflected in our survey, have established a central pool that an agency may turn to for help when faced with a large termination pay out. A good example of how a pool would have saved an agency budget was when the new state auditor assumed office in January 1985. Six individuals terminated with a combined leave accrual of $73,154, or 5.6 percent of their fiscal 1985 personal services budget. The state auditors office ultimately received a $26,029 general fund supplemental with the balance of the accrual being paid out of the fiscal 1985 general fund appropriation which already included a vacancy savings factor of approximately 3.5 percent. The termination pay plus the vacancy savings amounts to 9.1 percent of the personal services budget with 7.1 percent being absorbed by the fiscal 1985 appropriation and the balance through the supplemental appropriation.

Small agencies are particularly vulnerable to termination pay, especially when the termination occurs within the last month of the fiscal year. In the first year of the biennium if the appropriation is insufficient to pay the termination costs the agency may seek a supplemental. However, should a termination occur in the last month of the second year of the biennium and the agency appropriation is insufficient, the agency simply cannot meet its obligation. Section 17-8-202, paragraph (2) of the Montana Codes Annotated, prohibits the Department of Administration from charging any appropriation unless the balance of the appropriation is available and adequate. If no appropriation is available for the payment of a claim, the department shall audit it and, if it is a valid claim, transmit it to the Governor for presentation to the legislature. The terminating employee has the right, according to Section 39-3-305, paragraphs (1) and (2), MCA, to receive all unpaid wages within three days unless he would otherwise receive the wages on the next regular payday for the pay period during which he terminated. These two laws obviously create a delima for a manager who is unfortunate enough to have an employee terminate in the last month of the second year of the biennium and insufficient appropriation available to pay the termination costs.

A statewide pool for such contingencies is an alternative to supplementals, special appropriations, and varying vacancy savings rates by agency.

SUMMARY

It is clear that vacancy savings exists within state government. Montana's legislature not only recognizes this fact, but has moved since the 1979 legislature, to use vacancy savings as an important budgeting tool. This is evidenced by the move from individual agency vacancy savings allocations by subcommittees in the 1979 legislative session to the application of "across the board" vacancy savings in the 1985 legislative session. Montana is among the majority states who recognize and deal with vacancy savings in the budgeting/appropriations process. Although the methods of applying vacancy savings vary from state to state, the underlying purpose for doing so is common to all. That is, to recognize the existence of vacancy savings and to account for and manage its effect on government resources.

The legislature is aware of some problems that result from the application of vacancy savings. This is evidenced by the passage of House Joint Resolution 43. The in-state survey responses indicated that agencies would prefer that no vacancy savings be applied or that a different method be developed for application in the budgeting process. However, as shown in the analysis, the problems surrounding vacancy savings are not limited to the legislature's application of vacancy savings to agency budgets. The state's accounting systems have capabilities beyond current operational mandates. If utilized fully, these systems could provide the information necessary to track and project vacancy savings. Also pointed out, are inconsistencies in recording information in SBAS which further compound the problems of accurately analyzing and projecting vacancy savings. The following issues and options may not end the debate surrounding the application of vacancy savings, however, action by the legislature on these issues will provide a clear direction for the future application of vacancy savings.

ISSUES

Issue 1: Should vacancy savings continue to be applied in the budgeting/appropriation process?

Option A: Continue to apply vacancy savings in the budgeting/appropriation process.

Option B: Do not apply vacancy savings in the budgeting/appropriations process.

Issue 2: If vacancy savings is to be applied, what method should be used to apply vacancy savings in the appropriation process?

Option A: Line item personal services and FTE levels in the appropriation and require a reversion of the unexpended balances. This reversion could be made at the end of each pay period, monthly, quarterly, or at the end of the fiscal year.

Option B: Apply vacancy savings to each agency budget based on historic experience with adjustments for unusual circumstances.

Option C: Apply vacancy savings to each agency budget based on an incremental method which scales the vacancy savings rate to the number of FTE in each agency. Under this method smaller agencies would have less vacancy savings applied than larger agencies.

Option D: Apply vacancy savings to each agency budget based on the global method as in the current biennium.

Option E: Adopt a method similar to the one used in New Hampshire, where personal services are fully funded within the appropriations act for all authorized FTE. Establish a central pool to which all vacancy savings realized would revert each pay period. Establish procedures to enable agencies with valid personal services problems to apply to the central pool for relief. The balance remaining in the pool at year end would revert to the appropriate fund.

Option F: Apply vacancy savings to each agency budget at a rate of 2.5 percent to 4 percent and establish a pool to receive reversion of any actual vacancy savings in excess of that budgeted. Allow agencies with valid personal service problems, (large termination payouts, less than anticipated vacancy savings, etc.,) to apply to for relief from funds in the pool. All or part of the balance remaining in the pool could revert to the appropriate fund at fiscal year-end.

Issue 3: Should a pool be established for termination pay?

Option A: Establish a central pool to pay terminating sick leave and vacation pay.

Option B: Take no action.

Issue 4: If vacancy savings is applied, should there be a way to accurately identify and track the vacancy savings that corresponds to the method of application?

Option A: Require the Office of Budget and Program Planning and the Department of Administration to develop specific vacancy savings recording procedures on the Statewide Budgeting and Accounting System, (SBAS) and the Payroll, Personnel, and Position Control System, (PPP) which correspond with approved operational plans. These specific procedures should include: the five information elements defined in the analysis section on page 22.

Option B: Take no action.

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