EXHIBIT 3
DATE 1/10/13
HB Budget Training

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THE BASIC PROCESS OF ESTABLISHING PERSONAL SERVICES FUNDING

- Assume all positions are filled
- Annualize other adjustments; pay plan, health insurance, etc.

Assumptions for all examples:

- 1.0 FTE at $20,000 base salary per year
- Legislative pay plan equals 10 percent per year adjustment.

- Account for vacancies

  $10,000 for Clerical FTE (expended amount)
  +10,000 Adjustment needed to fully fund personal services
  $20,000

- Annualize for legislative pay plan:

  $20,000 (base salary) *(1.10)*(1.10) = $24,200 Value of the position

  This $4,200 adjusts the salary by ten percent per year to annualize the pay plan, benefits will calculate off of the adjusted base salary.

- Effect of other adjustments – Upgrades, Broadband changes, settlements, etc.

  $20,000 base salary
  \+ 5,000 increase due to upgrade – becomes a supervisor
  $25,000 new base salary
  \+ 5,250 annualizes pay plan by ten percent per year
  $30,250 new base salary

  This position requires a $10,250 adjustment to account for upgrade and pay plan, benefits will calculate off of the adjusted base salary.

  - Comparison to actual expenditures:
    - A $10,000 personal services expenditure in FY 2012 is budgeted at $30,250 for FY 2014.

GETTING TO THE CAUSE OF THE STATEWIDE PRESENT LAW ADJUSTMENT

There are a number of factors in the calculation of the statewide present law adjustment (SWPLA) that mean that agencies with very similar issues could have very different dollar and percentage adjustments that can render the actual SWPLA number misleading or not particularly instructive. The following shows several example that underscore the need to get to the underlying issues.

Example A – Vacancies and Nonrecurring Base Year Expenditures

In this example, both agencies have been unable to fill a position, but one agency has used the funds freed up due to the vacancy to pay overtime and a retirement payout.

Vacancies and Nonrecurring Base Year Expenditures

	Budgeted	Base Year		2015 Biennium	
Employee	Salary/Ben	Agency A	Agency B	Agency A	Agency B
Employee A	$30,000	$30,000	$30,000	$30,000	$30,000
Employee B	30,000	30,000	30,000	30,000	30,000
Employee C	30,000	0	0	30,000	30,000
Overtime	0	0	5,000	0	0
Retirement Payout	0	0	10,000	0	0
PS Budgeted/Actual	$90,000	$60,000	$75,000	$90,000	$90,000
% Increase				50.0%	20.0%
$ Increase				$30,000	$15,000

Even though the percentage and total dollar change are very different, both agencies have the same fundamental issue:

- What is causing the vacancy?
- How has the agency attempted to fill the position?
- What impact has the vacancy had on the program's mission?

Example B – Vacancies, Nonrecurring Base Year Expenditures, Adjustments to Salaries

In this example, one agency has used the funds made available due to the vacancy not only to pay for overtime and a retirement benefit, but has to provide a market adjustment for two employees, making the difference in percentage increase even higher.

Vacancies, Nonrecurring Base Year Expenditures, Adjustments to Salaries					
	Budgeted	Base Year		2015 Biennium	
Employee	Salary/Ben	Agency A	Agency B	Agency A	Agency B
Employee A	$30,000	$30,000	$37,500	$30,000	$37,500
Employee B	30,000	30,000	37,500	30,000	37,500
Employee C	30,000	0	0	30,000	30,000
Overtime	0	0	5,000	0	0
Retirement Payout	0	0	10,000	0	0
PS Budgeted/Actual	$90,000	$60,000	$90,000	$90,000	$105,000
% Increase				50.0%	16.7%
$ Increase				$30,000	$15,000

Example C - Timing of Broadband Pay Adjustments

When an agency is able to provide increases to move employees to market will influence the amount of funds spend and the increase showing in the SWPLA.

Timing of Broadband Adjustments		
Scenario A - No Vacancies	Agency A	Agency B
Market for Position	$50,000	$50,000
Base Year Percent of Market	100.0%	70.0%
Implemented When	FY 2008	FY 2013
Base Year Salary	$50,000	$35,000
Base Year Expenditures	$50,000	$35,000
New Percent of Market	100.0%	80.0%
2015 Biennium Salary	$50,000	$40,000
% Increase	0.0%	14.3%
Scenario B - Vacancies	Agency A	Agency B
Market for Position	$50,000	$50,000
Base Year Percent of Market	100.0%	70.0%
Implemented When	FY 2008	FY 2013
Base Year Salary	$50,000	$35,000
Base Year Expenditures	$50,000	$25,000
New Percent of Market	100.0%	80.0%
2015 Biennium Salary	$50,000	$40,000
% Increase	0.0%	60.0%

Example D - Vacancy Savings Comparison

The following shows that the impact of the vacancy savings adjustment is shown in the base expenditures, but not in the salary increases in the SWPLA. The vacancy savings adjustment (negative number in the SWPLA) must be examined in concert with the salary adjustment figure shown.

In this example, timing of the broadband pay adjustments means that an agency paying much higher salaries shows no increase, while an agency paying lower salaries shows a large increase.

Impact of Vacancy Savings				
Base Budget	Budget	Base Expenditures	FY 2014 Budget	% Increase From Base
Total Salaries	$100,000	$96,000	$100,000	
Vacancy Savings (4%)	(4,000)			
Total	$96,000	$96,000	$100,000	4.2%
Vacancy Savings (4%)			(4,000)	
Total	$96,000	$96,000	$96,000	0.0%

SUMMARY

The When examining the SWPLAs for personal services, the underlying issues may not be manifest in the actual SWPLA. Examining those issues will alert the subcommittees to why things are changing, including but not limited to:

- The difference between budgeted FTE hours and actual hours paid for, and the reasons for the difference (inability to recruit, need to save money for a pending retirement, slush fund, etc.)
- Need for overtime if positions are vacant and whether overtime was utilized
- Pay adjustments given outside any legislative pay plan and why
- Pending retirement payouts that must be funded from existing funds
- The resources available to an agency that mean they have greater leeway to offer salaries close to market, etc.