



North Dakota Legislative Council

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UNDERFUNDING SALARIES AND BENEFITS BUDGETS IN OTHER STATES

This memorandum provides information regarding how selected states underfund government employee salaries and benefits budgets.

MONTANA LEGISLATIVE SURVEY

In Section 10 of House Bill No. 424 ([Appendix A](#)), the 2023 Montana State Legislature directed the Montana Legislative Fiscal Division to review the Montana state government budgeting process, primarily related to the Montana personal services budget for state employee salaries and benefits. As part of the review, the Montana Legislative Fiscal Division surveyed legislative fiscal officers in each state to evaluate other state personal service budgets and processes, how budgets are developed, and what roles each state's legislature and governor have in the budgeting process.

Of the 49 states that were sent surveys, the Montana Legislative Fiscal Division received 22 responses. In October 2023, the Montana Legislative Fiscal Division provided each responding state with the submitted surveys ([Appendix B](#)). North Dakota's response is included on pages 34 through 37. A summary of the survey responses ([Appendix C](#)) was also provided. The North Dakota Legislative Council also requested information from Montana regarding its personal services budget.

UNDERFUNDING

Of the 22 states that submitted surveys to the Montana Legislative Fiscal Division, 16 provided examples of how their state underfunds agency personal services budgets for state employee salaries and benefits. Below are selected responses from submitted surveys that may be of interest when budgeting for state employee related items in North Dakota.

Georgia - Lapse Factor

The Georgia General Assembly provides funding for salary increases only for filled full-time equivalent (FTE) positions. Agency budgets are all underfunded by a "lapse factor" which has historically been 3 to 5 percent or more of agency salary funding. Agencies are expected to manage the underfunding through natural attrition and hiring.

Idaho - No Compensation Increases for Vacant FTE Positions

The Idaho Legislature does not budget for salary or fringe benefit increases for vacant FTE positions, but does budget for base salaries of vacant positions.

Montana - Vacancy Savings Adjustment

The Montana Legislature applies a "vacancy savings adjustment" to each agency budget. The percentage applied to each budget has varied, but the intent is to recognize that, generally, an agency will not use 100 percent of its fully-funded personal services budget. Montana has found this practice can be challenging for small agencies with very few FTE positions and has resulted in large agencies sometimes requesting a greater number of positions than they need in order to counteract the vacancy savings adjustment.

New Jersey - Unfunded FTE Positions

The New Jersey Legislature budgets for vacant FTE positions at the same level as filled FTE positions, unless the position is 100 percent unfunded. If the position is unfunded and the agency wishes to fill the position, the agency must use vacancy savings realized during the fiscal year. This is the same process used in North Dakota.

Texas - Previous Budget Vacancies

The Texas Legislature prepares the state personal services budget based primarily on prior biennium salaries and benefits spending, resulting in agency budgets being underfunded based on historical vacancy trends and anticipated future employee turnover.

Utah - Discount Factor

The Utah State Legislature prepares the personal service budget by using a "discount factor" that estimates turnover savings by evaluating the prior budget, less actual personnel expenses for each agency.

Wisconsin - Turnover Reduction Calculation

The Wisconsin Legislature applies a "turnover reduction" calculation to each agency budget to underfund the agency's salaries and benefits funding in anticipation of vacancy savings. Historically, for agencies with more than 50 FTE positions, the turnover reduction has been 3 percent of permanent position salaries, with a lower rate permitted for agencies that operate state facilities on a 24-hour, 7-days a week, basis, such as prisons and mental health facilities. During the 2021-23 biennium, the Wisconsin Legislature increased the percentage to 4 percent, then increased it to 5 percent for the 2023-25 biennium.

Wisconsin's budgeting process of using the number of authorized FTE positions in an agency to estimate vacancy savings is similar to the budgeting process North Dakota used for the new and vacant FTE funding pool for the 2023-25 biennium.

Wisconsin - Higher Education FTE Positions

The Wisconsin Legislature does not provide funding for vacant FTE positions of an agency in the University of Wisconsin System but does provide funding for vacant FTE positions in agencies not in the University of Wisconsin System.

BUDGET AUTHORITY AND PROCESSES

Surveys submitted by participating states included the following information related to authority of the legislative and executive branches when preparing state personal services budgets for employee salaries and wages:

Arkansas

For each agency, the Arkansas General Assembly determines the total number of FTE positions authorized and the classification and title authorized for each position. The executive branch may request changes during the fiscal year to the number of FTE positions available to an agency and the classifications assigned to the positions, but the General Assembly must approve the changes. The executive branch has limited flexibility within paygrades and within state statute to provide salary increases within the paygrade scale. These practices are generally similar to those established for North Dakota agencies.

Iowa

The Iowa General Assembly allows state agencies to maintain authorization for unfunded FTE positions in the event there is an opportunity to fill the positions with alternative funding sources, such as new federal funding that becomes available. North Dakota also uses this budgeting practice.

Mississippi

Agencies are not allowed to use their personal services funding for other expenses without approval from the Mississippi Legislature or when the legislature is not in session, from the Legislative Budget Office and the chairmen of the House Appropriation Committee and Senate Appropriation Committee. This is similar to North Dakota's budget process, which requires approval from the Legislative Assembly during session or the Emergency Commission and Budget Section during the interim.

The Mississippi Legislative Budget Office surveys state agencies during the legislative session to determine the number of filled and vacant FTE positions and to evaluate the duration in which the positions have been vacant to make decisions about possibly decreasing the agency's personal services budget. The Mississippi Legislative Budget Office recently started surveying state agencies throughout the interim to track vacancies better and have more accurate data for preparing personal services budgets.

North Dakota surveys agencies regarding vacant FTE positions in December of each even-numbered year and provides a report to the Legislative Assembly in January during legislative session.

Montana

The Montana Legislature has considered various salaries and benefits budget underfunding techniques, including exempting the first 20 FTE positions in each agency when applying a "vacancy savings adjustment." Under this proposal, an average cost for 20 FTE positions in each agency could be excluded from the vacancy savings adjustment calculation. This budgeting technique has not been adopted.

Another underfunding technique considered by the Montana Legislature was to use a sliding scale to apply an underfunding percentage to each agency based on the number of authorized FTE positions in the agency. For example, an agency with 0 to 20 FTE positions would be assessed a 0 percent rate, an agency with 21 to 50 FTE positions would be assessed a 1 percent rate, an agency with 51 to 100 FTE positions would be assessed a 2 percent rate, etc. This process is similar to the budgeting process North Dakota used for the new and vacant FTE funding pool for the 2023-25 biennium. This budgeting technique has not been adopted.

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