



Managing the Personnel Budgeting Process

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Given the revenue constraints most governments are facing, increased emphasis is being placed on accurate expenditure projections. Since salaries make up the greatest portion of the expenditure budget, it is logical to apply forecasting techniques that can provide a correct picture of where payroll dollars are headed. Another consequence of slowing revenues is the need for greater control over expenditures. Governments can use various mechanisms to manage headcount levels in light of cost constraints.

VACANCY ADJUSTMENTS

Budget payroll projections are based on the estimate of budgeted positions for the year, so providing the correct number of budgeted positions is important. Not all positions will be filled 52 weeks per year, so expected vacancies need to be addressed in the salary budget. In doing so, however, governments should exercise caution and consider developing policies or rules of procedure on how to treat these vacancies. If the government fully funds salaries associated with vacancies, it is building some potential cushion into the budget that may come in handy to make up for shortfalls in other areas at year's end. If it does not fully fund these salaries, it builds in much less flexibility. In forecasting open positions, organizations should keep in mind that techni-

cal or higher level positions are usually harder to fill.

Start Dates. Expected start dates for open positions may vary. Keeping track of those assumptions is important because an actual start date that differs from the budgeted date could cause a large dollar variance.

Past Trends. Since most governments have some vacancies during the year, it may be prudent to include a hiring lag in the budget. One way to determine the dollar impact of this lag might be to look at past trends (average filled positions per year versus average vacant positions). This analysis can be done at the department level or even broken out by individual position.

Frozen or Eliminated Positions. Given the nature of the current economy, many open positions are intentionally not being filled. While some of these positions may be eliminated before the fiscal year begins, other positions may be temporarily frozen once the fiscal year begins. The dollars saved by not filling these positions should be quantified (see Exhibit 1). If the positions being eliminated are currently filled, then the budget might also need to include severance payouts.

Funded Versus Unfunded Positions. Not every position that is requested gets approved. Approved, or funded, positions — along with the money to pay for them — are included

Exhibit I: Staffing Summary

New Positions

Department	No.	Position	Comments
Business & Economic Development	1	Business & Development Coordinator	Position was reinstated from FY 2007.
Fire Rescue & Beach Safety	5	Firefighter	Five new firefighter positions were added as part of the city manager's public safety program for FY 2009.
Public Utilities	1	Utility Program Coordinator	Position was added to provide maintenance service to the downtown CRA.

Frozen Positions

Department/Office	Program	Title	Total Savings*
Budget & Procurement Services	Budget & Procurement Services	Management/Budget Analyst**	\$16,075
Human Resources	Administration	Human Resources Manager	\$45,118
Building & Engineering Services	Permit Processing	Mechanical Plans Examiner	\$80,810
Police	Quartermaster Section	Property Clerk	\$36,401
Fire Rescue & Beach Safety	Administration	Battalion Chief	\$120,076
Fire Rescue & Beach Safety	Operations	Battalion Chief	\$126,196

* Total savings reflects minimum base salary plus social security benefits only.

** This position will be frozen for a 6-month period during FY2009.

Deleted Positions

Department/Office	Program	Title	Total Savings*
City Attorney's Office	City Attorney's Office	Legal Secretary	\$48,118
Public Relations & TV Production	Public Relations & TV Production	Public Relations Manager	\$78,235
Business & Economic Development	Corridor Development	Director, Corridor Development	\$103,134
City Clerk's Office	Records & Archive Management	Mail Courier	\$29,104
Information Technology	Communications & Public Safety Systems	Communications Technology Manager	\$70,080
Building & Engineering Services	Field Inspection Services	Building Inspector	\$50,332
Housing & Community Redevelopment	Neighborhood Resources	Secretary	\$37,304
Housing & Community Redevelopment	Neighborhood Resources	Director, Housing & Community Redevelopment	\$129,719
Housing & Community Redevelopment	Neighborhood Resources	Neighborhood Resources Specialist	\$61,397
Police	Records Section	Police Captain	\$123,094
Police	Quartermaster Section	Police Captain**	—

* Total savings reflects minimum base salary plus social security benefits only.

** This position will be frozen for a 6-month period during FY2009.

** This position was frozen for FY2008 and, as a result, unfunded for FY2009.

Exhibit 2: Population to Employee Ratio Comparison for the City of Cadillac, Michigan

Surrounding Communities	Population	Employees	Ratio
Alpena	11,304	83	1:136
Big Rapids	10,849	86	1:126
Mainstee	6,586	63	1:105
Sault St. Marie	16,542	156	1:106
Traverse City	14,532	214	1:68
Cadillac	10,000	79	1:127

in the budget. Unfunded positions, or those that were requested but not approved, should be noted, especially if management decides at some point to reconsider some of those denied position requests.

Departments often include new positions in their budget requests, typically in the departmental request stage. In detailing new positions in the final budget presentation, it is useful to categorize them by funded versus unfunded. This way, budget decision makers can clearly communicate those unfilled positions that do not have budget dollars available. The budgetary implications of not funding those positions could also be shown.

COLLECTIVE BARGAINING UNITS

When the personnel budget is being developed, the positions that are covered under collective bargaining should be noted. The group name and representation should be identified, along with the beginning and end date of the contract.

Contract Settlements. Be aware of key dates in contract provisions. For instance, there may be lagging settlement dates, even after the end date of the contract. Also, it may be prudent to set aside reserves for contract settlements, especially if it is anticipated that

the new terms may be less favorable than the existing contracts.

Other Considerations. Some union agreements include such items as holiday premiums, shift differentials, uniform allowances, and license/certification pay. These should also be accounted for in the budget, as failure to do so could lead to significant cost overruns.

THE IMPACT OF INFLATION

Inflation can have a large impact on payroll forecasting. Cost of living adjustments need to be made when forecasting personnel costs. The Consumer Price Index for Urban Consumers (CPI-U) is the cost of living index used most often for determining salary increases. The CPI-U is a broad measure of consumer inflation. The Bureau of Labor Statistics' Employment Cost index might be a better index for this purpose, as it is a measure of the change in the cost of labor, free from the influence of employment shifts among occupations and industries. The compensation series includes changes in wages and salaries and employer costs for employee benefits.

OPTIMAL STAFFING LEVEL

One of the biggest challenges a government will face is determining the optimal level of staff needed to meet the organization's goals and objectives.

All jurisdictions face the challenge of employing full-time staff for peak workloads and then having idle capacity and higher costs during non-peak times. But a government that employs just enough staff for the non-peak times faces the problem of not being able to get everything done during peaks, as well as increased errors by employees who don't have enough time to be thorough. There are several methods a government can employ to obtain its optimal staffing level.

Comparison to Other Governments. Some governments use a population to employee ratio as an indication of proper staffing levels. Jurisdictions can compare themselves with surrounding communities and even specific departments, although the effects of privatization can skew such a comparison. Several factors enter into the analysis of the employee per capita ratio, but in general, the higher the number, the more efficient a city is in servicing all its residents (see Exhibit 2).

Staffing Guidelines. The organization might have specific policy guidelines that will serve as a basis for determining hiring levels. Some school districts set up support staffing sheets to specify what personnel can be hired (see Exhibit 3). Hiring levels might be based on points such as number of schools in a district, the size of an individual school in square feet, or a school's enrollment.

Classifying Positions by Goal. Hiring decisions should be made to fulfill strategic initiatives, based on clear goals and specific action plans that have been established to help accomplish those goals. As an example, in a strategic effort to increase the number

Exhibit 3: School-Based Cost Center Budget Guidelines — Support Staffing Sheet

	Elementary	Middle	High
Principal	1 per School	0-999=2	0-749=1
Assistant Principal	0-1,199=1	0-999=2	0-749=1
	1,200-1,999=2	1,000-1,499=3	750-1,199=2
	2,000-2,500=3	1,500-1,999=4	1,200-1,999=3
		2,000-2,499=5	2,000-2,499=4
			2,500-2,999=5
		3,000-3,499=6	
Counselor	0-749=1	0-499=1	0-374=1
	750-999=1.5	500-1,249=2	375-749=2
	1,000-1,249=2	1,250-1,749=3	750-1,124=3
	1,250-1,499=2.5	1,750-2,249=4	1,125-1,499=4
	1,500-1,749=3	2,250-2,749=5	1,500-1,874=5
			1,875-2,249=6
			2,250-2,625=7
		2,626-2,999=8	
Counselor Clerk		1 per School	1 per School
Media Specialist	1 per School	1 per School	0-899=1
			900 and Up=2
Media Clerk	0-599=0.5	0-999=1	1 per School
	600 and Up=1	1,000 and Up = 2	
Secretarial/Clerical	1 Principal's Secretary	1 Principal's Secretary	1 Principal's Secretary
	1 Data Clerk	1 Data Clerk	1 Data Clerk
	0-799=1 Office Clerk	0-999=1 Office Clerk	0-999=2 Office Clerks
	800-1,199=2 Office Clerks	1,000-1,199=2 Office Clerks	1,000-1,649=3 Office Clerks
	1,200-1,599=3 Office Clerks	1,200-1,699=3 Office Clerks	1,650-2,299=4 Office Clerks
	1,600-1,999=4 Office Clerks	1,700-2,199=4 Office Clerks	2,300-2,949=5 Office Clerks
			2,950-3,599=6 Office Clerks
		3,600-4,299=7 Office Clerks	
School Nurse			14 System-wide (Including 5 Special Education Nurses)
Clinic Aide	1 per School	0.49	0.49
Custodian	1 per 21,000 Square Feet	1 per 21,000 Square Feet	1 per 21,000 Square Feet
			+ 1 Stadium Custodian
Resource Officer		1 per School	1 per School

of full-time faculty positions, a college added 4.5 full-time equivalent (FTE) positions. The new faculty positions were budgeted in support of a priority initiative for one of the college's goals, seeking to develop and strengthen all aspects of programs and services. The new positions also supported two other priority initiatives for another goal

regarding recruiting and retaining faculty as well as integrating diversity and multiculturalism into employment practices and professional development.

Most governments budget personnel by department. However, a number of governments have moved beyond this traditional approach and started to classify positions in other ways, which

can help the government better communicate how certain initiatives or goals are being accomplished. The college lists positions by functional area, also indicating the division in which the service is provided (see Exhibit 4).

Use of Volunteers. It is becoming increasingly common to encourage the use of volunteers to fulfill certain

Exhibit 4: Full-Time Equivalent (FTE) Positions by Function

Function	Division	Actual	Actual	Budget	Vacant	New	Total
		2006	2007	2008			
Instructional	Academic Affairs	182.0	181.9	181.9	8.0	5.0	194.9
Academic Support	Academic Affairs	98.1	100.9	100.9	7.0	1.4	109.3
Student Support	Student Development	94.5	93.5	93.5	7.0	1.0	101.5
Plant Operations	Business Affairs	41.0	43.0	43.0	3.0	--	46.0
Institutional Support	President's Office, Business Affairs, Advancement, Corporate Services	117.0	117.0	117.0	7.0	2.0	126.0
Auxiliary Enterprises	Business Affairs	13.0	13.0	13.0	0.0	--	13.0
Total FTE Positions		545.6	549.3	549.3	32.0	9.4	590.7

programs and services. For example, fire departments frequently use volunteers. Volunteer hours may be explicitly forecast, just as the organization's paid employee's hours are.

Seasonal and Temporary Positions.

Some divisions or jurisdictions use a number of part-time or seasonal employees (e.g., park districts). Just as managed competition or privatization are service delivery options, the use of part-time vs. full-time employees is an alternative for in-house staffing.

For example, the Arlington Heights, Illinois, Park District has three employee classifications. Full-time employees are non-clerical employees who work 2,080 hours per year or clerical employees who work 1,950 hours per year. These employees receive a range of employee benefits, including sick and vacation time and health insurance, and they contribute to and may eventually collect benefits from the Illinois Municipal Retirement Fund. The second classification is part-time employees, consisting of regular part-time employees — who are regularly scheduled to work fewer than 40 hours per week in a primary position on a year-round, continuous basis — and short-term part-time employees —

who are employed to fill a specific position for a seasonal, temporary or limited period of time, generally less than three consecutive quarters during a calendar year. Some regular part-time employees may participate in the retirement fund, if they work more than 1,000 hours during the calendar year. The third classification is part-time health insurance

eligible tennis professionals. These employees are scheduled to work at least 1,450 court hours per calendar year to maintain their eligibility to participate in the group health insurance program. They are considered part-time employees regarding retirement fund eligibility. (See Exhibit 5 for the park district's employee breakout.)

Exhibit 5: Employee Headcount by Type

	Administration & Finance	Parks & Planning	Recreation & Facilities	Total
2007-2008 Budget				
Full-Time/In Retirement Fund	24	45	33	126
Part-Time/In Retirement Fund	8	1	26	43
Part-Time Regular and Short Term (Not In Retirement Fund)	22	31	995	1,070
Total	54	77	1,054	1,239
Year-End Estimate (at 1/31/08)				
Full-Time/In Retirement Fund	22	45	31	122
Part-Time/In Retirement Fund	5	1	26	39
Part-Time Regular and Short Term (Not In Retirement Fund)	20	31	983	1,054
Total	47	77	1,040	1,168
2008-2009 Budget				
Full-Time/In Retirement Fund	23	45	34	126
Part-Time/In Retirement Fund	6	1	26	40
Part-Time Regular and Short Term (Not In Retirement Fund)	21	30	1,015	1,087
Total	50	76	1,075	1,201

Exhibit 6: Salary Tables, May 1, 2009, through April 30, 2010

Range	Annualized			Hourly		
	Minimum	Midrange	Maximum	Minimum	Midrange	Maximum
1	\$26,853	\$33,779	\$40,685	\$12.91	\$16.24	\$19.56
2	\$27,893	\$35,069	\$42,245	\$13.41	\$16.86	\$20.31
3	\$29,016	\$36,483	\$43,950	\$13.95	\$17.54	\$21.13
4	\$30,243	\$38,064	\$45,885	\$14.54	\$18.30	\$22.06
5	\$31,637	\$39,790	\$47,944	\$15.21	\$19.13	\$23.05
6	\$33,155	\$41,704	\$50,232	\$15.94	\$20.05	\$24.15
7	\$34,840	\$43,826	\$52,790	\$16.75	\$21.07	\$25.38
8	\$36,650	\$46,093	\$55,515	\$17.62	\$22.16	\$26.69
9	\$38,646	\$48,630	\$58,614	\$18.58	\$23.38	\$28.18
10	\$40,851	\$51,397	\$61,922	\$19.64	\$24.71	\$29.77
11	\$43,306	\$54,475	\$65,645	\$20.82	\$26.19	\$31.56
12	\$46,010	\$57,866	\$69,722	\$22.12	\$27.82	\$33.52
Police*	\$47,965	\$60,778	\$73,570	\$23.06	\$29.22	\$35.37
13	\$48,942	\$61,568	\$74,173	\$23.53	\$29.60	\$35.66
14	\$52,187	\$65,624	\$79,040	\$25.09	\$31.55	\$38.00
15	\$55,744	\$70,117	\$84,469	\$26.80	\$33.71	\$40.61
16	\$59,654	\$75,046	\$90,418	\$28.68	\$36.08	\$43.47
17	\$63,960	\$80,475	\$96,970	\$30.75	\$38.69	\$46.62
18	\$68,723	\$86,445	\$104,146	\$33.04	\$41.56	\$50.07
19	\$73,944	\$92,997	\$112,050	\$35.55	\$44.71	\$53.87
20	\$79,706	\$100,235	\$120,744	\$38.32	\$48.19	\$62.67
21	\$86,008	\$108,181	\$130,354	\$41.35	\$52.01	\$62.67
22	\$92,976	\$116,938	\$140,878	\$44.70	\$56.22	\$67.73
23	\$100,610	\$126,526	\$152,422	\$48.37	\$60.83	\$73.28

*Police Officers/Fraternal Order of Police Contract.

COMPENSATION APPROACHES

Along with determining the proper staffing level comes the decision on compensation. Almost all governments have developed compensation systems that are formulated to ensure commitment to the organization's mission and to provide employees with a developmental roadmap for advancement in the organization — again, within the parameters of achieving the organization's goals and objectives. These sys-

tems are obviously organized to maximize employee retention and attract committed employees to the organization. When analyzing budgeted position compensation, the following items should be considered.

Step and Grade Systems. Many governments use a salary range or grade structure for budgeting individual positions (see Exhibit 6). Employees rise through their given salary ranges as their tenure increases. Average years of

service for employees within specific departments can then be calculated; this information can be used to identify areas that need to be improved. However, many organizations have made an effort to move away from longevity-based systems in favor of a pay for performance system.

Pay for Performance. Pay for performance is aimed at fostering productivity in the workplace. The anticipated impact comes from the ability to reward performance and thereby attract and retain quality employees. Pay for performance faces a number of challenges, including the cost of monitoring employee performance and the design of a useful appraisal system.

Wage Surveys. Determining the average wage increases in other jurisdictions can help a government determine the appropriate level for annual increases. This information can be obtained by subscribing to government- or industry-specific journals, using a consultant, or looking at budget documents. Another approach is to simply contact neighboring or peer governments and ask for the information. It is a good idea to include cost of living adjustments in the salary increase information.

PERSONNEL CATEGORIZATION

A traditional way of approaching the personnel budget is the view that each position directly affects the operating budget. However, this may not always be true.

Capital Versus Operating Heads. For instance, staff may be assigned to capital work rather than operating, thus

limiting the impact on the operating budget. Consideration should be given to the percentage of time that an individual may be working on capital versus operating projects.

Cost Allocation. A similar approach to moving personnel expenses out of the operating budget is through the use of a well-developed cost allocation plan. Such a plan allows the government to shift costs to the specific activity. Care should be taken that if a new position is created based on an outside funding source that the source is not a one-time occurrence.

Privatization or Shared Services. Governments are continually trying to provide high-quality services within the

constraints of limited financial resources. To save money or improve services, many governments have turned to the private sector or to other governments as an alternative to in-house service delivery or staffing. One choice within potential service delivery options is managed competition, in which governments require in-house service units to compete with external providers. Cooperating with other governments to share delivery of services can also be advantageous. The services most often provided collaboratively include health and human services, transit systems, airports, sewage collection, disposal of hazardous wastes, libraries, tax assessing, and title records. The GFOA's Governmental

Budgeting and Fiscal Policy Committee has developed two best practices on managed competition as a service delivery option and alternative service delivery (shared services), *Managed Competition as a Service Delivery Option* and *Alternative Service Delivery: Shared Services* (both available on the GFOA's Web site at www.gfoa.org). |

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