Positions, Vacancy Factors and Legislative Control

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AS 39.25 (The State Personnel Act) establishes the system of personnel administration within the state and describes the Governor's authority to create and appoint positions within the executive branch. A count of positions [i.e., Position Control Numbers (PCNs)] does not necessarily equate to a head count of actual employees. More than one person can fill a single PCN, and many PCNs are vacant at some time during the fiscal year.

Legislators frequently express concern over the "unauthorized" addition of positions, as well as confusion regarding how positions are funded. There are a variety of reasons for both concern and confusion.

- Positions are difficult to delete.
- Positions not authorized by the legislature are added or deleted every year (in Management Plan and beyond).
- Legislators are often surprised when agencies claim that services cannot be performed because they have insufficient funding to fill "fully funded" vacant positions.

The following discussion addresses these issues. The intent is to give legislators (and staff) information so they can better understand budgetary issues involving positions. Before delving into a discussion of positions, the reader will need to be familiar with the following definitions.

- **Position Control Number (PCN) -** A PCN is a six- to eight-character code identifying a position. PCNs for authorized positions are assigned by the Division of Personnel and Labor Relations (henceforth referred to as the "Division of Personnel"). Exempt positions usually contain an "X" and exempt temporary positions usually contain a "T" in the third character of the PCN. The Personal Services Module of the executive branch budget system identifies new position requests (and positions which are not authorized) by using a non-numeric character "#" as the first character of a PCN, and assigns a sequential number, e.g., #123. If the position is authorized by the legislature, the Division of Personnel will assign an authorized number at the time the position is allocated to a job classification. Occasionally, a position will contain a "?" as the first character. This identifies a new position that has not been established through the Division of Personnel but has been authorized by the legislature.
- **Vacancy Factor –** The percentage by which personal services are purposely underfunded. In theory, a vacancy factor should account for savings attributable to employee turnover, and the budget should include sufficient funds to fill all positions listed in the budget (less the savings attributable to turnover). In reality, high vacancy factors, in combination with other complications, often force agencies to leave positions unfilled in the long-term. Minimum and maximum vacancy factors are suggested by the Office of Management and Budget (OMB) and increase with the number of full-time positions.

LEGISLATIVE CONTROL OVER POSITIONS

1. Can positions be created that have not been authorized by the legislature?

The short answer is "Yes". According to the Alaska Administrative Manual (AAM 250.020), the following should occur to create positions:

- A requesting agency needs to obtain budgetary approval from OMB;

- The Division of Personnel must establish the position by assigning a position control number (PCN), job classification title, location, salary range, bargaining unit, overtime indicator, position type, and the agency that will pay the salary; and
- An agency may not appoint an individual to a position until the position has been authorized by the legislature or by OMB.

2. **Can the legislature force a department to lay off a person by cutting a PCN and/or its associated funding?**

Although the specific PCN will be deleted, the *person* in the position may be unaffected. Instead of a lay off, the department may choose, or be required by collective bargaining agreement, to place the person:

- in an existing, vacant PCN;
- in a reclassified PCN;
- in another PCN after "bumping" that PCN's incumbent; or
- in a newly-created PCN.

Cutting funding for a position forces an agency to make choices: should cuts be made elsewhere, in other line items, in other allocations, or to other positions, so the person can be retained? Sometimes an agency can shift the impact of a cut by forcing others to pay. For example, cuts to a Commissioner's Office can be passed to other divisions if the Commissioner's Office increases its collection of Inter-Agency Receipts.

3. **Can the legislature gain more control over the creation of positions?**

The legislature could adopt a bill preventing agencies from creating positions not authorized in the budget. However, the undesirable consequences may far outweigh the perceived advantages.

- **Funded services may not be provided.** The legislature may appropriate funding for a purpose but an agency may have insufficient staff to conduct business.
- **Costs may increase** because agencies may have to contract for services instead of being able to do them in-house or may have to pay overtime to existing employees.
- **More legislative time could be needed** to approve the addition of "emergency" positions. (Budgets are prepared long in advance; unforeseen circumstances would almost certainly require a process for adding unbudgeted positions.)
- **Appropriations bills would need to be restructured** to include positions. This would not be technically difficult, but would bring up issues such as the ability to move positions across appropriation and agency lines.

FUNDING POSITIONS AUTHORIZED BY THE LEGISLATURE

4. **Why does cutting funding for a vacant PCN affect the level of service an agency can provide? Conversely, how can a department have insufficient funding to fill positions that are listed in the budget?**

There are a variety of reasons an agency may have insufficient funding for budgeted positions, including:

- **Increased non-personal services expenditures**. Unfunded fixed costs offer a clear example of a situation in which an agency may have to use personal services money for a different purpose. Other situations are less clear, but occur frequently. For example, a Commissioner's Office contains a budget request for Inter-Agency (I/A) receipts to fund a new Deputy Commissioner position. The funding source indicates that funding for this position will come from outside the Commissioner's Office. Unless additional funding is approved in the divisions from which the funding comes, those divisions must absorb the cost of the position—essentially, the divisions receive an unallocated reduction that may leave them with insufficient funding to fill their own positions. This problem arises in a number of ways, including paying the Department of Administration for core services, Law for legal assistance, or the State Equipment Fleet for vehicle costs. This situation is not always easy to spot; I/A receipts may not always be budgeted.

- **Step increases for existing employees**. While pay increases due to bargaining unit agreements are typically built into the base budget, departments are generally expected to absorb the cost of merit increases. The theory is that replacing a stepped-out employee with a low-step employee provides the money to pay the step increases for several other employees. The theory works if departing workers are replaced by workers with far less experience, but it doesn't work when turnover is low or when replacements come in at advanced steps. Generally speaking, agencies frequently must absorb much of the cost of merit increases.
- **Hollow authorization.** A personal services report that shows a low vacancy rate may "hide" a problem if budgeted funding sources fail to materialize. For example, excess federal authorization overstates the amount of cash available to fill positions.
- **Reclassifications** may increase the cost for existing employees. Sometimes the legislature approves an increment to pay for job reclassifications. Sometimes agencies must absorb these costs.
- **Geographic Differentials** change the cost of a position. For example, moving a position from Anchorage to Kotzebue can increase the cost of the position by more than 50%.
- **Increased charges for DOA's "core services".** Charges for core services provided by the Department of Administration—including Risk Management, Personnel, Information Technology Services, the Public Building Fund and the Working Reserve Account—vary, and increases may have to be absorbed by departments.
- **Vacancy factors** (discussed below).

5. **If an agency cannot afford to fill a position, why the reluctance to delete it?** There are several reasons an agency may not delete an unfilled PCN.
    - Gaining legislative and OMB approval to add a PCN is not a painless process.
    - The manager may believe there is a need for the PCN and hope to eventually be able to afford it. For instance, if one-time costs decrease (such as one-time legal fees), the manager may be able to hire a person in the next fiscal year.
    - An agency may want to carry extra positions so that it can transfer personal services funding to other line items.

TRANSFERS TO AND FROM THE PERSONAL SERVICES LINE

6. **Why is funding transferred between the personal services line and other lines?** If an agency needs funding to pay for non-personal services costs, funding may be transferred from the personal services line to other line items by Revised Program (RP). This can occur in Management Plan or can occur after the Management Plan has been submitted.

7. **Why is it important to analyze personal services transfers in the budget?** Transfers to and from the personal services line can signal "vacancy games" in an allocation. Funding moved from the personal services line to the services line may simply indicate that the department

- is having difficulty recruiting and will contract for the services, or
- must use the funding to pay increased contractual costs for leases, IT services, outside vendor costs, etc.

Some transfers, particularly those that are reversed before submitting the budget to the legislature, may indicate a lack of intent to follow the budget as submitted. When an agency consistently moves funding to and from the personal services line, it may be done to avoid deleting vacant positions. This may be important to those who place great importance on position counts and/or those who believe that the budget should be the best possible representation of how an agency expects to spend the money appropriated to it.

VACANCY FACTOR EXPLANATION

8. **What is a vacancy factor?**

A vacancy factor is the percentage by which personal services are purposely underfunded.

9. **Why are vacancy factors used in agency budgets?**

Vacancy factors reflect the expectation that the process of filling vacated positions is not instantaneous. All positions cannot be filled 100% of the time during the fiscal year, so personal services do not need to be 100% funded.

10. **What would happen if vacancy factors were not included in the budget?**

Full funding may give an agency more money than is needed to pay for budgeted positions.

11. **Who determines allowable vacancy factors?**

The Office of Management and Budget (OMB) provides the following suggested minimum and maximum vacancy factor guidelines:

Number of Full Time Positions	Minimum Vacancy Factor *	Maximum Vacancy Factor
10 or less	0%	3%
11 to 20	1%	4%
21 to 30	2%	5%
31 to 50	3%	6%
51 plus	4%	7%

*Per OMB's 2015 Operating Instructions, the minimum vacancy factor is optional.

12. **Where do I find the vacancy factor for an allocation?**

The vacancy factor for each allocation can be found in the personal services report in the Governor's Budget Detail books and on OMB's website.

13. **When is the vacancy factor calculated?**

Departments reconcile (or balance) personal services in the Automated Budget System (ABS) three times a year.

- Management Plan reflects the anticipated position costs in the current fiscal year and may include new positions which were added with OMB approval after the authorized budget.
- The Governor's December 15th request reflects the projected position costs for the next fiscal year and may include future position requests.
- Vacancy factors are also reconciled when the Governor's Amended budget is submitted.

14. **Why do vacancy factors differ so much?** Reasons include the following:

- **Allocation size.** Typically, larger allocations have higher vacancy factors. A zero percent vacancy factor may be appropriate for an allocation with few employees, but one can reasonably expect an allocation with 100 employees to experience turnover that is equivalent (in terms of cost) to having several vacant positions throughout the year. Forcing an allocation with three employees to maintain a 5% vacancy factor may mean that funding from another line item will need to be transferred to the personal services line to pay the full costs of the three positions.
- **High turnover and recruitment difficulties.** Some allocations experience higher turnover and/or more difficulty recruiting than other allocations (frequently where there are highly specialized positions). These allocations may be able to carry a higher vacancy factor than allocations that typically have little turnover and/or fill positions quickly.
- **Anticipated increase in another expenditure line.** It is also common for a department to choose to hold a position vacant for a portion of the year to meet anticipated increases in another expenditure line. For example, a position may be held vacant to meet increased lease costs.
- **A vacancy factor is, to a large extent, an arbitrary number,** as discussed in the following paragraph.

15. **How is a vacancy factor determined for an allocation?** The personal services module within the ABS details each budgeted position and the associated cost (salary and benefits) by allocation. Each position is reconciled for position status, bargaining unit, job class title, range, step, location, retirement, funding sources and other factors.

Once the reconciliation process is complete, a department will know the total personal services cost for each allocation, assuming that every position was filled for the full year. This amount is referred to as the pre-vacancy amount.

The agency then reviews how much money is available to each allocation, and how much of that money is required for nonpersonal services. Subtracting projected nonpersonal service costs from available funding gives an amount that is available for personal services. Alternately, the agency simply uses the amount appropriated to an allocation's personal services line. The amount available for personal services is the post-vacancy amount. In either case, the agency balances personal services by reducing the pre-vacancy amount so it equals the post-vacancy amount. The percentage reduction is the vacancy factor.

A key point: a vacancy factor reduces the amount available to pay for the positions within an allocation; it does not reduce the amount of funding appropriated to an allocation.

16. **What happens when an allocation can't balance within the vacancy factor guidelines?**

If an allocation has a vacancy factor that does not meet guidelines, the department may

- submit a line item transfer to/from another expenditure line (services, commodities, capital outlay) so that the guidelines are met,
- move personal services authorization from one allocation to another, within an appropriation, or
- submit an increment in the Governor's request to increase authorization or a decrement to remove excess authorization to balance personal services. Typically, an agency will attempt to transfer money within the agency rather than asking for a decrement.