Legislative Fiscal Bureau
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Turnover Reduction (Financial Institutions)

[LFB 2009-11 Budget Summary: Page 248, #1]

BACKGROUND

In preparing their biennial budget requests, state agencies are instructed by the Department of Administration to include a standard budget adjustment called "turnover reduction." The budget instructions require that a reduction of 3% must be taken on adjusted base permanent position salaries for all appropriations that fund at least 50 full-time equivalent (FTE) permanent positions. No reduction is required for appropriations that fund fewer than 50 FTE permanent positions. This adjustment is intended to account for the fact that agencies will likely experience temporary vacancies that result in salary savings.

The budget request submitted by the Department of Financial Institutions (DFI) last fall included a decrease of $205,400 PR annually for turnover reduction. This reduction was based on 3% of permanent position salaries funded from DFI's appropriation for general program operations for the supervision of financial institutions and securities regulation, which funds 119.24 FTE base level positions. No turnover reduction was required for DFI's general program operations appropriation for the Office of Credit Unions, which supports 19.80 FTE positions.

GOVERNOR

Include a turnover reduction of $6,200 annually, rather than $205,400 per year as included in the agency request. Compared to the agency request, DFI's funding would be higher by $199,200 per year.

DISCUSSION POINTS

1. According to the administration, the adjusted turnover calculation was provided to

grant DFI more flexibility to manage high workload needs. DFI would be provided flexibility to utilize the additional funds to reassign existing staff, use limited-term employees, or use contractors. The administration argues that since DFI has high workload issues related to bank and credit union examining, coupled with the current banking situation nationwide, the additional funding would provide flexibility for timely inspections of state chartered institutions without adding permanent staff.

2. An argument could be made that exempting DFI from the standard 3% turnover reduction would be unfair to other agencies subject to the standard reduction. It should also be noted that DFI's general program operations appropriation would be reduced by $153,800 annually as part of the 1% across-the-board cuts recommended by the Governor and by $113,200 and 2.5 positions annually as part of state operations reductions recommended by the Governor. It is unclear why the administration would make this appropriation subject to these reductions if it believes that additional funding is needed to manage the agency's workload. [The 1% cuts are based on the entire base funding amount in the appropriation, while the 3% turnover reduction is based on just the amount budgeted for salaries.]

3. At the end of each fiscal year, DFI lapses most unencumbered program revenue to the general fund. Therefore, if the full 3% turnover reduction was implemented, an additional $199,200 annually would be transferred to the general fund.

ALTERNATIVES

1. Approve the Governor's proposal.

2. Decrease DFI's budget by an additional $199,200 in each year for turnover reduction.

ALT 2	**Change to Bill**	
	Revenue	Funding
GPR	$398,400	
PR		- $398,400

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