

Response to Questions on the FY 2019 Budget

Request By: Supervisor Herrity

Question: What are the projected and actual savings from employee attrition.

Response: The following response was prepared by Fairfax County Public Schools (FCPS):

Lapse consists of savings from turnover and vacancy and is budgeted as a percentage of the compensation base. It takes into account the prior year's lapse savings to more accurately reflect the actual current salaries of active employees each year when the budget is developed. The lapse rate is determined using historical trends. If the savings recognized for the current fiscal year vary significantly from the amount originally anticipated, the salary lapse rate is adjusted accordingly for the following year. Savings are impacted by changes in the economy, compensation adjustments, and other FCPS employee initiatives.

Position turnover represents the savings realized when experienced employees retire or leave the system and are replaced by workers with less experience, who earn a lower salary. The budget also includes savings due to position vacancies anticipated throughout the year.

In FY 2017, lapse was budgeted at \$45.6 million which includes both salary and benefits.

Actual savings totaled \$70.0 million, which includes \$24.4 million in lapse savings beyond what was budgeted. This additional savings represents 1.0 percent of the FY 2017 Third Quarter compensation budget and is traditionally used to fund future year's beginning balance.

Lapse is budgeted as a percentage of the compensation base. It takes into account the prior year's lapse savings to more accurately reflect the actual current salaries of active employees each year when the budget is developed. For example, when an experienced teacher at a school retires, the school's budget for salary and benefits is reduced for the following year to reflect the savings generated by hiring a teacher with less experience who earns a lower salary. This is reflected as base savings. In FY 2016, the budgeted compensation lapse rate will remain at 2.1 percent; however the distribution between vacancy and turnover savings has shifted to more accurately reflect current trends. The lapse rate is determined using historical trends. If the savings recognized for the current fiscal year vary significantly from the amount originally anticipated, the salary lapse savings is adjusted accordingly during a quarterly budget review and for the following year. Lapse savings are impacted by changes in the economy, compensation adjustments, and other FCPS employee initiatives.

The FY 2016 total lapse budget is \$44.0 million. Lapse consists of savings from turnover and vacancy. Turnover represents the savings realized when experienced employees retire or leave the system and are replaced by workers with less experience, who earn a lower salary. For FY 2016, the savings resulting from turnover is budgeted at \$17.6 million. The FY 2016 budget also reflects \$26.4 million in savings due to position vacancies anticipated throughout the year.

Fairfax County Public Schools (FCPS) manages compensation, employee salary and benefit accounts, centrally. Position salary and benefit budgets are managed on behalf of all schools and departments by Financial Services. As a result, savings generated from both turnover and vacant positions produce system wide savings. Schools and departments are given hiring authority based on position counts and types. For example, when a school has an experienced teacher retire, the school is allocated one teacher position to fill. Financial Services automatically reduces the school's budget for salaries and benefits for the next

year based on the turnover impact of the school hiring the new teacher resulting in savings for the following year.

In addition to the budgeted turnover and vacancy that FCPS projects to occur during the year, FCPS reduced the compensation base budget in the FY 2016 Advertised Budget by \$27.0 million to reflect recurring position turnover from FY 2015. This methodology results in a more current salary base which takes into account the prior year's recurring lapse savings and more accurately reflects the actual current salaries of active employees each year when the budget is developed.

Historically, salary lapse has been budgeted at 2.1%. Regardless of the salary lapse percentage budgeted, all savings at year end are reflected in the available ending balance. Each year state and local governments typically end the year with an available ending balance to ensure that they meet revenue projections and do not exceed expenditure appropriations. FCPS, like Fairfax County Government, historically has ended every fiscal year with an available ending balance. This is a responsible budgeting practice since FCPS is required by law to have a balanced budget. As nearly 89 percent of the budget is compensation, the majority of the available ending balance is derived from compensation accounts.