

SUMMARY OF WORKPLAN

A Report Prepared for the
Legislative Finance Committee

By
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2017 INTERIM WORK PLAN

INTRODUCTION

This report summarizes the proposal of the Legislative Fiscal Analyst (LFA) for the Legislative Fiscal Division (LFD) interim work plan for the 2017 biennium interim. It represents a recommendation based upon the June 18 retreat discussions of the Legislative Finance Committee (LFC) and subsequent discussions with the Management Advisory Workgroup and staff input.

WORK PLAN

Each LFD interim work plan is marked with standard and unique items. The standard items described in statute are as follows:

- 1) Provide for fiscal analysis of state government and accumulate, compile, analyze, and furnish information bearing upon the financial matters of the state that is relevant to issues of policy and questions of statewide importance, including but not limited to investigation and study of the possibilities of effecting economy and efficiency in state government;
- 2) Estimate revenue from existing and proposed taxes;
- 3) Analyze the executive budget and budget requests of selected state agencies and institutions, including proposals for the construction of capital improvements;
- 4) Make the reports and recommendations that the legislative fiscal analyst considers desirable to the legislature and make reports and recommendations as requested by the legislative finance committee and the legislature;
- 5) Assist committees of the legislature and individual legislators in compiling and analyzing financial information; and
- 6) Assist the revenue and transportation interim committee in performing its revenue estimating duties

There are a number of standard items done by staff to prepare and implement the above statutory duties. The statutory items work items and support for those work items are not included in the interim work plan, but will be performed by the LFD.

The interim work plan items listed below are in addition to the standard work. Staff will inform the LFC of any constraints as they arise and manage work plan adjustments through the Management Advisory Workgroup as needed. Any significant changes to the work plan will be brought to the LFC.

A: Legislative Interim Studies and LFC studies

1) Track SB 405 Medicaid expansion

SB 405 implementation will be tracked in a separate report following the Quarterly report and the Medicaid Monitoring report at each LFC meeting beginning with September 2015. Senators Keenan and Caferro and Representative Noonan will be the contact members ensuring the appropriate topics are covered. Quinn Holzer will be the primary staff person for this report with Barb Smith as the manager.

2) **HJ 27: Statutory Appropriations Study**

The study of Statutory Appropriations will occur over all meetings of the LFC beginning in December of 2015. The study will cover the topics in HJ 27 through 1) updating prior LFD work in this are with current statutory appropriations, 2) creating training documents for legislators and legislative staff regarding the structure, format, and best use for statutory appropriations, 3) develop business processes to better inform legislators requesting statutory appropriations in their bills of the pros and cons, and 4) develop outreach plan for communicating with legislators regarding statutory appropriations.

The lead staff members for this project are Sam Schaefer for the appropriations and Susie Lindsay for the business process and communications plans. All appropriation staff will participate in updating the data on statutory appropriations Amy Carlson will manage this project.

3) **HJ 8: Law enforcement academy funding**

The study of the Law enforcement academy funding will primarily be conducted by the Department of Justice reporting to a subcommittee of the LFC of Representatives Osmundson and Dudik. Reports from the subcommittee to the LFC will begin September of 2015. The primary staff liaison to the Department of Justice will be Cynthia Hollimon. Greg DeWitt will be available for questions and support and Barb Smith will be the manager.

4) **School Funding Interim Commission SB 128 K-12 Decennial Study**

The LFD staff of Rob Miller and Nick Brown will support the SB 128 K-12 Decennial Study as requested by the Commission.

5) **HB 627 Office of Public Defender study**

The LFD staff of Cynthia Hollimon and Greg DeWitt will support the HB 627 Office of Public Defender study as requested by the LFC.

6) **Other Bills**

Other bills that are of interest to the LFC will have an update included in the quarterly report each meeting. Bills that will be reported on and the staff member responsible are shown below:

SB 411: Closure of Montana Development Center: Scot Conrady

SB 224: Commission on Sentencing: Greg DeWitt and Cynthia Hollimon

SB 418: Study mental health care program implementation: Scot Conrady

HB 430: Judicial redistricting: Greg DeWitt

7) **State and University Employee Health Insurance Pools**

The LFC is interested in developing a full understanding of the financial condition of the state and university employee health insurance pools. The LFC anticipates studying this topic throughout the interim, but will begin the analysis in September of 2015 with a staff primer on how government self-insured pools work followed by a financial update from both the Montana University System Benefit Pool and the State Employee Benefit Pool. Further research from the committee will evolve with committee questions and discussion.

The primary staff for this project is Kris Wilkinson with Joe Triem managing. It is anticipated the communications team may be needed to develop training materials for legislators.

8) **Infrastructure Analysis**

During the 2013-2014 Interim staff conducted research and reported to the LFC related to local government infrastructure. Those topics included local government infrastructure definition, needs, existing funding programs, and possible future funding and local participation metrics. The 2015-2016 Interim LFC is interested in having staff build upon the infrastructure research and reporting done last interim by providing further research and presentations on state-owned and operated buildings and related infrastructure. This work item will quantify state-occupied properties, both leased and owned, and how this has changed over time. Additionally staff will provide details with respect to agency ownership, mechanisms for maintenance and major improvements, and historic funding levels. The research will mainly focus on general fund supported infrastructure, but also touch on infrastructure supported through other funding mechanisms. If not sufficient for facility maintenance and upkeep may result in pressure on the general fund.

Staff will recap work from the 2013-2014 interim, as well as provide updates on the status of local government infrastructure projects approved during the 2015 Legislative Session.

Multi-meeting reports please see the scoping document for more detail. The primary staff member for this project is Cathy Duncan, with assistance of her manager Joe Triem. Cathy and Joe will communicate with the LFC long-range contact members as needed to define presentation topics and materials.

9) Quality Schools Facilities Grant program and other spending

The LFC is interested in developing a full understanding of the tradeoffs that school districts make between taxes, teacher and other salaries, and capital investments. The goal of the research is to inform the next legislative session regarding the factors to consider in further developing the Quality Schools Facility Grants and other school funding. The LFC anticipates studying this topic throughout the interim, but will begin the analysis in December with a study of personnel versus capital investment and tax equity among school districts. Further research from the committee will evolve with committee questions and discussion. A separate scoping document will be presented to the LFC.

The primary staff members for this project are Robert Miller and Nick Brown with Joe Triem managing. It is anticipated the communications team may be needed to develop training materials for legislators.

10) Update Managing Volatility Report from September of 2012 (September of 2016)

In 2012, the legislature requested a report on Managing Volatility. This report has been useful in informing the legislature of the financial considerations regarding managing financial volatility. Two key pieces of legislation, 2013 session HB 354 and 2015 session HB 588, passed and have made this document out of date. In September of 2016, an updated document will be developed

The primary staff members for this project are Stephanie Morrison and Amy Carlson.

11) Reestablish the MMIS subcommittee and monitoring

Last interim the LFC developed a subcommittee to monitor Department of Health and Human Services Medicaid system development (MMIS). This subcommittee will continue and report during the Information Technology portion of the LFC agenda. The primary staff will be Scot Conrady with Barb Smith as the manager.

12) Medicaid forecasting research

At the December 2015 meeting the LFC will review the calculations and assumptions of the LFD model and invite the executive to review their models and assumptions with the committee. The goal of the discussion will be to 1) identify similarities and differences in the models; and 2) outline key assumptions by both the LFD and the DPHHS

The primary staff will be Cynthia Hollimon and Quinn Holzer with Barb Smith as the manager.

13) Update format and content of the Budget Status Report also known as Quarterly Report

The LFD has suggested improvements to the report which will be presented at the September 2015 meeting and if approved will apply to the December 2015 and future reports. All staff members are integral to this quarterly document, Stephanie Morrison, will coordinate the revenue portions, Greg DeWitt will coordinate the Budget sections, Kris Wilkinson will coordinate the expenditure portion and Susie Lindsay will manage the overall document

14) Child and Family Services

The LFC is interested in examining the following topics in Child and Family Services; managerial performance and employee retention issues, effectiveness of Child and Family Services at promoting the safety of Montana's children and how this compares to other states, and determine if institutional changes need to be made to improve the performance of Child and Family Services.

The LFC anticipates studying this topic throughout the interim, but will begin the analysis in September of 2015 with a Department of Health and Human Services update on current staffing, FTE, turnover, safety comparisons, and any recommended institutional changes. Further study is anticipated to include connections to the Office of Public Defender Task Force, Court Appointed Special Advocate, and the pilot project established in HB 612.

The primary staff will be Cynthia Hollimon and Quinn Holzer with Barb Smith as the manager.

15) Evaluate the Crossroads Correctional Center in Shelby

At the March of 2016 LFC meeting, a report will be presented that address the upcoming decisions regarding Crossroads Correctional Center in Shelby. The report will examine cost-effectiveness and treatment abilities of the private prison model as compared with state-run institutions and renewal of the Crossroads Correctional Center in Shelby and other privately contracted prisons in Montana. This study will evaluate the state's option to purchase the facility in 2019. At the September 2016 meeting a brief scoping document will be presented to the LFC for comment and approval.

The primary staff will be Greg DeWitt with Barb Smith as the manager. Stephen Forrest will provide background research on land purchases, including this facility.

B: Revenue (mostly directed by RTIC)

16) Prediction intervals for general fund

The LFD will develop error distributions for each of the IHS national and Montana macroeconomic variables. This analysis will result in a better understanding of IHS accuracy, leading to potentially improved revenue estimate accuracy. An extension of this analysis would be to produce prediction intervals for the general fund at varying levels of required accuracy. While these prediction intervals may result a better understanding of the risk associated with the estimate, the uncertainty associated with any theoretical prediction interval would likely be too large for practical application.

The primary staff will be Sam Schaefer with Joe Triem as the manager. A college student intern will be hired for data input.

17) Personal Income Tax analysis

The LFD will investigate the causes of the discrepancy between wage growth and individual income tax withholding growth that continues to drive legislative conversations during legislative sessions and throughout the interims. Non-wage income growth and taxpayer behavior are likely key factors in the underlying difference, but their respective impacts have not been fully examined. This project will undertake a detailed analysis of past years' individual income tax return information in attempt to assess the roles of non-wage income and taxpayer behavior on wage withholding.

The primary staff will be Stephanie Morrison with Joe Triem as the manager.

18) Vehicle tax analysis

The LFD will further refine the vehicle tax revenue estimating model based on data from the Department of Justice. The model will allow for a better understanding of the relationship between vehicle age and revenue, and may lead to improved revenue estimate accuracy. Most importantly, a model based actual vehicle data will allow for comparing legislative policy scenarios.

The primary staff will be Sam Schaefer with Joe Triem as the manager.

19) Energy industry impact on revenues

The LFD will devote more time than in a typical interim looking at the emerging energy issues and making the models more responsive to timing fluctuations in price. This analysis will include understanding the potential impacts of states' responses to EPA rules.

The primary staff will be Nick Brown with Joe Triem as the manager.

20) Health care insurance premiums growth analysis & impact on revenue

The LFD will examine how changes in the health insurance marketplace due to the implementation of the Affordable Care Act (ACA) will impact future insurance premiums tax revenue.

The primary staff will likely be the new revenue staff person with Joe Triem as the manager.

21) Tax credit continued analysis for RTIC

The LFD will update previous individual income tax credit report, with an extension to including corporation income tax credits.

The primary staff will be Stephanie Morrison with Joe Triem as the manager. Sam Schaefer will assist with the corporation tax credits analysis.

22) Discuss Pew and Rockefeller reports for possible further research on improved tax estimates

The LFD will investigate the strengths & weaknesses of the above-mentioned reports as they compare Montana to other states. The underlying data used for the reports will be further analyzed to understand the differences between Montana and other states' forecasting errors. The analysis will utilize the Rockefeller report technique of naïve modeling, potentially coupled with implementing forecasting practices of consistently accurate states to improve future forecast accuracy.

The primary staff will be Stephanie Morrison with Joe Triem as the manager. Sam Schaefer will assist with the naïve modeling.

23) Highway state special account revenue, spending and fund balance

The LFD will provide an update to RTIC on estimated expenditure, revenue, and fund balance of the highway state special revenue account.

The primary staff will be Sam Schaefer and Cathy Duncan with Joe Triem as the manager.

C: Legislative Budget Policy

24) Establishing options and processes for developing the base budget starting point and budget comparisons

The LFC established a new starting point for legislative budget documents last session. In combination with the new IBARS computer system, several challenges arose prior to, during, and after session due to this change. The experience of the legislature, agencies, and staff of both the OBPP and LFD could be greatly improved with a decision early in budget development. This would allow training, documents, and systems to be developed to adequately communicate the legislative starting point and decision points from that level.

At the September 2015 meeting the starting point choices will be evaluated with final decision in December of 2015. At the December 2015 meeting the personal services and any other decision point choices will be evaluated with final LFC decision in March of 2016.

The primary staff will be Barb Smith and Amy Carlson.

25) Budget Presentation Questions

After the starting point is established, additional presentation choices could be decided: such as the Budget Analysis presentation and comparisons, and the presentation of Zero based budgeting. In December of 2015, choices will be offered to the LFC with final decisions in March of 2016.

The primary staff will be Barb Smith and Amy Carlson

26) Determine processes to develop the ITSD services rates and budget

During the 2015 session, concerns rose regarding the processes for establishing the fixed costs rates and budget for the State Information Technology Services Division (SITSD). A subcommittee was established to attempt to address the concerns. The subcommittee made some progress, but also had additional thoughts for continued progress (see Sen. Blasdel letter attached).

The LFC has requested that SITSD bring recommendations for improvements to the process to the LFC December 2015 meeting. Also anticipated at the December of 2015 meeting LFD staff will recap the 2015 session subcommittee recommendations and Legislative Audit recommendations for the LFC.

The primary staff will be Kris Wilkinson with Joe Triem as the manager.

27) LFC Policy Recommendations to the 2017 legislative session

The LFC has a responsibility under statute to provide guidance to the next legislature on budget policy. MCA 5-12-205

...(7) shall, before each regular and special legislative session involving budgetary matters, prepare recommendations to the house appropriations committee and the senate finance and claims committee on the application of certain budget issues. At a minimum, the recommendations must include procedures for the consistent application during each session of inflation factors, the

allocation of fixed costs, and the personal services budget. The committee may also make recommendations on other issues of major concern in the budgeting process, such as estimating the cost of implementing particular programs based upon present law.

Any additional items that the LFC wishes to make recommendations for will be done in either the September or December 2016 meetings.

The primary staff will be the management team.

D: Internal / Other (write up only for IBARS Phase II and Data project)

28) IBARS II (continual system improvement)

IBARS was a new system in the 2015 session. Many efficiencies and improvements will be undertaken this interim to include:

- Continued coordination with OBPP and DOA to maximize system capabilities
- Implementing budget policy choices of the LFC for the 2017 session
- Year-round use of the system to replace access databases of BCDs
- Possible use of the system for the 2019 Biennium Budget Outlook
- Continued improvements of reports such as tracking sheets and comparisons
- Improve: line items, personal services calculations, and proprietary rate documents
- Training documents for staff and legislators

The primary staff will be Greg DeWitt and Stephen Forrest with Barb Smith as the manager and Dale Matheson as IT support.

29) Data Agility Project

The data structure of the databases that the LFD uses is built on early 2000s technology for use by few users. In addition the LFD currently has access to additional data sets that were not available previously, data is not documented well, and current technology allows for use of data in new ways. This project is designed to document or organize all data sets accessible by the LFD for use with modern tools.

The primary staff will be Nick Brown and Stephen Forrest with Joe Triem as the manager and Dale Matheson as IT support.

30) Upgrade and integrate Quarterly reports

31) Plan a 40th Anniversary event

32) Continue Contact members as follows:

- A – Tschida, Osmundson, Noonan
- B – Noonan, Keenan, Caferro
- C – Ballance, Tropila
- D – Dudik, Wolken, Moore
- E – Jones, Tropila
- F – Sesso, Jones
- Other– Sesso, Jones