



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: November 1, 2012

TO: Members of the Legislative Finance Committee

FROM: Barbara Smith, Assistant Principal Fiscal Analyst

RE: Global Motions for the 2013 Legislative Session

The Legislative Finance Committee (LFC), is directed in statute (5-12-205(7), MCA) to make recommendations to the House Appropriations and Senate Finance and Claims committees on the application of certain budget issues. Statute specifically directs the LFC to recommend procedures for the consistent application of inflation factors, fixed costs and personal services. Additionally, the LFC may also make other recommendations on other issues of major concern in the budgeting process. The decision to move forward with these recommendations is to be completed at the November 13<sup>th</sup> meeting. Attached are two tables that address 1) standard motions that are considered for consistency; and 2) additional global motions that address current budget issues.

If you are in need of additional information, please do not hesitate to contact me at [basmith@mt.gov](mailto:basmith@mt.gov) or (406)444-5347.

<b>2015 Biennium Budget</b>			
<b>Standard Global Decisions - LFC Recommendations to HAC and SFC Leadership</b>			
#	<i>Decision Item</i>	<i>Discussion</i>	<i>History</i>
1	<p><u>Budget Starting Point</u>            Direct the appropriations subcommittees to adopt the starting point for budget deliberations as the adjusted base including personal services adjustments, statewide fixed costs, and inflation/deflation.</p>	<p>The adoption of the base and statewide present law adjustments as the starting point does not prevent a subcommittee, the full committees, or the legislature from reducing the budget later in the process.</p>	<p>Historically this is the starting point for the budget. However given the fiscal condition at the time, the 2011 Legislature used a different starting point that included continuation of the 2% personal service reductions from the 2009 biennium budget and the implementation of the 5% reduction plan.</p>
2	<p><u>Vacancy Savings Rate</u>            Direct the appropriations subcommittees to adopt a global level of a personal services reduction (vacancy savings) as a starting point:</p> <p><u>Option A</u> – 4% as proposed in the Executive Budget; or  <u>Option B</u> – Another specified level.</p>	<p>An individual appropriations subcommittee could still determine that a certain group of positions within a program under their purview should be exempted from, or allowed a reduced level of vacancy savings, or even determine that a higher level of vacancy savings be applied.</p>	<p>The 2011 Legislature applied a 4 % vacancy savings for agencies with 20 or more FTE. The 2009 Legislature opted for a 7% vacancy savings rate.</p>
3	<p><u>Fixed Costs in the Budget</u>            Direct subcommittees to consistently apply fixed costs in agency budgets as included by the executive budget request. Adjustments to fixed cost rates shall be determined by the subcommittee examining the service provider (e.g., ITSD costs as reviewed by the General Government Subcommittee) and shall be globally adjusted on a consistent basis.</p>	<p>This decision does not preclude the General Government Subcommittee from increasing, or decreasing a fixed cost rate. If such change occurs, these types of adjustment would occur as decision packages in all agency budgets. Subcommittees should not reduce budgeted fixed costs unless directed to do so by the General Government Subcommittee.</p>	<p>This has been historically adopted by the LFC.</p>



4	<p><u>Inflation or Deflation Factors in the Budget</u> Direct subcommittees to not vary from the executive budget proposed inflation or deflation factors.</p>	<p>If the full appropriations committee wishes to vary from the executive budget proposal of inflation/deflation factors, it should establish approved inflation/deflation rates (if any) by individual object of expenditure and direct subcommittees to apply these rates to all budget adjustment recommendations. For tracking purposes, these types of adjustment would occur as decision packages. (See attachment for inflation/deflation factors included in the executive request.)</p>	<p>This has been historically adopted by the LFC.</p>
5	<p><u>Budget Proposals Requiring Legislation</u> Direct the appropriation subcommittees to make no recommendations or adjustments to HB 2 until required legislation passes, except for K-12 inflation which is present law.</p>	<p>Legislation is often accompanied by fiscal notes, but not all fiscal notes need to be incorporated into HB 2. Deliberations in policy committees may influence some modifications to HB 2 to account for situations where an adjustment in funding is necessary to implement legislation.</p>	<p>During the 2003 session the legislature used a process whereby the subcommittees made recommendations regarding the inclusion of the contingent funding. The decision point represents the direction provided by the LFC for the 2011 legislative session.</p>
6	<p><u>Separate Legislation to implement HB 2</u> Direct the appropriation subcommittees to determine any appropriate items for inclusion into a HB 2 companion bill and provide those items to the full House Appropriations Committee for further review. The appropriations committee leadership shall request legislation to provide a vehicle or vehicles for enacting substantive language related to the implementation of appropriations in HB 2 and the legislation will be considered as part of the appropriations process.</p>	<p>Legislation to implement HB 2 is purposeful by providing a vehicle for the legislature to enact provisions related to appropriations that are not appropriate for inclusion in HB 2. This is commonly referred to as the companion bill to HB 2. Among the potential uses are to:</p> <ul style="list-style-type: none"> <li>• Provide statutory changes necessary to implement provisions of the budget</li> <li>• Provide special instructions on use of or access to appropriations</li> <li>• Require agency action</li> </ul>	<p>This was included in the items discussed and adopted for the 2009 and 2011 sessions. The companion bill should follow HB 2 as closely possible.</p>



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7	<p><u>Establish key performance measures</u> Direct joint appropriation subcommittees to select a few critical performance measures for each agency for monitoring purposes during the 2015 interim and formalized as part of a separate bill(s) or resolution(s).</p>	<p>State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. Reviewing this information and selecting related performance measures for further review may demonstrate to the legislature where budgetary adjustments are warranted and where the legislature might direct resources accordingly</p>	<p>This process has evolved over the past several biennia. The 2011 Legislature agreed to SJR 26 and the LFC monitored a number of programs identified in the legislation during the 2013 interim. If the LFC considered this a valuable task, a recommendation to the joint committees would include the selection of performance measures for review during the 2015 interim.</p>
8	<p><u>Internal Service Funded Proprietary Programs</u> Direct joint appropriation subcommittees that review proprietary rates not to approve decision packages of internal service funded proprietary programs unless quantifiable rate impact information is provided.</p>	<p>“Internal service funded proprietary programs” refer to state programs that provide services to other state programs for fees based upon rates approved by the legislature. Budget instructions direct agencies to provide quantifiable rate impact information when submitting requests for rate changes.</p>	<p>This recommendation was first adopted for the 2009 session and subsequently adopted during the 2011 session.</p>

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<b>2015 Biennium Budget</b>			
<b>Current Budget Issues – LFC Recommendations to HAC and SFC Leadership</b>			
#	<i>Decision Item</i>	<i>Discussion</i>	<i>Process</i>
A	<p><u>Potential Federal Funds Reductions</u>            Direct the joint appropriation subcommittees to request a plan from state agencies to operate the affected programs in the event federal funds are reduced through sequestration.</p>	<p>In absence of congressional action, the federal Budget Control Act (BCA) sequester is scheduled to occur on January 2, 2013. The reductions will apply to the full FFY 2013 amount, resulting in the potential federal reduction to the state of approximately \$43.0 million.<sup>1</sup> Information regarding the covered federal programs and the amount of the proposed reduction is available.</p>	<p>Provide direction to agency officials regarding this request. Direct chairs of subcommittees to schedule time in the agency overview process for the agency to present the proposed plan to operate impacted programs. The subcommittee would then have the opportunity to determine if any action is warranted by the legislature. Such action would need to be contained in a decision package with common numbering for tracking purposes.</p>
B	<p><u>State Special Revenue Examination</u>            Direct the joint appropriation subcommittees to examine major state special revenue funds for adherence to dedicated revenue provisions and other issues as identified in the Budget Analysis.</p>	<p>Traditionally, issues with major state special revenue funds are raised in the Budget Analysis and may or may not be discussed by appropriation subcommittees. The major funds would be designated by LFD staff. A global motion to direct all subcommittees to complete a consistent examination of these funds could allow the Legislature to address dedicated revenue issues.</p>	<p>LFD staff would provide an analysis of the major state special revenue funds within agencies as part of the agency overview process. This could include historical revenue and expenditures, significant history of the fund, forecast for the 2015B and any issues with the corresponding statute. Potential adjustments to statute to address any identified issues can be rolled into the companion bill to HB2 or addressed in a subcommittee bill. Adjustments to appropriations of the funds can be made via HB 2.</p>

<sup>1</sup> Federal Funds Information for the States, BCA Sequester: Where Things Stand, (October 2012).



C	<p><u>Personal Services</u> Direct the joint appropriation subcommittees to examine personal services issues (pay plan implementation, recruitment and retention and retirements) on an agency wide basis to identify the impacts on the agency budget and completing the agency mission.</p>	<p>Subcommittees will need to have a working knowledge of each agency’s personal services budget and the impact of any changes via statewide present law, decision packages or the pay plan. Using a global motion to direct subcommittees to evaluate potential personal services issues per agency for the biennium could bring all parts together to provide a comprehensive view of the issues.</p>	<p>Per agreement with OBPP<sup>2</sup>, agencies are to submit narrative regarding pay plan implementation, recruitment and retention and retirements. This information will be analyzed and used in the 2015B budget analysis. Direct chairs of subcommittees to schedule time in the agency overview process for the LFD staff to present an analysis of personal services costs and issues. This information could be used to adjust the pay plan, target pay adjustments to specific occupations, amend related statutes and/or establish measurements for pay plan performance.</p>
D	<p><u>Coordination Between HB 2, HB 10 &amp; LRP</u> Direct the Long Range Planning Subcommittee to notify the appropriate joint appropriations subcommittee of potential future operational and maintenance costs resulting from the potential funding of IT and/or long range building investments and request that subcommittee examine the impacts in a joint hearing.</p>	<p>Typically, HB 5- Long Range Building and HB 10 – Information Technology cover major capital appropriations, but HB 2 covers operations and maintenance costs. When capital appropriations are deliberated by the LRP subcommittee, ongoing costs are considered but not evaluated by the appropriate joint subcommittee. Formalization of a previous informal practice would assure that this is accomplished.</p>	<p>LRP staff would coordinate with joint appropriations subcommittee staff to schedule joint hearings when necessary. The option would also exist for the joint appropriations subcommittee to comment on future costs if a joint hearing is not possible.</p>

<sup>2</sup> See attached documentation of personal services questions.



<p>E <u>Information Technology Critical Systems</u> Direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems. Direct the subcommittees to request state agencies discuss:</p> <ul style="list-style-type: none"><li>o Current plans to address obsolescence</li><li>o Cost to replace the system</li><li>o Cost of maintaining the current system</li><li>o Risks associated with both retaining the current system and replacing the system</li></ul>	<p>State agencies have identified IT systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:</p> <ul style="list-style-type: none"><li>a) New</li><li>b) Emerging</li><li>c) Mature</li><li>d) Declining</li><li>e) Obsolete</li></ul>	<p>Following the interest of the LFC, the LFD recently revised the process for evaluating IT issues within the budget analysis. LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding. Analysts will use the agency IT strategic plans as the starting point of the discussion. Subcommittee recommendations for potential adjustments to statute that may be needed to address identified issues can be rolled into the companion bill to HB 2 or addressed in a subcommittee bill. Adjustments to appropriations of the funds can be made via HB 2 or HB 10.</p>
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***Agency Personal Services Narrative -  
As extracted from the 2015B Executive Budget Instructions.***

The Legislative Fiscal Division (LFD) has prepared the following questions to be answered by agencies when preparing their budget request. The answers will be used by the LFD when preparing the Personal Services Analysis section of their budget analysis report. Answers to the questions should be submitted on MBARS in the "Agency Personal Services Narrative" section under Preparation/General Budgeting/Narrative Input. While answers to the questions will likely include both agency and program specific information, there is no longer a separate set of questions to be answered for each program in an agency.

Responses to the following questions should describe the agency policies and decisions addressing the agency-wide approach to the question. If there is no overall agency approach, state this and describe the most significant approaches covering the majority of the agency.

The following questions are intended to describe agency management decisions for personal services under the broadband pay plan, required in 2-18-201, MCA. Responses are expected to be: brief statements that describe management decisions for the issue referenced in the question, provided for management decisions that apply generally to the agency or program with material exceptions identified and described, unless the question specifies a response to a subgroup, such as when high turnover may be occurring for an occupation in a certain geographic area of the state, and focused on explaining agency or program actions under the current agency policy for establishing pay for positions in relationship to increases in the agency's personal services expense.

If a question asks for a response for a singular or generalized instance of an action, but multiple instances or significant exceptions apply within the agency, describe the issue addressing the majority of the agency or program positions as well as the exceptions.

The questions are as follows:

**A-1: Pay Philosophy and the agency pay rules**

- Please make sure the most current version of the agency pay plan rules is on the MINE site. What difficulty is the agency experiencing in following the agency rules?
- What was the agency's pay philosophy when it implemented the 2013 biennium pay adjustments? What will be the agency's pay philosophy for the 2015 biennium and beyond? In responding, address the following areas:
  - New hire placement into salary ranges
  - Use of pay in succession planning
  - Use of pay in career tracks
  - Use of pay adjustments for current employees
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**A-2: Agency issues on recruitment and retention**

Responses to the following questions should describe issues, impacts, and management actions associated with position with high turnover and increased vacancy rates. While the discussion is primarily to be at the agency level, please describe any impacts on programs as necessary.

- Describe the agency's experience in effectively competing for qualified applicants to fill vacant positions? In responding, address the following areas:
  - Experience with recent hiring pool sizes with regard to minimally qualified applicants
  - Turnover trends Frequency of the need to offer multiple recruitments to fill positions
  - Frequency of employment offers being rejected and reasons for rejection

- Are there any occupations with high turnover rates or high rates of vacancies because of factors other than keeping positions open to manage applied vacancy savings? If so, what occupations? Please describe the factors determined to be the cause of the high turnover rates or frequent vacancies? (e.g. Correctional Officers – job factors and overall work environment; Nursing staff – difficult to hire positions due to outside market competition and job factors; Entry level staff in high wage/high costs towns)
- What actions have been taken to address the factors that are causing turnover or frequent vacancies? (e.g. pay plan adjustments; additional benefits such as assistance with transportation to/from work; alternate shift options (10 or 12 hour shifts, 6 days on 4 days off) How did these vacancies affect agency operations? (e.g. increased overtime; desirable but optional tasks not completed or delayed in completion; increased workload for other employees)

### A-3: Retirements

Please discuss the agency plan to address pending retirements.

- What portion of the agency workforce is eligible for early or regular retirement in the 2015 biennium?
- Does the agency anticipate retirements between now and the end of the 2015 biennium that could impact operations? (e.g. retirements of key people with very specialized knowledge or skill sets) If so, what are the steps the agency is taking to minimize the impact? (e.g. planning in progress and it's too early to specify what steps we will take; management has developed creative recruitment options (list); succession planning by double filling key positions with a successor to transfer knowledge)