

A GUIDE FROM
THE LEGISLATIVE FISCAL DIVISION:

HOUSE BILL 2

THE GENERAL APPROPRIATIONS ACT
September, 2016

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INTRODUCTION

Working with legislative appropriations requires a thorough knowledge of the budgeting process. Successfully meeting legislative budget goals means examining agency and program budgets, determining the appropriate course of action, and providing a balance that includes both flexibility and control.

The purpose of this document is to provide House Appropriations, Senate Finance and Claims members, and any other interested legislators, with a reference manual on the specialized information needed to work with appropriations. It is designed for use in conjunction with the document entitled “Understanding State Finances and the Budgeting Process”. That document explains many of the terms and concepts used in this manual, as well as their applications to budgeting and appropriations.

The reference manual is divided into the following five sections:

1. **LFD Staff:** An introduction to your Legislative Fiscal Division (LFD) staff complete with an explanation of the ways in which they can assist the legislature;
2. **Appropriations Basics:** A brief discussion of appropriations and budget basics to set the stage;
3. **Subcommittee Role and Structure:** A discussion of the duties, responsibilities, and structure of the House Appropriations and Senate Finance and Claims subcommittees, which do a substantial amount of the extensive, detailed work on the General Appropriations Act;
4. **HB 2 Appropriation Tools:** A description of the General Appropriations Act and the appropriations tools available to make this document effective; and
5. **Understanding the budgeting process:** A discussion of the way appropriations are established for each type of expenditure, as well as various legislative obligations and options for action.

LEGISLATIVE FISCAL DIVISION

Legislative Fiscal Division staff specialize in particular agencies and serve as staff to the House Appropriations and Senate Finance and Claims committees, as well as to all subcommittees. Each subcommittee has a lead LFD staff member, responsible for assisting the chair in duties relative to overall subcommittee organization. A listing of staff assignments can be found in Appendix B of this document.

LFD staff members have a range of expertise and are available to assist committees and subcommittees by:

- Providing the initial analysis of the executive budget and writing the documents that will be used by the subcommittees as tools for making recommendations
- Serving as experts on budgeting and appropriations in general, and on the budgets and operations of particular state agencies under consideration
- Advising subcommittees on procedure and providing suggested options
- Providing any necessary research or clarification on matters of interest to subcommittees
- Writing all HB 2 approved language, as well as the administrative work necessary to write amendments recommended by members of the House Appropriations, Senate Finance and Claims and Committees of the Whole

APPROPRIATIONS BASICS

This section provides a refresher in basic appropriations concepts. A more detailed discussion is included in the previously mentioned LFD guide, “Understanding State Finances.”

APPROPRIATIONS GUIDELINES

There are three foundational principles of appropriations in Montana:

- 1) No state money can leave the treasury without an appropriation;
- 2) Appropriations can only be made by the legislature (there are minor exceptions); and
- 3) The constitution requires that the budget be balanced before the legislature can adjourn.

The executive must present a balanced budget for legislative consideration. However, the legislature is under no obligation to adopt any part of the proposed budget. Rather, it is ultimately the responsibility of the legislature to construct and adopt a balanced budget that reflects legislative priorities for state government. The following is also true of appropriations:

- They cannot be made to private individuals, associates, or corporations;
- The constitution prohibits debt to fund deficit spending;
- Debt can only be assumed through 2/3 vote of each chamber of the legislature.

APPROPRIATIONS TYPES

The legislature sets a maximum amount when making an appropriation. There are three ways appropriations can be made:

- 1) **Temporary appropriations**, which other than special long range appropriations are good for a maximum of two years. The General Appropriations Act (HB 2) is the largest temporary appropriations bill;
- 2) **Statutory appropriations**, which can only be changed through statute change; and
- 3) **Budget amendments**, which add a certain type of fund (never the general fund) during the interim. The Governor, the Board of Regents, the Supreme Court, and the standing statutory legislative committees can authorize expenditure from budget amendments. This is one of the minor exceptions to the rule that appropriations can only be made by the legislature.

The primary temporary appropriations bill is HB 2. This bill is about 85% of all appropriations.

OVERVIEW OF GOVERNMENTAL FUND TYPES

Government accounting is defined by the source and use of the funds. There are four main fund types; governmental, proprietary, fiduciary, and university. The legislature does not appropriate proprietary (with limited exceptions), fiduciary, or university funds.

Funds Appropriated by the Legislature

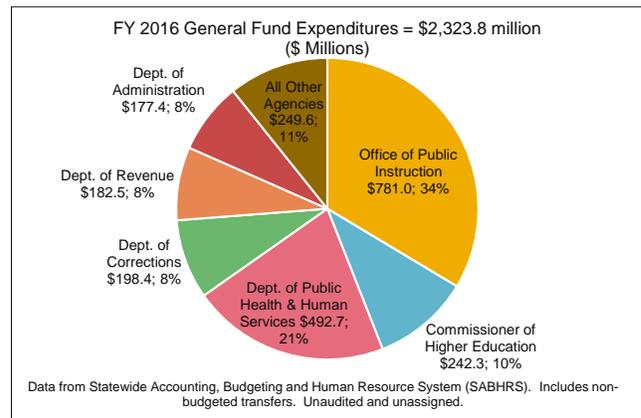
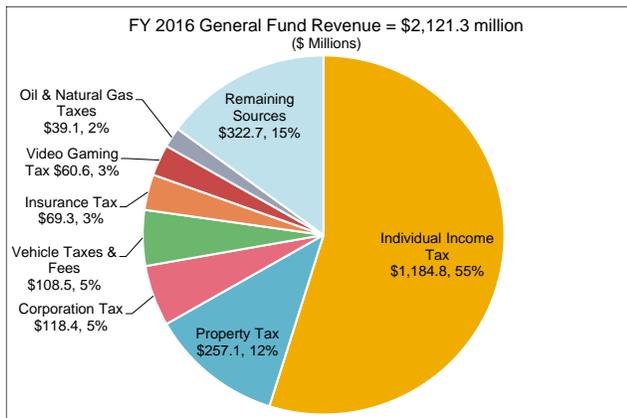
When people think of “government”, they are generally referring to those functions funded with public funds. There are four types of governmental funds:

- 1) **General fund**: is defined as all financial resources except those required to be accounted for in another fund. General fund is primarily general tax revenues used for general purposes of state government. Since general fund can be used for any purpose within the law, the

legislature is usually more concerned with the use and availability of general fund than with the other sources of revenue.

- 2) **Special revenue funds:** are defined as specific revenue sources that are legally restricted to expenditure for specified purposes. There are two main types of special revenue funds:
 - a. State special revenue: money from state sources specifically earmarked for the purpose of defraying particular costs within an agency, program, or functions; and
 - b. Federal special revenue: revenue from federal sources, usually earmarked for particular purposes and often requiring either a match or maintenance of a prescribed level of state participation.
 - c. Capital projects funds: account for financial resources used for the acquisition or construction of major governmental general fixed assets. The primary capital projects account is the one used to account for revenues and expenditures for the state’s long-range building program.
- 4) **Debt service funds:** account for the accumulation of resources for the payment of general long-term obligations, both principal and interest.
- 5) **Permanent funds:** account for financial resources that are legally restricted to the extent that only earnings, but not principal, may be used. Permanent funds used to be called “nonexpendable trust funds”.

The following chart shows sources of general fund revenue in FY 2016. As shown, the largest source of general fund revenue is individual income tax. Education, public health and human services, and public safety dominate general fund expenditures.



HOUSE BILL 2

This section of the manual will discuss the General Appropriations Act: HB 2. These two terms will be used interchangeably throughout this document. The section is divided into two sections:

- 1) **What Does the General Appropriations Act (HB 2) Do?** A discussion of HB 2, its legal authority, possibilities and limitations, and its form and content;
- 2) **HB 2 Appropriations Tools:** This section discusses the appropriations tools available to the legislature to provide flexibility and/or control, as well as suggestions about how to use them effectively.

What Does The General Appropriations Act (HB 2) Do?

- HB 2 provides state agencies the authorization to spend the majority of state funds needed to operate. While HB 2 is the dominant source of appropriations authority for state agencies, it is not the only source. Other appropriations bills as passed by the legislature can also provide funding

authority. [Statutory appropriations](#) can also provide funding authority, and these do not require reauthorization by each legislature. Some funds, such as private and most proprietary funds, can be spent under general laws or contracts. During the interim, budget amendment authority is allowed by statute to agencies under certain circumstances.

- HB 2 provides both the actual appropriation amounts authorized to agencies and programs, and language that establishes requirements, restrictions, and/or conditions of the funding authority. It is a temporary spending bill, meaning that while funded operations may be ongoing, the funding itself is only good for two years. After that, the next legislature must reauthorize funding to support continued operations.
- HB 2 is a policy roadmap for the state. Agencies, interim legislative committees, and members of the public all use and must comply with its provisions, and rely on its direction. It is considered a very powerful policy-making tool.
- Agencies must have an appropriation to spend funds from the treasury
- The legislature is the appropriations source
- The legislature can place conditions on appropriations. If the agency expends the funds, the conditions of the appropriation are accepted
- Agencies must comply with HB 2 appropriations and conditions

HB 2 and the Range and Limitations of Legislative Action

While HB 2 is a powerful tool, it is also important to remember that it is a temporary appropriations bill. The state's constitution prohibits the use of HB 2 for any purpose other than to fund operating expenses for the three branches of government, to pay debt service, and to fund public schools.

Generally the legislature cannot put an appropriation or condition of appropriation in HB 2 that conflicts with substantive law. If the instructions, restrictions, or allowances provided to an agency through language or other conditions are to be effective, and if they are to carry the necessary authority to compel action, there should be no conflict with substantive law. This issue is discussed in more detail in the "HB 2 Appropriations Tools" section of this manual.

At the same time, it is important to remember that:

- **HB 2 is law.** If the legislature has included a provision in HB 2 that instructs and requires an agency to do something with an appropriation, the agency is compelled to use the appropriation as directed. If the agency chooses *not* to, the legislature has two primary avenues of recourse:
 - **Legal Action.** The legislature can compel compliance with provisions through legal action
 - **Budget Action.** During the next session, the legislature can include adjustments to budgets, or can clarify or strengthen measures

Obviously, taking legal action against an agency is a major step and one that is only taken under extreme circumstances. Waiting until the next session to take action means that the legislature's express instructions will not be followed for an entire interim. Non-compliance with parts of the law can undermine the force of the remainder of the law. It is therefore important that agencies know exactly what is expected of them and understand the consequences of non-compliance.

At times the best action may be to work with the agency as early in the process as possible to develop language and requirements that meet both legislative and executive purposes. When language is agreed to by all parties, it strengthens the commitment by all.

When provisional language or other conditions are written into HB 2, the legislature may wish to provide a mechanism for legislative review. The legislature may allow review relative to specific issues during the interim through such bodies as the Legislative Finance Committee.

Content and Form of HB 2

HB 2 consists of four main parts: 1) boilerplate language; 2) appropriations by agency and program; 3) agency specific language; and 4) internal service rates. Subcommittees make recommendations for all components with the exception of boilerplate language. The boilerplate is proposed by the Governor. Legislative action on the boilerplate begins when the House Appropriations Committee holds hearings on HB 2.

HB 2 APPROPRIATION TOOLS

When the legislature establishes a budget for a program or agency, it is not just providing an authorization to spend funds. It is also expressing its will and/or expectations concerning expenditure of funds or a given agency action. According to statute, agencies must spend funds in accordance with the expressed intent of the legislature.

Conditions can be placed on an appropriation. The receiving entity (agency) can choose to accept the appropriation or not. If they choose to accept, they have also accepted any conditions attached. Conditions are placed in a number of ways, including:

- The addition of language that expands, clarifies, compels, or instructs
- Segregation of appropriations from the program appropriation to allow for:
 - a. Individual tracking and review;
 - b. Restrictions on expenditures;
 - c. Flexibility on expenditures between fiscal years; and
 - d. Requirements that specific items be left out of the next executive budget base.

In order for the legislature to fully exercise its authority and optimize its opportunities, it must understand the tools and how to use them effectively. This section is designed to serve that purpose by discussing the tools, as well as the opportunities and limitations they imply. The discussion includes:

- HB 2 language
- Line items, which allow the legislature to break out expenditures
- Two different appropriations designations:
 - Contingency appropriations
 - Language appropriations

HB 2 LANGUAGE – POWERS, POSSIBILITIES, AND LIMITATIONS

The use of conditional and restrictive language in HB 2 can be a powerful and effective tool to clarify and establish legislative policy, direct action, and express legislative intent. The use of conditional and restrictive language in conjunction with a line item appropriation is the primary tool for the legislature to provide legislative direction while giving agencies the flexibility necessary to manage themselves in accordance with statutes and other mandates. The legislature must be aware of the advantages and limitations of conditional and restrictive language in order to make this tool effective. This section discusses considerations for conditional or restrictive language in HB 2.

Legal Considerations

HB 2 and its language are law, but is not codified in the Montana Code Annotated. According to Article V. Section 11 of the Montana Constitution, the General Appropriations Act “shall contain only appropriations for the ordinary expenses of the legislative, executive, and judicial branches, for interest on the public debt, and for public schools.” Conditions and restrictions relevant to the purpose of an appropriation in HB 2 are permissible. Once an agency accepts an appropriation, it must spend the funds in accordance with legislative conditions and accept any limitations established in HB 2. The Governor can veto a condition or restriction in HB 2, but must also veto the appropriation tied to it. The Governor can veto a “rider” in HB 2. A rider is “an unrelated substantive piece of legislation” incorporated in HB 2.

Limitation and Legal Requirements

HB 2 cannot, expressly or by implication, amend (supplant, or conflict with) substantive law. If the legislature wishes to change substantive law, the change must be included in a separate bill.

Section 17-8-103(2), MCA, provides:

“A condition or limitation contained in an appropriation act shall govern the administration and expenditure of the appropriation until the appropriation has been expended for the purpose set forth in the act or until such condition or limitation is changed by a subsequent appropriation act. In no event does a condition or limitation contained in an appropriation act amend any other statute.”

Legal Challenge: Language that directly or through implication attempts to change substantive law is subject to legal challenge. In addition to the expense involved in a lawsuit:

- a. The legislature’s directives are not carried out and, in the case of an unconstitutional appropriation, funds are not available for the legislature’s intended purpose
- b. Lawsuits often have unintended consequences. Rulings can result in greater restrictions or involve issues that were not originally envisioned

While HB 2 has a clause in its boilerplate language that says if one section of the bill is declared unconstitutional it is severed from the rest of the bill, this clause does not guarantee that the entire bill could not be declared unconstitutional, particularly when the condition or restriction is included in the boilerplate. If this were to occur, state government would not have the money necessary to operate until the legislature convened a special session to pass a new appropriations bill.

Lack of Compelling Authority: Inappropriate or meaningless language can diminish legislative authority and power. This places agencies in a position in which they do not have to comply with HB 2 language. This, in turn, undermines all language and the general authority of HB 2. In addition, interim legislative committees and others can be left to question which language is enforceable.

For these reasons, when crafting conditions and restrictions, the legislature must remain aware of applicable appropriations law, as well as the laws governing agency operations. The legislature must be careful to ensure that the condition or restriction does not conflict with or attempt to amend law. It also must be relevant to the appropriation.

Appropriations Law

While the legislature should be aware of any statutes that would render its action in HB 2 illegal, there are a number of critical appropriations laws of which the legislature should be aware when establishing appropriations language or other restrictions. HB 2 cannot:

- Give prior approval to supplemental appropriations or budget amendments

- Require or prohibit the inclusion of certain budget items in the Governor's Budget for the next biennium
- Prohibit agencies from hiring FTE or filling certain positions
- Include any other condition that conflicts with substantive law

Powers and Possibilities

If the condition or restriction is within legal requirements, the legislature has broad discretion to insert the condition or restriction in HB 2. The following examples are a combination of real-world and theoretical examples to illustrate some of the situations in which language can be used as a budgeting tool in conjunction with a line item appropriation.

Language can be used to place a contingency on an appropriation. Example: "Up to \$75,000 of the amount of the appropriations in item 6f is contingent upon receiving a transfer of the equivalent amount of funds of public health and human services..."

Language can be used to clarify what the legislature expects the agency to do, or do with the appropriation. Example: "Expenditures for all provider rate increases approved by the legislature must be limited to the dollar amounts appropriated rather than a percentage amount..."

Or "The department shall distribute the funds in ...a way that provides reasonable assurance that the funds are used solely for direct care wage and benefit increases..."

Language can be used to place restrictions on the use of an appropriation. Example: "Item 6f may only be used to provide additional funding to school districts for computer equipment."

Line Items

HB 2 includes appropriations at the program (or division) level as a default. The legislature can exercise some additional control, in certain circumstances, by using line items. Once an appropriation is made, two courses of action come into play:

- 1) The legislature may or may not have given specific direction on use of the money; and
- 2) Statute allows, in the absence of prohibition, the movement of funds for different purposes or to different programs. If an agency has excess authority in one area, they can transfer that authority to another program within the agency, unless the legislature has prohibited that transfer.

The use and theory of line-items

Line items are specific appropriations in HB 2 separated from the appropriation of the program of which they are a part. Line items highlight certain appropriations and ensure that they can be separately tracked on the state accounting system. There are two aspects of line iteming: legislative control versus agency discretion.

As stated, statute allows, in the absence of prohibition, an agency to transfer funds to another program, or to use funds appropriated for one purpose for another purpose. Generally, this allowance recognizes the dynamic nature of state government, and gives managers the latitude to manage budgets as necessary. At the same time, as the policy makers for the State of Montana, the legislature has certain expectations for the expenditure of the funds it provides to state agencies, and needs to retain some control over the expenditure of those funds.

Line items represent a balance between the legislature's ability to set policy and control budgets, and agencies' ability to manage in a dynamic environment.

Line Item Uses

Line items may be used to:

- Restrict the spending of appropriations to a specific purpose so that they cannot be spent elsewhere
- Ensure that funds do not appear in the base in the next session
- Provide for some other restriction, intent, or legislative guidance as to the expenditure of the funds
- Provide an easy way to track expenditures for a specific function to determine how much was expended during the biennium; and/or
- Allow the agency to spend funds in either year of the biennium.

Mechanics of Line Iteming

The purpose of line items can be specified through the use of one or more designations. The designation types are *restricted*, *one-time-only (OTO)*, and *biennial*, and are described as follows:

Restricted – putting this designation on the appropriation will ensure that the funds cannot be used for another purpose. This designation can be used under a number of circumstances, including but not limited to the following scenarios:

- The amount necessary to fund the function is unclear and the legislature does not wish to provide excess authority that could be used elsewhere. (Example: funds have been requested for an event that may not occur, such as flood control)
- The legislature wants to ensure that the function funded is actually funded at that level, instead of taking lower priority to other items in the budget during the interim

OTO (One-Time-Only) – this designation specifically states that the expenditures associated with the line item cannot appear in the base budget in the next biennium. There are a number of circumstances under which the legislature may wish to prevent expenditures from appearing in the base:

- It is necessary to gauge the impact or efficacy of a function rather than assuming it will become an ongoing function of state government. In this instance, if the program is to be continuing, the agency must request funds in a new proposal that allows for specific review and requires positive action.
- Costs are for start-up only and are not meant to continue either because the start-up costs are no longer necessary or because the agency is expected to continue funding through the existing budget. The function or project is expected or required to terminate in the coming biennium.
- The funding is for equipment or other one-time expense

Examples:

- The legislature started a new program to help troubled youth further their educations. Due to the lack of history, the appropriation was made as an OTO (One-Time-Only) to allow the legislature to gauge its effectiveness before funding continuance of the program
- The legislature made a one-time-only provision of resources to restock Echo Lake with fish

Biennial – appropriations are generally made for one year only. If the legislature wishes the agency to spend the money over the entire biennium, it must designate the appropriation as biennial. The primary reason for providing a biennial appropriation is that the expenditures will take place sometime during the biennium and flexibility is needed to have the funding authority available when needed.

Examples:

- Audits, for which an agency must pay, may take place in either the first or second year (or both) of a biennium, depending upon the schedule adopted
- The budget for the Office of Public Instruction is biennial to address fluctuation in school funding requirements

Contingency Appropriations

Contingency appropriations are provided when a specific event occurs or if certain conditions are met and are reserved for those instances when it is not certain whether the funds required will actually become available and/or the function will actually be performed.

Examples:

- 1) In this example, the department has \$200,000 of authority in the event that they need to perform an environmental impact study (the actual cash would be provided by the entity for whom the EIS would be performed). "Item a is provided in the event the department must perform an environmental impact statement." (Item a is "EIS: \$200,000 (state special revenue)" in HB 2)
- 2) The following is an example of a reverse contingency appropriation. "Item 8 contains a general fund appropriation of \$27,723 in FY 2000 and \$57,108 in FY 2001 for anticipated increases in tuition by the Board of Regents of 4 percent. If the Board of Regents approves college tuition increases of less than 4 percent, the general fund appropriation will be reduced a proportionate amount."

One of the most common types of contingency appropriations is *in the event a bill passes*. Initial instructions to the subcommittees from the joint chairs should address when the contingency should be added.

Advantages and Disadvantages to Using Contingency Appropriations

One advantage to contingency appropriations is that they allow for the provision of appropriations in uncertain conditions while assuring that funds will not be used if the contingency is not met.

A disadvantage to contingency appropriations is that they are counted in bill totals (unless they are placed in language), they can inappropriately inflate budgets, and reduce the amount assumed available for other purposes in the event contingencies are not met.

Legislative Options

If the legislature feels that a contingency appropriation is in order, the legislature may want to consider restricting the appropriation to the stated purpose. That way, if the event does not occur, the agency will not be able to move the authority to another area of the budget.

Language Appropriations

Language appropriations are made in the language of HB 2, rather than in program or line item appropriations.

Advantages and Disadvantages to Using Language Appropriations

Advantage: The bill does not include what may turn out to be unneeded appropriations that results in an inappropriate inflation of the totals. For example, a language appropriation may be requested in the event

that a specific event happens, the possibility for which exists but not in any certainty. (E.g., DEQ requests state special revenue authority IN CASE they have to do an environmental impact study.)

Disadvantage: Language appropriations are not included in the HB 2 totals except, any general fund authority that might be spent is included in the ending fund balance. If the language specifically requires a “trigger” that is not anticipated to be met, then the amount is a *potential* appropriation for purposes of the general fund balance sheet.

Required Elements

There are four required elements of the language appropriations:

- Clearly states money is appropriated
- Provides a maximum appropriation amount
- States the funding source
- Details how the appropriation is to be used

The following example demonstrates these elements:

“The department is appropriated up to \$600,00 for the biennium from the loan loss reserve account of the private loan program established in 80-1-603 for the purchase of prior liens on property held as loan security as provided in 85-1-615.”

SUBCOMMITTEE ROLE AND STRUCTURE

Given the unique characteristics of the HB 2, a subcommittee process is utilized. The two defining characteristics are:

- HB 2 contains the majority of appropriations that fund state government
- House Appropriations and Senate Finance and Claims share the responsibility for review and recommendations relative to HB 2

SUBCOMMITTEE ROLE

HB 2 is large and complex, making the standard committee bill review process impractical. A standard committee bill review process does not allow for the complexity of HB 2, recognize the need for expertise of committee staff and members relative to the various budget issues, nor allow the time necessary for thorough review.

In order to make the best use of resources and meet the needs of the legislature, HB 2 is divided into sections containing budgets of like-function agencies. Each section is reviewed by a subcommittee. This process allows for a thorough review of agencies budgets by the subcommittee members.

The end product of subcommittee review is the first and most in-depth recommendation to the House Appropriations Committee about what should be contained in HB 2.

SUBCOMMITTEE STRUCTURE

Subcommittees consist of members of House Appropriations and Senate Finance and Claims committees. A member of the House is always chairman; a member of the Senate is always vice chairman. Generally there are six members, who are evenly divided between chambers. Unless a suspension of rules has been made, the party holding the majority in the respective chamber also holds a majority of that chamber’s representation on the subcommittee.

Each subcommittee is assigned a group of agencies for review. A detailed listing of subcommittee agency groupings for the current legislative session can be found in Appendix B to this document. Subcommittees follow the hearing and executive action structure. Individual subcommittees decide when executive action occurs. This varies among subcommittees for a number of reasons. There are currently six subcommittees.

- General Government
- Human Services
- Natural Resources and Transportation
- Judicial Branch, Law Enforcement, and Justice
- Education
- Long-Range Planning (not a HB 2 subcommittee)

SCHEDULES

Subcommittees traditionally complete their work with a deadline preceding the 45th day of session. It is the responsibility of the LFD staff, in consultation with the committee chair, to establish an initial schedule for the completion of subcommittee work within the designated time frame.

Each subcommittee schedule is posted on the [LFD web page](#). Each time it is changed, the schedule is updated online. The schedule is used to provide official hearing notices required by law. A sample schedule from the 2015 legislative can be found in Appendix A to this document. In addition, the general schedule of the legislative session and the corresponding deadlines is also included.

UNDERSTANDING THE BUDGETING PROCESS

This section is divided into two main parts, basics of budgeting and building and acting on the budget. Each part will provide the reader with information needed to know and participate in the state budgeting process.

Basics of Budgeting: there are four areas key to understanding the state budget. They are:

- 1) Parts of the budget;
- 2) Revenue and revenue estimates;
- 3) Levels of expenditure; and
- 4) Directions to subcommittees.

Building and Acting on the Budget: components of the budget and how budgets are constructed. This section consists of Personal Services, Other Expenditure Items (e.g., operating expenses, equipment, grants, and benefits and claims), Internal Service Functions, and Statewide Present Law Adjustments.

BASICS OF BUDGETING

This section provides information to familiarize the budgeting process:

- 1) Structure of Budgeting and the Budgeting System;
- 2) What the appropriations committees need to know about revenues and the revenue estimating process, and how revenues impact appropriations work. The section also discusses the revenue estimating component of writing HB 2 when programs funded with state special revenue accounts are involved;
- 3) How expenditures are grouped and recorded, and their bearing on appropriations determination; and

- 4) A discussion of the decisions made in joint House Appropriations and Senate Finance and Claims committee action that affect all agencies, with information about how these decisions impact subcommittee action.

Structure of Budgeting and the Budget System

This section includes the actual form of the budget submission and the mechanism by which changes are made; and the subcommittee's rights and responsibilities within the budgeting structure.

Budget Form

In examining budgets, the legislature has the following available:

- Actual program expenditures
- Current year budget as modified by the executive
- Any changes requested in order to continue operations, but at a level adjusted for inflation or workload increases
- Any changes resulting from new initiatives or programs, including changes in funding

To achieve this, the budget is submitted by the executive and analyzed by the legislature on three levels:

- 1) The Base Budget
- 2) Present law
- 3) New proposals

$$\text{Base Budget} + \text{Present Law Adjustment} + \text{New Proposals} = \text{Executive Budget Request}$$

The Base

The base is the starting point for the next biennium's budget. For the 2017 Legislative session the executive and the Legislative Finance Committee have agreed to use the FY 2017 budget that includes the following:

1. Funding for ongoing operations during the 2015 session;
2. Allocations of the pay plan and contingency base funding approved in HB 2 by the 2015 Legislature, and allocated to agencies by the executive in the interim; and
3. Adjustments made to 1st level expenditures through operation plan changes or between programs/divisions as a result of program transfers or reorganizations, as allowed in 17-7-138, MCA;
4. Funding approved through another appropriation bill where legislation directs inclusion in the base.; and
5. Other decisions the legislature previously acted on like employee health benefits.

The following appropriations are not included in the base:

- One-time only appropriations
- Budget amendments adopted in the interim
- Statutory appropriations, which are not a part of HB 2
- Appropriations that are established as one-time-only
- Other administrative adjustments

If a change from the base (a decrease or an increase) is requested by the executive or approved by the legislature, it will be presented in one of two forms, depending upon its purpose:

- 1) As a present law adjustment; or
- 2) As a new proposal.

Present Law

Present law base is defined in MCA 17-7-102 (10) as that “level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- Changes resulting from legally mandated workload, caseload, or enrollment increases or decreases
- Changes in funding requirements resulting from constitutional or statutory schedules or formulas;
- Inflationary or deflationary adjustments
- Elimination of nonrecurring appropriations”

Present law adjustments can cause large changes to the budget, such as the Department of Public Health and Human Services, where changes in caseload are considered present law and can be very large in dollar amount.

New Proposals

New proposals are defined in MCA 17-7-102 (9) as “requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding. The distinction between new proposals and present law changes is based on the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal.”

A new proposal can be as simple as changing a funding source from one fund to another; or as complicated as adding a variety of resources to a current program.

Budget Changes

The executive submits changes to the base budget using change packages that are either present law adjustments or new proposals. Joint Appropriations Subcommittees examine change packages proposed by the Governor and can approve, deny or reformulate proposed change packages. The legislature is not bound to executive change packages and can create additional packages based on budget policy choices.

Subcommittees have four primary rights and responsibilities within this structure. They:

- 1) Approve and fund the base;
- 2) Determine whether to approve any of the Governor’s present law adjustments or new proposals and set the level or source of funding;
- 3) Make any other changes to the budget desired by the subcommittee; and
- 4) Specify conditions or expectations relative to the use of the appropriations.

Revenue Estimates

Legislative committees that handle budget issues, i.e., House Appropriations, Senate Finance and Claims and related subcommittees, do not deal directly with revenue estimates or tax bills. However, the amount of revenue available has a direct bearing on budget work.

- The Montana Constitution requires that the budget be balanced before the legislature can adjourn. Therefore, legislative expenditure committees must be very aware of the amount of revenues available and specifically general fund revenue estimates.
- The availability of general fund can influence each subcommittee's options. Subcommittees may be asked to work toward general fund targets within their sections or specific agencies, depending upon the anticipated financial position of the general fund financial position.
- Generally revenue estimates are determined by the Revenue and Transportation Interim Committee (RTIC) at the final meeting of the interim prior to the legislative session. However, each legislature is unique and on at least one occasion RTIC did not adopt a revenue estimate, rather voting to defer the decision to the legislative session. This decision resulted in the appropriations subcommittees using revenue estimates prepared by the legislative staff when contemplating agency budgets. The legislative staff estimates differed from the executive agencies' estimates creating additional discussion throughout the subcommittee process.

Appropriation of Funds

Subcommittees must, in the course of their deliberations, appropriate funds from the state general fund, various state and federal special revenue accounts, and limited proprietary funds. The following factors must be considered by the legislature.

- 1) Total funds available for appropriation;
- 2) The general fund impacts; and
- 3) The overall status and effect of various appropriation levels on the accounts.

The LFD Budget Analysis may include any identifiable issues with fund balances. This includes the stability of federal funding based on Congressional actions. The LFD staff can also provide the anticipated general fund ending balance, and any additional information on the status of any specific non-general fund account.

Levels of Expenditures

Expenditures of state government are classified at three levels: 1) category; 2) object; and 3) detail, becoming progressively more detailed by level. Budgets are created at third (detailed) level and can easily be rolled up into object or category for comparative purposes.

The following list is an illustration of the classifications. Each of the numbered items represent the category level of expenditure, followed by the object and detail indentations.

- 1) 61000 - Personal services
 - 2) 61100 - Salaries
 - 3) 61101 - Regular
 - 61102 - Overtime
 - 61103 - Sick Leave

HB 2 normally contains boiler plate language that establishes the first level of expenditures and funding as legislative intent. If the legislature provided an appropriation for additional over-time (third level, account 61102), the intent is personal services (first level, account 61000).

Budget Policy Issues

Per statute MCA 5-12-205 (7) the LFC provides recommendations on certain budget issues, and applies consistent policy and changes to the budgetary process. Chairs of the House Appropriations Committee and Senate Finance and Claims are responsible for selecting and implementing recommendations.

Recommendations can cover any number of budgetary issues. Subcommittees are required to follow these policies as they do their work. Some of these issues are listed and explained for purposes of reference.

Starting point for legislative action

The starting point is the point from which the budget growth is measured and budgetary changes are made. For the 2017 Legislative Session the LFC and the Governor's budget office agreed that the 2019 biennium budget would include as the starting point the FY 2017 executive modified budget. This budget includes the budget allocated by the 2015 legislature, plus modifications made by the executive for FY 2017. In order to maintain ties to the legislative budget, the LFC directed the LFD to provide a summary of the modifications.

Non-discretionary increases

Agencies must pay certain costs resulting from policy decisions made by the previous legislature. Consistency between application and funding of these non-discretionary increases is necessary. A primary example is the current biennium pay plan. The legislature delayed implementation of the pay in each year of the biennium to the first full pay period in January that includes the 15th. Delayed implementation and second year increases mean that the full costs of the pay plan are not reflected in the 2017 executive modified base. (For more detail in the "Statewide Present Law Adjustments" section under "Personal Services.")

Budget decisions made centrally with costs allocated to agencies (fixed costs)

Certain costs like rent are fixed or set by the General Government (Section A) Subcommittee. How much an agency pays for certain items is determined based upon the budgets established for the programs providing those services. For example, the rates charged to agencies for information services provided by the State Information Technology Services Division are established by the General Government Subcommittee. In the instance of fixed costs, they may be approved or adjusted and then approved by the Section A subcommittee. This action ensures that individual agencies will not be faced with the payment of fixed costs without receiving the appropriation to do so. Other subcommittees are directed to adjust agency budgets based on the rates approved in Section A. Fixed costs are discussed in more detail in the "Statewide Present Law Adjustments" section.

Inflation

Inflation is usually added to various items in the executive budget, and predominantly covers utilities. Again, Section A subcommittee reviews and approves or adjusts and approves inflation factors. Like fixed costs, the agency budget is adjusted for any changes by other subcommittees.

Vacancy savings

This budget function reduces the personal services budget to account for naturally occurring turnover. The LFC has in the past recommended a vacancy savings rate (i.e. 2%). Should this occur, an agency would need its budget adjusted.

Making changes to Full Time Equivalent (FTE) costs

Since the state budgeting system (IBARS) automatically assigns costs to individual positions (FTE) based upon the attributes of a position, there can be a disconnect between removal or addition of costs associated with FTE. Normally, when changing funding for personal services subcommittees specify adjustments designating the number of FTE and the attributes associated with positions (e.g., entry level engineer), rather than a dollar amount they wish to increase or decrease personal services. The system can then calculate the actual costs associated with the change in funding.

Funding for potential bills or other contingencies

Occasionally, budgets are requested that include funding in anticipation of the passage of other legislation or other legislation containing an appropriation. Traditionally the legislature has refrained from adding these funds until the bill passes, except for school funding legislation. If subcommittees wish to provide contingency appropriations, they have two general options: 1) add the appropriation with the stipulation that the funds be removed if the contingency (i.e. passage of the legislation) doesn't occur; or 2) write the budget so that the funds are not added until the event occurs.

BUILDING AND ACTING ON THE BUDGET

This section contains information on the various components of the budget, how they are put together, and the options available to the legislature when writing HB 2. The following subjects are included:

- How personal services budgets are built, and the range of legislative action possible in funding personal services
- How other expenditure items are built into the budget, and the range of legislative action when funding those items
- How functions funded through charges to other agencies or other functions within an agency are reviewed, and the legislative responsibility for determining the rates charged
- Budget items that must be decided centrally, rather than within each subcommittee, and the responsibilities and range of action possible for each

Personal Services Budgeting

Personal services budgets are constructed by combining the value of individual positions and their assigned attributes. Those attributes include:

- The FTE level (whether the position is full-time or some fraction of full-time)
- The base salary of the position
- The amount of time the position has been filled (longevity)
- Adjustments for health insurance premiums, changes in payroll taxes, etc.

Benefits are determined by applying unique benefit attributes to each position. For example, the state must pay a portion of retirement costs, Federal Insurance Compensation Act (FICA) taxes, workers compensation, unemployment insurance taxes, and health insurance for all employees. With the exception of health insurance, which is a set amount applicable to all full-time employees, the level of these payments is based upon certain factors unique (and universal) to the type of benefit. If the FICA or workers' compensation tax rate is expected to change during the coming biennium that change has been reflected as part of the executive's budget. Health insurance is budgeted at the level authorized by the last legislature.

The executive builds the personal services request using adjusted current year data. Shortly after the end of FY 2016, a "snapshot" is taken of all positions within each program in each agency as funded in HB 2. The attributes of positions are captured, including salary levels of those currently occupying each position (if the position is vacant, the executive state agencies will use 83% of the base hourly rate from the market salary survey to establish the salary level). Benefits expected to be in effect during the 2019 biennium are added to this salary. The assumption is made that the person currently occupying the position will fill the position for the entire year, the current salary is captured for budgetary purposes. The growth between the snapshot cost for FY 2018 and the FY 2017 executive modified budget is accounted for in a statewide present law adjustment (SWPL). Like present law, the funding is for activity approved by the previously legislature and it is handled in the same method for each agency; hence statewide.

Personal Services – Legislative Estimate

The snapshot process used by the executive may not represent what the legislature anticipated. The executive snapshot also contains such items as other pay adjustments and position upgrades. Conversely the legislature approved only two specific increases for the 2017 biennium; 1) \$0.50 per hour and 2) amount for health insurance per FTE. To provide a comparison point, the LFD calculates the personal services estimate by adding the pay raise and insurance adjustment to the personal services budget contained in the executive modified FY 2017 budget. This estimate can be used to determine if differences exist. The executive's SWPL adjustment will assist the legislature in determining what is driving the differences.

There are a number of reasons why the executive personal services request may vary significantly from the legislative personal services estimate.

- Adjustments in benefit rates, such as a reduction in workers compensation
- Pay band upgrades or downgrades. The band at which a position is classified is dependent upon a number of factors, including duties, skills and experience required. When a change is made to those duties or requirements, or as a result of a review, the band of a position may be changed. This change results in different salary requirements. The legislature cannot unilaterally upgrade or downgrade a position. This process, designed to protect the employee as well as the state, is handled by the individual agencies
- Pay adjustments to employee base pay for such items as recognizing employee performance or changes in market salaries for the position
- Unusual overtime or differential pay: Positions that work 24/7 or unexpected overtime
- Vacancy savings rates

Legislative Action on Personal Services

The legislature can make any number of changes to personal services from the amount requested by the executive. The legislature may need specific language and/or line-item appropriations to enact some changes. The legislature can:

- Add or eliminate funding for FTE
- Change personal service rates including per diem, overtime, or differential pay
- Enact vacancy savings
- Restrict funding for personal services
- Allocate funding to hard-to-fill positions

The legislature cannot:

- Change benefit levels. Changes in benefits can be made only if underlying statutes determining the benefit levels are changed
- Provide upgrades or downgrades to individuals or positions
- Prohibit the hiring of individual types of positions or require that particular positions be eliminated
- Require the removal of individuals

Even though the legislature examines and uses FTE information, it does not approve the number of FTE, nor does it add or eliminate FTE. As per previous discussions, if the legislature chooses to add personal services funding, the amounts are determined by the attributes of the type of position required. Often subcommittees look for comparable positions to establish that amount. The legislature adds or eliminates the funding associated with FTE. Full-time-equivalent levels are essentially controlled by the entity with authority over the agency (in most cases the Governor), while funding is legislatively controlled. Obviously, FTE cannot be hired unless there is funding. However, ultimately the Executive and Judicial Branches have final authority over the number and composition of FTE hired.

Temporary FTE, sometimes referred to as modified FTE, can be hired in the interim without legislative approval if appropriation authority and funding are available. However if an agency wishes to maintain those positions, they must be requested in a new proposal in the subsequent executive budget.

Constructing the Remainder of the Budget

Incremental Changes

The remainder of the budget for most agencies (including such items as operating expenses, equipment, grants, benefits and claims) is generally constructed using an incremental approach. Anticipated or desired changes to the budget in the base year are requested by the executive. Individual changes to expenditure items are grouped in change packages based on the purpose or cause of the change. A change package might reflect a specific change or an adjustment to the overall program costs. Each change package is accompanied with narrative describing the need for the change.

A specific change. If the agency anticipates an increase in the number of people requesting materials, they would specifically request an increase for postage and the other resources needed to address this increase in workload.

Adjustment to program costs. The amount requested in the change package simply reflects the difference between the total anticipated costs and the base budget year. For example, estimates of Medicaid expenditures are based upon projected numbers of recipients and the mix of services they require.

Internal Services Functions

Certain functions performed by programs of state government are funded by agencies receiving the services.

- A program or function that provides internal services functions to all or most other state agencies charge a fixed rate. For functions providing statewide services, charges made to receiving agencies are called “fixed costs”. The General Government Subcommittee establishes the rates for most programs providing this type of services. Because that subcommittee determines the rates, individual subcommittees hearing the budgets of agencies paying the charge have limited options. (For a more detailed discussion and a listing of the programs funded in this way, please see the “Fixed Cost” portion of the “Statewide Present Law Adjustments” section.)
- A fixed rate can also be charged to other entities within an agency to cover the cost of shared services often located in the central operations program. This rate is approved by the subcommittee handling the agency’s budget as it only impacts that agency
- Regardless, the legislature approves the upper limit of charges. (Note: rates cannot be raised during the interim) Rates by the entities providing for services are included in a special section of HB 2. All funds to pay for services provided are included in the receiving agency’s HB 2 budget. The funding process is a bit different

The federal government does not directly provide funding for central operations within an agency, but, these functions support federally-funded programs. To avoid leaving the state with totally responsibility for these costs arrangements have been made with federal agencies through which they pay a portion of these costs through application of a charge, or “indirect cost” to the federally-funded programs. This charge is then applied to all other funding sources to fund the central function.

Legislative Responsibility

The legislature is responsible for establishing the rates charged, it must ask:

- What the program does and what is it proposing to do in the next biennium?
- What are the rates that will be charged? Who will pay them?
- What is the status of the fund that will receive and expend the revenue? Is the fund balance appropriate and adequate? What are the long-term prospects for the health of the account?
- Additionally, the subcommittee may need to make rate or budget adjustments based upon the needs of the program. If an internal service rate is adjusted, the budget of the agency using the service should also be adjusted.

Internal Service Rates

An agency performing functions utilized by other agencies may charge on an “as-used” basis. Examples include records management services offered by the Secretary of State, and agency legal services performed by the Department of Justice. Respective subcommittees establish rates, while subcommittees hearing the budgets of agencies using the services determine the appropriate level of funding and anticipated usage of the service.

Internal services functions may be performed within an agency. Most agencies have unique internal services accounts. It is the responsibility of subcommittees to establish rates and add funds within given programs to allow for payment of those charges. For example, an agency’s centralized services function may perform accounting and personnel management for the entire agency, and may be funded through an indirect charge to the other programs.

Statewide Present Law Adjustments

Statewide present law adjustments are applied globally to all state agencies. The factors generally affect all agencies and may be beyond the control of individual agencies. Since there is global application and necessity for consistency of application among agencies, these adjustments are separate from other present law adjustments. Statewide present law adjustments have unique requirements that must be addressed by subcommittees and the legislature.

Fixed Costs

Fixed costs are fees charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services). The following are all of the fixed costs included in agency budgets that are addressed in the General Government Subcommittee, unless otherwise noted.

Department of Administration has the following fixed costs:

- Insurance and bonds
- Payroll service fees
- SABHRS operations unit fees
- Data network services incorporating data, voice, video, and computer applications and processing
- Messenger services
- Rent
- Warrant writing fees
- Audit fees
- Grounds maintenance

Department of Transportation under the purview of the Natural Resources and Transportation Subcommittee includes state motor pool lease vehicle rates as part of state agency fixed costs.

The General Government Subcommittee also addresses the Statewide Cost Allocation Plan (SWCAP). This charge is not as obvious as the others. The state cost allocation plan component is directly billed to agencies. Cost allocations are made to collect funds for the support of those state government operating costs that cannot be easily identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs, which would otherwise be supported entirely with general fund.

Boilerplate Language

Boilerplate language is language at the beginning of HB 2; in general, it applies to all agencies. Boilerplate language serves a number of purposes, including but not limited to:

- Establishing basic parameters for the budget and accompanying narrative
- Taking care of legal niceties (e.g., severability clause)
- Explaining terms and concepts, their application and related requirements
- Providing other directions, restrictions, requirements, or general legislative expectations
- Additional language in the boiler plate should be discussed with legal counsel assigned to House Appropriations and Senate Finance and Claims Committees

Action on boilerplate language begins when the House Appropriations Committee starts hearings on HB 2.

Appropriations by Program and Agency

Since HB 2 provides appropriations to operate most functions of state government, it is structurally different than other bills which either create new statutes or alter or otherwise amend current statute.

- Appropriations are provided to each program of state government requiring an appropriation by fund type – general fund, state special revenue, federal revenue, and proprietary
- The legislature can “line-item” appropriations at less than the program level for specific purposes. Line-items are discussed in more detail in the HB 2 Appropriations “Tools” section of this manual

Agency Specific Language

HB 2 may (but does not have to) include language to accompany an appropriation. Like boilerplate language, such language can serve a number of purposes. Unlike boilerplate language, under all but unusual circumstances, accompanying language will apply only to the specific agency. Occasionally, the legislature will include language that impacts more than one agency. In that case, the language will generally be included in the other agency’s budget. The purposes of language are to provide:

- Directions, restrictions, requirements, or general legislative expectations
- A language appropriation (discussed in the “HB 2 Appropriations Tool” section)
- Contingency language for other appropriations (also discussed in “HB 2 Appropriation Tools” section)

CONCLUSION

Please do not hesitate to ask Legislative Fiscal Division staff members for other assistance as needed, either during subcommittee hearings or at any point thereafter. If you have questions, concerns, or interest in agencies outside of the subcommittee, the staff specializing in that area will be happy to answer any questions that you might have.

EXAMPLE OF A SUBCOMMITTEE SCHEDULE

GENERAL GOVERNMENT

APPROPRIATIONS SUBCOMMITTEE

As of September 19, 2012

Representative , Chairman
 Representative
 Representative
 Representative
Room:

Senator , Vice-chairman
 Senator
 Senator
 Senator

Standard Time: 8:00AM – 12:00 Noon (except as noted)

Secretary:
 Secretary Name (Ext. #)

LFD Staff:
 Staff Name (Ext. xxxx) (Lead staff)
 Staff Name (Ext. xxxx)
 Staff Name (Ext. xxxx)

OBPP Representatives:
 Staff Name (Ext. xxxx)
 Staff Name (Ext. xxxx)
 Staff Name (ext. xxxx)

**** Agency Under This Subcommittee – Executive Action Noted ****

Agency Name
 Agency Name
 Agency Name
 Agency Name

Agency Name
 Agency Name
 Agency Name
 Agency Name

Agency Name
 Agency Name
 Agency Name
 Agency Name

Except as noted, this schedule deals with hearings and executive action on HB 2
Schedule items are approximate. Schedules for executive action are noted.
Some items may take more or less time than allotted and the overall schedule is subject to change.
Check this schedule often for the latest updates.

Day	Weekday	Date	Tentative Schedule	Topic / Agency	LFD Analyst
1	Mon	01/07			
2	Tues	01/08			
3	Wed	01/09			
4	Thur	01/10			
5	Fri	01/11			
7	Mon	01/14			
8	Tues	01/15			
9	Wed	01/16			
10	Thur	01/17			
11	Fri	01/18			
13	Mon	01/21			
14	Tues	01/22			
15	Wed	01/23			
16	Thur	01/24			
17	Fri	01/25			
19	Mon	01/28			
20	Tues	01/29			
21	Wed	01/30			
22	Thur	01/31			
23	Fri	02/01			
25	Mon	02/04			
26	Tues	02/05			
27	Wed	02/06			
28	Thur	02/07			
29	Fri	02/08			
31	Mon	02/11			
32	Tues	02/12			

EXAMPLE OF TRADITIONAL APPROPRIATIONS SCHEDULE:

Legislative Days

- 1-6 Feed Bill - Prepared by the Legislative Services Division. There will be hearings in both the House Appropriations and Senate Finance committees.
- 2-43 Subcommittee Hearings on HB 2 - Subcommittees meet three to four hours, four or five days a week.
- 50-55 Subcommittees Report HAC Action on HB 2 - On successive days, the six subcommittees present recommendations to the House Appropriations Committee (HAC).
- 56-61 Preparation of Bill and Narrative - The Legislative Fiscal Division (LFD) staff records the action of the full appropriations committee to create a new HB 2. The HAC version of the bill is a clean second reading copy that is a complete substitute from the original bill.

The LFD staff updates the HB 2 narrative to be consistent with full committee actions. The updated narrative, along with the bill, is distributed a day or two prior to the scheduled debate in the full House.

Long-Range Planning Subcommittee - The Long Range Planning bills normally follow HB 2. At this point HAC completes action and reports out all long-range planning bills to the House floor. These bills may or may not be amended by HAC.

- 64-65 *Appropriations Bill Second Reading* -- The bill is debated in the House by section. LFD staff update the bill and narrative following House action.
- 65 *House Third Reading of Appropriations Bill.*
- 66-76 *Senate Finance HB 2* – The committee is provided the updated bill and narrative a few days before the committee takes action. The bill is heard by section. Staff updates the bill and narrative to reflect committee action.
- 79 *Senate Floor Debate on Appropriations Bill.* -The bill is debated in the Senate by section. LFD provides a committee of the whole report following Senate action.
- 80 *Senate Third Reading on Appropriations Bill.*
- 80 Senate returns appropriations bill to the House. The House accepts or rejects the amendments.
- 81-89 If the House rejects the amendments, a free conference committee has traditionally been created, allowing the committee to make any changes to all parts of the bill. If the legislature chose to limit actions to specific items, a conference committee would be created and the items of discussion would be limited.

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State Capitol, First Floor, East Wing, Room 110A
(406) 444-2986
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State Auditor

Nick VanBrown (Ext. 4461, Office #130)

Dept. of Revenue

Kris Wilkinson (Ext. 2722, Office #114)

Dept. of Administration
Statewide Analysis, Biennial Comparisons

Health & Human Services

Scot Conrady (Ext. 4421, Office # 110H)/Katie Church

Business and Financial Services, Quality Assurance, Technology Services, Developmental Services, Management and Fair Hearings, Addictive and Mental Disorders

Alice Hecht (Ext. 1825, Office #110N)

Disability, Employment and Transitions, Human and Community Services, Child and Family Services, Child Support Enforcement, Medicaid Model

Joshua Poulette (Ext. 1542, Office #110G)

Director's Office, Public Health, Health Resources, Senior and Long Term Care, Medicaid and Health Services

Natural Resources & Transportation

Cathy Duncan (Ext. 4580, Office #117)

Transportation

Stephen Forrest (Ext. 5389, Office #132)

Fish, Wildlife & Parks, Environmental Quality, Livestock, Natural Resources & Conservation, Agriculture

Judicial Branch, Law Enforcement and Justice

Greg Dewitt (Ext. 5392, Office #119)/Scot Conrady

Judiciary; Board of Crime Control; Justice; Public Service Regulation; Corrections; Office of the Public Defender

Education

Rob Miller (Ext. 1795, Office #110G)

Office of Public Instruction; School for the Deaf and Blind; Board of Public Education

Shauna Albrecht Ext.1783, Room #110I)

Commissioner of Higher Education/Board of Regents Community Colleges, Six University Units and College of Tech., Agricultural Experiment Station, Extension Service, Forestry & Conservation Experiment Station, Bureau of Mines & Geology, Fire Services Training School, Montana Arts Council, Library Commission, Montana Historical Society

Long Range Planning

Cathy Duncan (Ext. 4580, Office #117)

Long-Range Building Program, State Building Energy Conservation, Long-Range Information Technology Program, Treasure State Endowment, Treasure State Endowment Regional Water System, Reclamation & Development Grant Program, Renewable Resource Grant & Loan Program, Cultural and Aesthetic Grant Program, Quality Schools Facilities Grant Program

Revenue Estimating/Monitoring/Tax Policy

Stephanie Morrison (Ext. 4408, Office 130)

Individual Income Tax

Sam Schaefer (Ext. 1787, Office #110O)

Corporate Income Tax, Interest & Income, Natural Resource Tax, Vehicle Taxes, Pensions, Sales Tax

Alice Hecht (Ext. 1825, Office #110N)

Consumption Taxes, Insurance Tax

Nick VanBrown (Ext. 4461, Office #130)

Property Tax, School Funding Model
IBARS budgeting process

Statewide Analysis, Communications, & Administration

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Example of Boilerplate Language HB 2 for 2017 Biennium

64th Legislature

HB0002



AN ACT APPROPRIATING MONEY TO VARIOUS STATE AGENCIES FOR THE BIENNIUMS ENDING JUNE 30, 2015, AND ENDING JUNE 30, 2017;
AND PROVIDING EFFECTIVE DATES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short title. [This act] may be cited as "The General Appropriations Act of 2015".

Section 2. First level expenditures. The agency and program appropriation tables in the legislative fiscal analyst narrative accompanying this bill, showing first level expenditures and funding for the 2017 biennium, are adopted as legislative intent.

Section 3. Legislative intent. The legislature intends that the funding contained in this bill for personal services fully funds current salaries of state positions and imposes a 2% vacancy savings.

Section 4. Severability. If any section, subsection, sentence, clause, or phrase of [this act] is for any reason held unconstitutional, the decision does not affect the validity of the remaining portions of [this act].

Section 5. Appropriation control. An appropriation item designated "Biennial" may be spent in either year of the biennium. An appropriation item designated "Restricted" may be used during the biennium only for the purpose designated by its title and as presented to the legislature. An appropriation item designated "One Time Only" or "OTO" may not be included in the present law base for the 2019 biennium. The office of budget and program planning shall establish a separate appropriation on the statewide accounting, budgeting, and human resource system for any item designated "Biennial", "Restricted",

*Legislative
Services
Division*

HB 2

Example of Internal Service Rates HB 2 for 2017 Biennium

NEW SECTION. Section 12. Rates. Internal service fund type fees and charges established by the legislature for the 2015 biennium in compliance with 17-7-123(1)(f)(ii) are as follows:

	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>
DEPARTMENT OF REVENUE – 5801		
1. Business and Income Taxes Division		
Delinquent Account Collection Fee (percent of amount collected)	5%	5%
DEPARTMENT OF ADMINISTRATION -- 6101		
1. Director's Office		
a. Management Services		
Total Allocation of Costs	\$1,658,964	\$1,598,962
b. Portion of Unit for Human Resources Charges Per FTE of User Programs		
	\$752	\$752
c. Continuity, Emergency Preparedness, and Security Program		
	\$725,967	\$725,967
2. State Financial Services Division		
a. SABHRS Finance and Budget Bureau		
SABHRS Services Fee (total allocation of costs)	\$4,008,249	\$3,818,905
b. Warrant Writer		
Mailer	\$0.92500	\$0.92500
Nonmailer	\$0.40000	\$0.40000
Emergency	\$15.0000	\$15.0000
Duplicates	\$10.0000	\$10.0000
Externals		



- R-1 -

HB 2

GLOSSARY

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget books and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium. In HB 2, it can be split between years, but still be biennial if so indicated.

Budget Amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount. They also are used as a method of appropriation if a specific event occurs.

Line Item – An appropriation made for a specific purpose. A line item appropriation highlights certain appropriation and ensures that it can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references must be listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see “Supplemental Appropriation”) – The transfer of appropriations for the second year of the biennium to the first year if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in a state facility. ADP is equivalent to one person served for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Benefits and Claims – A category of expenditure that accounts for provision of direct financial assistance or provision of services to specific individuals. Persons must meet eligibility criteria such as income limits and end of disability to receive services.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Budget - The total amount of appropriations for a given year and includes one-time only appropriations.

Budget Analysis – The statutorily required analysis provided by the Legislative Fiscal Division to the Legislature.

Cat and Dog Appropriations – One-time or on-going appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Change Package – Separate, specific adjustments to the base budget. Change packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Executive Modified Base – The operating budget after all program transfers, operating plan changes and reorganizations occur.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by agencies and reviewed by the Governor's Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. FY 2015 refers to the fiscal year ending June 30, 2015. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services).

FTE – Full-time equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period (fiscal year).

Grants – An expenditure category used to account for the payment by a government entity to an entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for the operation of state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

IBARS – The Internet Budget and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS)

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

Legislative Budget – The amounts recorded in IBARS at the end of session with line item vetoes removed.

Legislative Budgeted Personal Services - An amount estimated by the Legislative Fiscal Division that represents the level of personal services that the Legislature would anticipate personal services budgets to grow, based on statutory adjustments to pay and benefits.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of assessed property value.

New Proposals – Requests (change packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Legislative Budget – The level of funding authorized by previous legislature, including pay plan and contingency fund allocations and any line item veto action by the Governor.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Non-budgeted Transfer – Funds moved from one account to another in the state accounting system based upon statutory authority but not by appropriation in the General Appropriations Act (HB 2).

Operating Expenses – All expenditures that do not meet the personal services and capital outlay classification criteria.

These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

- o Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
- o Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for personnel pay and benefits.

Personal Services Snapshot – The point in time at which personal services attributes are captured from SABHRS and from which the personal services budget is determined. The executive personal services budget request is based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (change packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

- o Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
- o Internal service funds - Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Tax Holiday – Oil and natural gas produced from a vertically drilled well qualifies for a tax holiday of 12 months and a tax rate of 0.76 percent (0.5 percent production tax and 0.09 percent board of oil and gas tax and 0.17 percent to local impact accounts for cities and counties). Oil and natural gas produced from a horizontally drilled well qualifies for a tax holiday of 18 months and the same tax rate of 0.76 percent. After the tax holiday is over these minerals are taxed at 9 percent.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year. Also the rate that may be established by the legislature to reduce personal services budgets.

ACRONYMS

AES	Agricultural Experiment Station	FMAP	Federal Medical Assistance Percentage (Medicaid match rate)
ACA	Affordable Care Act	FSR	Federal Special Revenue
ADP	Average Daily Population	FSTS	Fire Services Training
AMDD	Addictive & Mental Disorders Division	School	
ANB	Average Number Belonging (K-12 Education)	FTE	Full-Time Equivalent
ARM	Administrative Rules of Montana	FWP	Department of Fish, Wildlife, and Parks
BASE Aid	Base Amount for School Equity Aid	FFY	Federal Fiscal Year
BPE	Board of Public Education	FY	Fiscal Year
C&A	Cultural and Aesthetic	FYE	Fiscal Year End
(Trust) CC	Community Colleges	GAAP	Generally Accepted Accounting Principles
CES	Cooperative Extension Service	GF	General Fund
CHIP	Children's Health Insurance Program (SCHIP)	GSL	Guaranteed Student Loan
CIO	Chief Information Officer	GTB	Guaranteed Tax Base
COPP	Commissioner of Political Practices		Montana Health and Economic Livelihood
COT	College of Technology		Partnership Act
CP	Change Package	HB	House Bill
CPI	Consumer Price Index	HAC	House Appropriations Committee
DEQ	Department of Environmental Quality	HMK	Healthy Montana Kids
DMA	Department of Military Affairs	HRD	Health Resources Division
DNRC	Department of Natural Resources and Conservation	HSRA	Highways Special Revenue Account
DOA	Department of Administration	IBARS	Internet Budgeting and Reporting
DOAg	Department of Agriculture	System	
DOC	Department of Commerce	I&I	Interest and Income
DOC	Department of Corrections	IT	Information Technology
DOJ	Department of Justice	ITSD	Information Technology Services
DOLI	Department of Labor and Industry	Division	
DOR	Department of Revenue	LAD	Legislative Audit Division
DOT	Department of Transportation	LEPO	Legislative Environmental Policy Office
DPHHS	Department of Public Health and Human Serv	LFA	Legislative Fiscal Analyst
es		LFC	Legislative Finance Committee
ES	Extension Service	LFD	Legislative Fiscal Division
FCES	Forestry and Conservation Experiment Station	LRBP	Long-Range Building Program
		LRITP	Long-Range Information Technology
		Program	
		LRP	Long-Range Planning
		LSD	Legislative Services Division

MAC	Montana Arts Council	RDGP	Reclamation and Development Grant
MBCC	Montana Board of Crime Control	Program	
MBMG	Montana Bureau of Mines and Geology	RIGWA	Resource Indemnity and Groundwater Assessment Tax
MCA	Montana Code Annotated		Resource Indemnity Trust
MCHA	Montana Comprehensive Health Association	RIT	Renewable Resource Grant & Loan Program
MDC	Montana Developmental Center	RRGL	
MDT	Montana Department of Transportation	Program	
MHP	Montana Highway Patrol	RTIC	Revenue & Transportation Interim Committee
MHS	Montana Historical Society	SA	Statutory Appropriation
MSDB	Montana School for the Deaf and Blind	SABHRS	Statewide Accounting, Budgeting, and Human Resources System
MSF	Montana State Fund		Safe, Accountable, Flexible, efficient Transportation Equity Act: A Legacy for Users
MSL	Montana State Library MSP	SAFETEA-LU	
	Montana State Prison		
MSU	Montana State University, followed by campus designation, i.e. MSU – Bozeman	SAO	State Auditor's Office
		SAVA	State Administration & Veterans' Affairs Interim Committee
MUS	Montana University System MWP		
	Montana Women's Prison	SB	Senate Bill
NB	Non-budgeted	SBCEP	State Building Energy Conservation Program
NP	New Proposal	SFC	Senate Finance and Claims Committee
OBPP	Office of Budget and Program Planning (Governor's Office)	SLTC	Senior and Long Term Care Division
		SOS	Secretary of State
OCHE	Office of the Commissioner of Higher Education	SSR	State Special Revenue
OPI	Office of Public Instruction	SWPLA	Statewide Present Law Adjustment
OTO	One-Time-Only	TANF	Temporary Assistance for Needy Families
PERS	Public Employees Retirement System	TRF	Teachers' Retirement System
PL	Present Law	TRSE	Treasure State Endowment Program
PPACA	Patient Protection and Affordable Care Act (Federal Health Care Reform) PSC	TESPRW	Treasure State Endowment Program Regional Water Systems
	Public Service Commission		
PSR	Public Service Regulation	UM	University of Montana, followed by campus designation, i. e. UM Missoula
QSFP	Quality School Facilities Program		