

LEGISLATIVE FISCAL DIVISION 2009 BIENNIUM PROPOSED WORK PLAN

A Report Prepared for the

Legislative Finance Committee

By
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Legislative Fiscal Division



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INTRODUCTION

This report summarizes the proposal of the Legislative Fiscal Analyst for the Legislative Fiscal Division interim work plan for the 2009 biennium. It represents a recommendation based upon legislature, legislators, and staff input as to topics for study, and is designed as a decision-making document, allowing for committee discussion, input, and adoption. Included in this proposal are the following:

- An explanation the work plan proposal, including how the LFD plans its work and developed the proposed studies
- Instructions for using the draft work plan to make decisions about the final work plan
- A description of the potential work plan topics and options for addressing those topics

Two additional documents are provided – an attachment containing copies of study resolutions passed by the 2007 Legislature that might involve the LFC and LFD staff, and a committee major studies prioritization worksheet.

WORK PLAN CONCEPT

BACKGROUND

LFD staff began the work plan process with a compilation of anticipated statutory, discretionary, and administrative duties that will require staff resources during the 2009 biennium interim period. These duties range from major statutory and mandated studies to maintenance tasks of the staff. They summarize a significant portion of staff commitments over the next 15 months, although they do not include all administrative and minor tasks, and time is allowed for emergent studies and tasks not yet known.

DEVELOPMENT OF PROPOSED MAJOR STUDIES

While the entire interim studies and commitments of LFD staff (as summarized in Attachment A) are subject to review and approval of the LFC, it is anticipated that the LFC will focus on a few major committee/staff study topics, while maintaining oversight of “all matters bearing upon the financial matters of state that is relevant to issues of policy and questions of statewide importance” (5-12-502, MCA. Staff proposes 8 major committee study topics for committee consideration and prioritization. These proposals include studies that were requested by legislators through study resolutions, and suggested topics by LFC members and LFD staff. A proposal paper summarizing the study topic, goals, and objectives is provided for each of the proposed studies.

The committee/staff statutory mandates are broad, and there may be other study topics of interest to the committee that are not included in the draft work plan. The committee is encouraged to propose other potential projects as additions or replacement studies.

It must be understood that the studies and staff projects/duties cannot all be completed, and that prioritization will allow the projects to be undertaken as staff/committee resources allow. The primary constraint limiting the LFC study agenda for the interim is the number of issues that can be effectively addressed within the available time and resources of the LFC members and LFD staff. Ultimately, the committee should adopt a plan that is prioritized and realistic in terms of limited staff, committee, and other resources.

This work plan is a DRAFT, and is a decision-making tool to help the LFC members work together to set priorities and decide how and where to spend the LFC’s limited time and resources. Once the LFC collectively prioritizes the work plan items and sets the scope and focus of the studies, they will become the work plan for the 2007 biennium interim. Staff will then develop specific staff tasking assignments, target dates, and specific work plans for each task as needed. The plan will then be submitted for review and update at every LFC meeting during the interim, and is subject to additions, deletions, and re-prioritization by the committee as deemed appropriate.

While the listing of staff ongoing and administrative tasks in attachment A is largely informational, the committee may wish to offer suggestions or directives in this area in the process of prioritizing the major goals of the interim. The items on the reference work plan document other than the nine proposed committee studies that will consume extensive staff resources are as follows:

Item 1	Analysis of Executive Budget for 2011 Biennium	Statutory
Item 2	Biennial Revenue Estimates	Statutory
Item 7	Staff Interim Committee on PEPB	Discretionary
Item 10	SJ 31, HB 488 – Studies of School Funding/Taxation	SB 525
Item 21	2011 Biennium Budget Projection – Big Picture Report	LFA
Item 27	Oversight/monitoring of agency new initiatives	HB2/other legislation
Item	LFD Systems Documentation	
Item 50	Use of Staff Comp Time/Leave Balances	LFA/Legislature
Item 53	Full Implementation of Staff Evaluations/Pay System	LFA/Legislature

RESOURCE LIMITATIONS

Please keep in mind the following when examining the proposed work plan:

- o The work plan assumes staff time to explore and develop other emergent policy issues for presentation to the committee/legislature, and may impact the number of discretionary projects addressed.
- o This work plan does not take into consideration any special sessions or other extraordinary commitments in a traditionally dynamic environment that might occur during the interim. If such events occur, it will directly impact the ability of staff to accomplish designated projects. In that event, the LFC would be asked to re-prioritize projects.

The reference work plan document provides an inventory of the workload commitments that staff considered in developing the work plan proposal, and is included for reference purposes as Attachment A.

INSTRUCTIONS

A committee major studies prioritization worksheet is included as a separate document. The worksheet is intended to help committee members prioritize the proposed studies in preparation for the LFC meeting and make notes for the committee discussion. Please perform the following steps in advance of the June 18 meeting:

1. Review the proposed work plan – A proposal document for each of the 8 study topics follows these instructions
2. Refer to the prioritization worksheet. Review the topics and add any additional topics that are important to you.
3. Prioritize the proposed topics
4. Make notes regarding scope, focus, and objectives of each proposal for committee discussion.

The proposed studies will be discussed at the June 18 LFC meeting, and at the end of the discussion, a general plan of what the LFC intends to work on should be the result. Any direction on how you think the studies can best be accomplished will assist staff in preparing the specific individual work plans for each selected topic. The committee may wish to consider assigning one or two committee members for each study topic as contact points for staff to develop work plans and seek consultation as the study progresses.

It is once again emphasized that the proposed work plan is a decision-making tool, and that everything in the plan is subject to approval by the committee.

PROPOSED WORK PLAN TOPICS

Study of Budget and Appropriations Processes of the State of Montana

Source/authority: LFC Members/LFD Staff Recommendation

Background – Article VIII of the Montana Constitution broadly and generally outlines the requirements and restrictions on matters of public revenue and finance. Title 7, Chapter 7, MCA, provides general and specific guidance regarding the development, submission, consideration, and adoption of the state budget through a process of executive proposition and legislative disposition. The statutes are more specific about the executive submission process, and say little about the legislative disposition process. Further, the statutes governing the state budget and the budgeting processes of state government were initially enacted over 30 years ago. Since then, the statutory budget process has in some cases been amended piecemeal, and many budget processes have been woven in the complex budget process by tradition, need, and systems design.

Both the statutory and procedural processes of the state budget processes are brought into question at times, and in some cases there have been attempts at sweeping change without broad based support.

The legislative budget process in Montana is founded on the principles of transparency, accountability, public notice, and public participation. The legislature has an obligation to ensure that statute are clear and that legislative processes, including bills and rules, that are based on those statutes and institutionalized procedures are legally sound, workable, and contribute to the efficiency of the state budget process.

The state budget process has been criticized for its complexity and some procedures and the inconsistencies stated above. Further, the 2007 legislative session in particular became a form of “poster child” for disregard of many institutional budget practices, raising strong criticisms from even objective, nonpartisan sources of inefficiency, manipulation, and compromise of the statutes and institution of the legislative budget process.

Given the requirement of the legislative to ensure the legally sound, workability, transparency, and efficiency of the state budget process, and the statutory role of the Legislative Finance Committee to oversee the state fiscal process and efficiency, it would be an appropriate role of the committee to conduct a study of the current statutes and processes in the interest of seeking a bipartisan plan for improvements to the process.

Study purpose/requirements: The Legislative Finance Committee would oversee and allocate sufficient committee and staff resources to study and make recommendations on reforms of the statutes, legislative rules, and institutional procedures guiding development, submission, consideration, and adoption of the state’s budget. The study would include examination of the history and rationale for the current budget process, existing practices, identification of conflicts in statute and practice, and other aspects relating to the efficiency and fairness of the legislative budget process. The goal would be to identify changes to statutes, rules, and other procedures that would promote the objectives of efficiency, effectiveness, transparency, accountability, and public participation in the budget process. This study would be a challenging project and would require a bi-partisan spirit of cooperation, and limitation of

scope to fit the time and resources available. It is anticipated that a subcommittee would be formed of the LFC to work on this, and that extensive staff resources would be required.

Scope of project: As stated above, this would be an extensive project, and the options for consideration are more than could be done in one interim. The committee would need to be disciplined and narrow the scope of the project to cover the highest priority topics in the first phase. In general, the project would include:

- Examining existing practices, authority, and restrictions on the legislative budget process
- Exploring the history and development of the statutes, rules, and practices that guide the budget processes of state government
- Examine budgeting processes followed in other states, including time lines and respective responsibilities of the executive and legislative branch in the process
- Identify options for resolving conflicting processes and ambiguity in the process
- Identify proposed changes/recommendations to the 2009 Legislature.

The scope of the project could consider any of the following options as well as others that may be nominated for consideration by LFC members:

1. The current “big picture” budget process and options for enhancements or revisions to the process – this would include a look at incremental budgeting as the framework for state budgeting, and other alternatives
2. Inventory, analysis and recommendations for changes to state statutes, rules, and procedures to meet the objectives of the budget process
3. A review of the current revenue estimating process to examine efficiency, accuracy, reliability, and current practices of the estimation of the revenue side of the budget equation (should involve cooperative effort with the Revenue and Transportation Interim Committee)
4. A review of the current structure for submission and development of budgets, i.e., Governor’s submission of a budget, legislative procedures and practices for developing the process
5. Examination of improved ways to budget for statewide present law adjustments – how can more complete and transparent information be provided to the legislature?
6. Examination of existing “institutional” budget processes and practices, and when and with what authority it would be appropriate to deviate from such practices – this would include the joint subcommittee process, the base budget used by the legislature, and the number and presentation of budget bills
7. Accessibility and authority to obtain budget and revenue data
8. Alternatives for personal services budgeting and how they are presented in the executive and legislative budgets
9. Data gathering and extraction enhancements to the state accounting system to provide the information necessary for legislative prioritization and budget decision-making
10. Legislative authority to oversee and require accountability of the executive once the budget is approved
11. Legislative authority to set procedures for the submission of the executive budget, and options to enforce executive compliance
12. Executive authority to call special sessions related to the budget – adequate notice, budget submission timelines, session planning (work with Legislative Council)
13. Examination of adequate ending fund balance reserves, contingency appropriations, and other good budget practices

14. A review of specific process, such as budgeting for proprietary funds, indirect cost allocation methods, vacancy savings concept, allocation of centrally provided services, etc.
15. Staff role in the budget process and maximization of legislator confidence in staff for fair and objective delivery of services

Again, this list is not all-inclusive and should be used as a “shopping list” for narrowing the scope of this study.

Staff resources: This study would require a staff task force of several LFD staff who would devote a significant amount of time to the project, and would likely work with a subcommittee of the LFC and possibly with other interim committees. It would require resources from all LFD staff to varying degrees during the interim. The number of hours of staff resources would vary extensively depending on the established scope of the project. NCSL might be a significant resource in this effort, particularly related to budget practices of other states.

Proposal: The LFC should consider establishing a subcommittee for this study. The subcommittee would correspond as advisors via email and phone, and would likely meet just prior to scheduled LFC meetings. The scope of the project would be established by LFC directives and subcommittee discretion. It is anticipated a series of reports would be presented to the subcommittee/LFC during the interim, and that final recommendations would be presented at the October 2008 LFC meeting.

Lead Staff: LFA and Principal Analysts

Examination/Revisions to Legislative Fiscal Division Products/Services

Source/authority: LFA recommendation

Background: The Legislative Fiscal Analyst is tasked with extensive statutory responsibilities (5-12-302, MCA) related to the fiscal and budget affairs of state government. The LFA serves at the pleasure of the Legislative Finance Committee as a non-partisan resource, and the LFD staff provides services to the entire legislature, under the guidance of the LFC. The portfolio of products and services developed by this office have developed over 30 years, and have grown extensively in past several biennia. The determination of which services are the most relevant and necessary for the legislative budget and appropriations process come from a variety of sources, including the Legislative Finance Committee. But the major share of services are generally determined by the LFA/LFD staff, with limited access to feedback on the value of those resources. It has been over a decade since the last review of LFD services and products. While staff receives numerous recommendations from individual legislators for services, it is difficult to ascertain the will of the body as a whole for prioritization of these services.

The Legislative Finance Committee, as well as legislators and committees during the course of the 2007 legislative session, raised numerous issues and concerns about adequate staffing for fiscal services from the Legislative Fiscal Division. Especially since the implementation of term limits, demands for staff resources have expanded, and staff is unable to meet all of the requests for services placed upon them. Prioritization of which services will be provided is often a staff decision. In view of legislative concerns, it would be appropriate to examine the current range of LFD services offered, what is not being offered that is deemed important, and to establish a way for direct feedback and legislative involvement in the prioritization of services provided.

Study requirements/purpose: The study would require an objective assessment of existing LFD services, and an examination of ways to improve services and an efficient method of prioritizing the services provided. It would also include examining the level of staff resources currently available and whether the staffing levels should be revised. A subcommittee of the LFC would be a viable way to conduct this study to ensure extensive input from subcommittee members and subcommittee referrals to other sources of input. The goal would be to develop and implement recommendations for improvements in the array and prioritization of services provided by LFD staff to provide the most useful information necessary for legislators in the budget and appropriations decision-making process.

Staff resources: This study will require significant staff time to evaluate current staff products and services, and to develop a methodology for obtaining feedback from legislators and others on existing services as well as desired additional services. This would involve a staff task group, and would involve all staff at times to provide input. Once feedback was obtained, the task would be to develop a presentation to the committee for evaluation and development of a recommendation for improved LFD services.

Scope of project: The project would include the following general steps:

- Development of a method of obtaining feedback from stakeholders through survey and other means
- Analysis of feedback and development of a methodology for assessment of feedback and recommendations
- Implementation of revised LFD staff portfolio of services and products based on LFC recommendations

The scope of the project could consider any of the following options as well as others that may be nominated for consideration by LFC members:

- LFD Publications and reports review – Why are they necessary, what is their usefulness, who is their audience, how can they be improved?
- Budget analysis presentation – alternatives and options
- Appropriations committees/subcommittees staffing – What is the desired range of services/expertise?
- LFD databases/tools for extraction/compilation of data – what additional resources are needed to meet the information needs of the legislature?
- Survey of legislators/committees/stakeholders for assessment of services needed/required
- Where are there areas where needs aren't being met (tax policy analysis, fiscal note assessments, etc)?
- LFD staffing levels and allocation – what is the appropriate level based on demand/cost?
- LFD staffing vulnerability – LFD is staffed with “experts” in various categories of the state budget – for example, there is only one Medicaid expert, one K-12 school funding expert, one general fund status expert. LFD systems are not adequately documented. What are options for reducing vulnerability in the event of an unplanned loss of a key staff member?
- General fund status report – alternatives and options for method of presentation
- Budget system (MBARS) transition planning to a new system

Proposal: The LFC should consider establishing a subcommittee for this study. The subcommittee would correspond as advisors via email and phone, and would likely meet just prior to scheduled LFC meetings. The scope of the project would be established by LFC directives and subcommittee discretion. It is anticipated a series of reports would be presented to the subcommittee/LFC during the interim, and that final recommendations would be presented at the October 2008 LFC meeting.

Lead Staff: LFA and Principal Analysts

Statutory Appropriations/Transfers: Legislative Oversight

Source/authority: LFD recommendation

Background: Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation that required all valid statutory appropriations to be contained in a list in 17-7-502, MCA. That list provides statutory citations for each statutory appropriation. Although there are currently 88 sections listed (some sections have multiple statutory appropriations and each appropriation listed in statute could have multiple appropriations established on the state accounting system). Of these, 21 sections statutorily appropriate general fund. In 1993, Senator Grosfield successfully sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee. This requirement was removed by the 2001 legislature. Statutory appropriations are intended for only limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA.

The significance of statutory appropriations lies not in the number of them, but rather in the amount of money authorized to be spent and whether the authorizations still reflect the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. From FY 1997 to FY 2006, general fund expenditures from statutory appropriations increased \$91.4 million and, in FY 2006, comprised 8 percent of all general fund expenditures. For the 2009 biennium, nearly \$300 million general fund is expected to be spent with statutory appropriations. The initiation of the county entitlement program in FY 2002 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2002. The increase in FY 2001 is largely due to payment of wildfire costs incurred during the summer of 2000.

The largest statutory appropriation of general fund occurs under 15-1-121, MCA. For the 2009 biennium, \$181.0 million is expected to be spent for entitlement payments to counties and tax increment financing districts. Other large statutory appropriations of general fund in the 2009 biennium include:

- \$46 million of transfers to retirement funds (Title 19, MCA)
- \$38 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- \$12 million of coal trust interest (that is deposited to the general fund) to fund economic development programs (15-35-108, MCA)

Non-budgeted transfers - The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by legislation.

Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. This amount has grown from \$0 in FY 1999 to \$29 million in FY 2007 (about 1.8 percent of total general fund expenditures), and transfers are estimated to be \$18.4 million in the 2009 biennium. The amount in FY 2007 includes a one-time transfer of \$19.4 million to the capital project fund. These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs.

Study requirements/purpose: This study would require an inventory and assessment of currently authorized statutory appropriations and transfers, based on criteria established for determining whether the statutory authority needs to exist, or there is a better option. The goal would be to develop recommended legislation to the 61st Legislature to reduce statutory appropriations and transfers to only those that meet certain criteria, and improve legislative ability to prioritize the state budget.

Staff resources: This study will require staff time to inventory and develop recommended criteria to evaluate statutory appropriations and transfers, and would then involve extensive time of the LFC or a subcommittee (recommended) to evaluate each appropriation/transfer statute and make recommendations.

Proposal: The LFC should consider establishing a subcommittee for this study. The subcommittee would correspond as advisors via email and phone, and would likely meet just prior to scheduled LFC meetings. The scope of the project would be established by LFC directives and subcommittee discretion. Final recommendations would be presented at the June 2008 LFC meeting.

Lead Staff: TBD

Study of Federal Medicaid Reimbursement for Tribal Services

Source/authority: LFC members/LFD Staff recommendation

Background: The federal government pays the full cost of Medicaid services provided by Indian Health Services (I.H.S.). If a Tribe has opted to provide services that would otherwise be administered by I.H.S., then the Tribe will receive full reimbursement from the federal government for Medicaid services it provides.

Other states with reservations leverage more federal Medicaid pass through funds per capita than does Montana. Additionally, there are Tribally run services currently funded partly with general fund that appear to meet federal rules for 100 percent pass through funding, including two nursing homes and one personal care assistance program.

The 2005 Legislature, at its own initiative, approved funding for 1.00 new FTE for the Department of Public Health and Human Services to help Tribes expand federal pass through Medicaid funding. The benefits of increasing the federal pass through are:

- Freeing up I.H.S. funds to be used for other medical services
- Expanding existing Tribally run services
- Developing new Tribally run programs
- Freeing up general fund that currently supports services eligible for 100 percent federal pass through

Goals/Purpose: Expanding federal pass through Medicaid funding for I.H.S. has not progressed as rapidly as the legislature hoped. Focusing legislative attention on this issue would accomplish the following goals:

- Provide impetus for and focus attention on expanding I.H.S. pass-through
- Identify accomplishments to date, establish short-term and long-term objectives, and identify road blocks or other issues that inhibit receipt of federal pass-through Medicaid funding
- Potentially develop proposals for consideration by the 2009 Legislature
- Provide important education about a very complex issue in a term-limited environment

Staff Resources: The three health and human services analysts would be tasked to assist in this effort, and would involve coordination with other committees and staff, such as Children and Family Services, and Indian Affairs.

Lead Analyst: Lois Steinbeck

State Government Budget Model

Background: This particular project was undertaken during four years ago. Because of competing priorities and the significant amount of human resources required to do this project, a final product was not completed during the last interim. Although a final report was not produced, significant analysis was done on both state revenues and disbursements.

Many of state government services provided rely on the ability of the state's tax policy structure to raise sufficient revenues to provide those services. Public schools and higher education, human service programs, public safety, and many more services depend on state funds. Most of these funds are raised from taxes, fees, and investment earnings.

Unfortunately state revenues are not always stable and predictable. For example, during the late nineties, the gradual but significant increase in the equity markets contributed to unusual large increases in the state's revenue base. Since this occurred over a period of years, most state financial professionals felt these increases would continue into the future. Budget reductions, a special session, and a projected deficit of \$235 million proved this premise to be false.

Because Montana is required to balance its budget even during revenue turndowns, the state's budget may face a severe problem often referred to as a structural deficit or imbalance. In simple terms, this means the inability of state revenues to grow in tandem with the cost of providing governmental services

Study requirements

This project would require staff to do an in-depth review of both state revenues and disbursements. Considerable research and analysis would be required to identify and quantify data in order to answer the following questions:

- What drives or determines the growth of state revenues?
- What is the long-term trend in the growth of state revenues?
- What drives or influences the growth of state disbursements?
- What is the long-term trend in the growth of state disbursements?
- Does the current state tax policy structure support the existing cost of providing governmental services?
- What options are available to the legislature if the revenue base is or is not sufficient to support the level of existing services provide?

In actuality, some of this work has already been done.

Staff resources: This project will require significant staff time to research and analyze historical data relative to state revenue and disbursement growth patterns. For each revenue source and disbursement area, growth drivers or factors would need to be identified. Each factor would need to be extrapolated (trended) into the future to assess the cumulative affects on state revenues and disbursements. After the accumulation of this data, a conclusion could be determined. The amount of additional staff resources would depend on the conclusion of the analysis. The development of options could be very time consuming and could be viewed as bias.

Scope of project: This project will include development of a historical financial database on state revenues and disbursements. An analysis of each revenue and disbursement category will be prepared with the objective to identify major factors that quantify growth patterns for the respective components.

To the extent possible, identified growth drivers will be correlated with economic variables to provide the basis for long-term trending. A complete report will be prepared identifying and discussing major drivers, their relationship to economic conditions, option recommendations, and a summary conclusion. The conclusion will identify whether state revenues are sufficient to support the cost of providing existing services and what major factors contribute to state revenue and disbursement growth. As stated previously, identification of options to address the issue will depend on the results of the initial analysis.

Proposal: Staff will continue this project from what has been accomplished to date. The results of the analysis will be presented to the Legislative Finance Committee in October 2008, with updates at LFC meetings during the interim seeking LFC input.

Lead Analyst: Terry Johnson, Taryn Purdy

Performance Management Options

Source/authority: Continuing Project

Background: During the 2007 biennium interim, a basic process of collecting performance information was established and introduced into the appropriations process. The legislature had the opportunity to review, question, challenge, and edit overarching goals as well as project specific goals through policy decisions and subsequent appropriations. The next step is to establish a process to routinely monitor progress towards the goals and implement outcomes into the budget analysis for the 2009 session.

In addition, with any new project, staff will need to analyze the utilization of templates and expanded information to determine, what if any, changes need to be made to further effective decision making by the legislature. This will include research activities and extended training for lead staff.

Requirements: This project requires follow up of the previous activities, a sample of which has been attached. In addition, the legislature provided a restricted, one-time only general fund appropriation to fund staff training. The staff has identified advanced training at the Kennedy School of Government, information is attached.

Staff Resources: Two lead staff have been identified to manage this process. These two individuals will design the further steps, continue legislative training, train branch employees as well as the executive agencies and monitor further implementation.

Scope of Project:

The following items will be addressed:

1. Analysis of the use, and revisions as necessary, of the agency profiles, template and expanded information provided during the appropriations process
2. Development of a process to monitor and report progress towards goals
3. Establish reporting mechanism for the budget analysis to provide follow-up information
4. Continue staff education and research into current practices and new ideas

Proposal: Approve two staff to manage this process. These two will provide a strategic work plan, including goals, objectives and measurable criteria, an estimate of costs in terms of dollars and staff resources and routine updates to the committee.

Lead Staff: Barbara Smith and Kris Wilkinson

The Graying of Montana: Effect on State Government Workforce, Revenue, and Expenditures

Source/Authority: LFD Staff Suggestion

Legislative Poll Ranking: Not Applicable

Outcomes:

1. Understand demographic projections for Montana and potential impact on Montana state government revenues, expenditures, workforce, and operations
2. Review, and potentially recommend for legislative consideration, policy and appropriation changes in the following areas:
 - a. Amendments to statutes governing:
 - i. Taxation
 - ii. Programs for the elderly
 - iii. State government workforce/labor
 - iv. State institution costs, including commitment, sentencing, and incarceration policies
 - b. Appropriation changes for:
 - i. Programs for the elderly
 - ii. State institution medical costs
 - iii. State employee benefits

Background: Montana is one of 10 states projected to have a higher number of persons over the age of 65 than school aged children by 2024. Within the next decade, U.S. census estimates project that 15 percent of Montana's population will be over 65, the 6th highest percentage in the U.S. This shift in demographics will have important ramifications for Montana state government.

State Revenue Impact As the average age of the Montana population rises, there will be a proportionally higher number of taxpayers who are retired. The impact on state revenues may be a shift from reliance on wage and salary income to a greater reliance on transfer payments, capital gains, and other sources of investment and fixed income.

Consumption patterns of older persons are different than other age groups. Changes in consumption spending may also impact state revenue collections, but could be more pronounced within regional areas of the state.

There may be tax expenditures in the form of different types of tax exemptions for persons over the age of 65 that will impact state revenue.

State Appropriation Impact As the Montana population ages, the types of state services desired by taxpayers may also change. There may be greater demand for services for the elderly, including Medicaid community, home-based, and nursing home services, prescription drug assistance, and other senior services. Medical costs for state institutions, including prisons, may increase also if the average age of the institutional population increases. There may be less demand, maybe even less public support, for education services and funding.

The medical workforce required to support an aging population might not be adequate unless current shortages are resolved. Additionally, the types of medical services needed for an aging population are

different than a younger population and may not be readily accessible throughout the state. This change could impact the higher education system.

State Workforce Impact Retirement of the baby boomer workforce could cause a system wide “brain drain” that may be significant if large numbers of persons retire within the same time span. Competition for replacement workers from a smaller labor pool may not result in the savings typically assumed when long-time employees retire and are replaced by new comers to state government employment. Additionally, retirees who opt to keep state employee health insurance may pose disproportionately higher costs for the state self-insurance pool due to extended life spans, and the current policy of charging retirees no more than the premium paid by active employees.¹

Staff Resources: This proposal would require a variety of LFD staff expertise and time to identify and evaluate the most significant impacts to state government due to an aging state population. Depending on the scope and number of impacts identified, the project could span more than one interim or the LFC may need to reduce the scope of the project and prioritize work issues.

Proposal/Scope of Project: The proposal and the scope of the project as outlined are the same, with the caveat that this initial list of issues would be refined and may expand. The following list includes the major issues that would be reviewed initially. Policy options that could be considered by the legislature will be identified and presented to the LFC as the research and evaluation proceeds. Preliminary topics include:

- Evaluation of various demographic projections for Montana, including key indicators that could signal a change in projected trends
- Identification of impacts to state revenue sources, including potential revenue changes that could be expected with a certain demographic change – eg a 1 percent proportional increase in the number of persons over 65 creates an estimated defined change in specific revenue sources
 - Review of other states’ experience with property tax relief as persons age and property values increase
 - Review Montana tax code with respect to taxation of persons over the age of 65
- Identification of state expenditures related to an aging population and policy options:
 - Non discretionary:
 - Health care entitlements (mostly some Medicaid services)
 - Projections related to a 1 percent proportional change in Montana population in persons over the age of 65
 - State institution medical costs
 - Personal services costs for state government
 - Discretionary state spending:
 - Aging services such as Meals on Wheels, adult protective services
 - State prescription drug programs
- Identification of workforce issues and potential legislative options including:
 - Potential for a “brain drain” and contingency plans
 - Reemployment options for retirees
 - Financial soundness of retirement system
 - Benefits and costs of early retirement incentives

Coordination: This study would complement the recommended study of a general fund budget model and would provide an in-depth analysis of one portion of the components of the larger study.

¹ The average benefit per retiree in the state group insurance pool is 135 percent of the cost of an active employee.

Study Rainy Day Fund

Source/authority: LFA/LFC Recommendation

Background: Montana is one of three states that does not have a budget stabilization fund, oftentimes referred to as a “rainy day fund”. Montana has primarily depended on a fund balance reserve to provide the cushion needed to mitigate fluctuations in its fiscal condition, whether as a response to a revenue shortfall or unexpected supplemental appropriation requests (like for a severe wildfire season), or both.

The level of reserves maintained must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases, and as true in recent years, economic uncertainty is an important consideration. The shortfall of revenues in the 2002-2003 time-period is a poignant reminder of such volatility. During the 2003 biennium, actual revenue growth was well below forecasts, primarily because of reduced income tax collections and lower interest rates, circumstances that could not be predicted when the 2003 biennium budget was being approved. The Fifty-eighth Legislature began its deliberations with a looming \$230 million deficit. The absence of a larger reserve to rely on meant that the legislature had to apply some very significant and “painful” reductions, in addition to enacting several revenue enhancement measures. Had Montana had a rainy day fund equal to just 5 percent of projected revenues, there would have been enough in the rainy day account to offset at least half of that deficit. In effect, a rainy day fund can level off the revenue collections by setting aside moneys in the good years and holding it for the bad years.

In the past three legislative sessions, the legislature has considered rainy day fund legislation. During the 2003 Legislature, five bills were introduced that included provisions for a rainy day fund. Select concepts from these bills were combined into one bill that passed out of the House but failed to advance in the Senate. In the 2005 session, three bills were introduced, but ultimately, none were adopted. One of the bills considered in the 2005 session was brought forward by the Legislative Finance Committee (LFC) and carried by an LFC member. A second bill was introduced by an individual LFC member, and the third was introduced by a non-LFC legislator. In the 2007 Legislature, the LFC sponsored a rainy day bill along with the Governor. The bill passed the Senate, but failed to advance in the House.

Study requirements: The recommendation is to review the bills that were considered in the prior three sessions, assess the inability to get a rainy day fund bill passed, and develop options that would result in a acceptable rainy day fund bill for introduction in the 2009 session.

Staff resources: This study will not require a significant amount of staff time to determine problems in the bills considered during prior sessions. Much of the necessary research was completed during the last interim. The development of options comes right out of the research that has been done. It estimated that this study would not require more than 80 hours of staff time during the interim, but may require LFC time to assess ways to get a bill passed.

Scope of project: This project will include:

- a review of the legislation of the prior three sessions
- an assessment of why that legislation did not succeed
- an analysis of best practices of the various states relative to Montana’s needs
- a report on options available with estimates of the fiscal impact of each

In the end, the Legislative Finance Committee would be asked to decide whether or not it wishes to request a bill draft for a rainy day fund bill, and what form the legislation should take.

Proposal: LFD staff will perform the necessary research, assessments and analyses of data collected, and development of options for presentation to the full committee. It is requested that two LFC members be identified as advisors for the LFD staff.

RECOMMENDATION

As discussed above, the proposed work plan constitutes a complete and ambitious work plan that exceeds existing staff resources and prioritization will be essential. With that in mind, the following committee motion after reviewing/amending the proposed plan is recommended:

Adopt the projects in the LFD work plan as presented, with amendments as discussed by the committee to meet legislative priorities. Prioritization is necessary, and projects will be undertaken only as limited resources can be identified to complete projects in priority order. The committee shall review the list of discretionary projects as well as emergent issues at each scheduled meeting for prioritization and scheduling as resources allow. The LFA shall seek the advice of the chair and the Management Advisory Work Group between meetings as circumstances warrant to efficiently allocate/reallocate resources toward the task list.

ATTACHMENT A

REFERENCE WORK PLAN DOCUMENT

The primary constraint limiting the interim agenda will be available staff and committee time and resources. The tasks are categorized on the reference work plan document as discussed below, and the reference work plan document follows.

1. “Statutory/Imperative”-- The LFD and LFC must perform a number of tasks in the next biennium, due either to statutory requirement or the imperative nature of the task. These studies and tasks are listed first on the work plan as items 1 through 8.
2. “Legislative Interim Studies” -- There are several interim projects approved by the 2007 Legislature that involve LFD staff. Item 11 was funded in HB2 for a study of the long range building deferred maintenance project backlog, appropriated to the Department of Administration, but with expectations of legislative oversight. Item 10 was referred to the Environmental Quality Council, but assistance on development of a funding methodology for wildfire suppression costs is being referred to the LFC. Items 11 and 12 were referred to other interim committees, but the resolutions specifically call for LFD staff assistance if requested.
3. There is a category of “LFC/LFD Interim Studies” (items 10 through 14) which are listed by staff as potential major committee study projects and are presented for committee consideration as to whether there is a committee mandate for these items.
4. “Priority Staff Projects/Reports” are recommended that are “discretionary” in nature and that might involve reports to the LFC, but not a major committee study. They are at the will of the committee.
5. The remaining classifications in the work plan, “Staff Ongoing Tasks” and “LFD Administrative” provide a partial inventory of additional significant tasks staff will be completing over the interim and are listed to provide a more complete picture of the total time obligation and duties of staff. These tasks must be taken into consideration when determining total staff time available for other tasks during the interim.

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LFC/LFD WORKPLAN 2009 Biennium

Status	Project Ref.No.	Project Name	Reference	Priority	Comments:	Assigned Lead	Mgmt Oversight
Statutory/Imperative							
	1	Analysis of Executive Budget for 2011 Biennium	5-12-302	Stat.		Terry/Taryn	Clayton
	2	Biennial Revenue Estimates	5-12-302	Stat.		Rev. Team	Terry
	3	Recommendations for Global Issues, 2009 Session	SB 19	Stat.	Recommend Budget rules to Approps Comm.	Jon	Clayton
Ongoing	4	Required Reports - Track State Govt. Fiscal Reporting Requirements	Various	Stat.	Per statute/HB 2	Jon	Clayton
Ongoing	5	LFC Oversight of information technology fiscal policy	SB 131	Stat.		Greg	Taryn
as needed	6	Special Session Analysis/Staffing	5-12-302	Stat.	Rrevenue estimates, g.f. tracking	Staff	Clayton
In process	7	Staff Interim Committee on PEPB	SB 11	Legisl.	Attached to Education Comm., at comm. Discretion	Alan	Taryn
as needed	8	Fiscal analysis of proposed adoption of/changes to K-12 accreditiaion standards	20-7-101	Stat.	Requirement added by 59th legislature - could require extensive staff resources at times	Jim	Terry

Legislative Interim Studies

	9	SJR 31 - Study of Taxation and School Funding	SJR 31	Legisl.	LC assigned to RTIC - Poll rank # 2 -- LFD staff will provide assistance on fiscal analysis	Jim	Terry
	10	HB 488 - Study of Property Taxes	HJR 488 -	Legisl.	LC assigned to RTIC - LFD staff may provide assistance on fiscal analysis, as stated in the bill	Jim	Terry

LFC/LFD Interim Studies

	11	State Government Budget Model (Growth Project)	LFD staff		Long term Assessment of State Budget Expeniture/Revenue structure/Examine ways to improve/balance		Terry/Taryn
	12	Performance management	LFC/Sen. Laible		Follow-up and continuation of implementation of performance measurement in budget process	Barb/Kris	Taryn
	13	Study of "Graying of Montana" and fiscal implications	LFA - Not adopted by LFC		What is impact of aging workforce/population on state workforce, state programs/services, state revenues?		Terry/Taryn
	14	Study rainy day fund legislation and assessment of how to successfully enact legislation	LFC		Study rainy day fund feasibility/failures of past and recommend legislation to 2009 legislature	Jon	Terry
	15	LFD Staff Services Assessment	Legislators/LFD		What is the best portfolio of LFD services to meet needs of the legislature? What are staffing needs?		LFD mgrs
	16	Statutory appropriations and budget transfers: Legislative oversight	LFD		Assessment of current statutory approps/transfers and impact on budget prioritization1		Terry
	17	Study of federal Medicaid reimbursement for tribal services	Sen. Cobb		Options for maximizing Medicaid for HIS	Lois	Taryn

Status	Project Ref.No.	Project Name	Reference	Priority	Comments:	Assigned Lead	Mgmt Oversight
	18	Study of Budget and Appropriations processes of the state of Montana	Legislators/LFD		Examine budget process infrastructure, make recommendations for improvements/revisions		LFD mgrs
	19	Assess adequacy of K-12 funding (Note: late addition -- not included in work plan report, but will be addressed at LFC meeting)	LFC members		Has the 2009 biennium budget/SB2 addressed the adequacy of K-12 funding? What needs to be done?		

Priority Staff Projects/Reports

	20	2011 Bien. Budget Proj. - "Big Picture Report" (Oct 2008)	LFA	High	Provide forecast of 2009 session fiscal outlook	Terry/Taryn	Clayton
	21	State Debt: How does Montana compare?	LFD	Med.	Assess Montana's debt program with other states/other state debt policy	Cathy	Terry
	22	Develop key economic indicators for Montana	LFA	Med.	Fiscal, economic, public health indicators, developed and published by LFD		Terry
	23	Monitor Dept. of Corrections populations projections	LFA	High	High potential for supplemental, per Budget director	Pat	Taryn
	24	Wildfire suppression costs/funding methodology: study/recommendations	LFD	High	Costs are spiraling and continue to be unfunded	Barb	Taryn
	25	Oversight/monitoring of agency new initiatives in HB2	HB2	High	Inform LFC of new initiatives/compliance with legislative intended outcomes		Taryn
	26	Study University System accountability standards	LFA/PEPB	High	Link MUS accountability standards with budget performance and development -bill failed in session	Alan	Taryn
	27	Analysis of Workforce Training Programs	LFA	Med.	Examine programs/funding for duplicity/coordination	Pam	Taryn
	28	Examine Base Budget analysis options	LFA/legisl.	Med.	Examine ways to provide analysis of base costs		Taryn
	29	Update Federal Funds Database	LFC	High	track state reliance on federal funds/risks		Taryn
	30	Monitor implementation of RIT fund improvements	LFC	Med.	Track RIT fund to ensure compliance with 2007 session bills/desired outcomes	Barb	Taryn
	31	Fiscal Note Process review/critique	LFD	Med.	Sample fiscal notes of 2007 session	Jon Moe	Clayton/Terry
	32	Retirement Systems Unfunded Liability	LFC	High	Significant Budget Impact Item	Jon Moe	Clayton
	33	Revenue Estimation Data Access Issues	LFA/RTIC	High	Issue over interpretation of statute, procedures	Terry	Clayton
	34	K12 Facility Needs Assessment (HB 1, Special Session)	Legislature	High	Special Session 2005, HB 1 reqmt	Cathy	Terry
	35	Review of New Proposals adopted by 2007 Legislature	LFC	Med.	staff assessment of implementation, report to LFC	Exp. Staff	Taryn
	36	Long Range Planning Program assessment	Legislators/ LFD	Med.	Assessment of 2007 funding/initiatives, status of deferred maintenance backlog, examine grant approval criteria	Cathy	Terry
	37	Examine Budgeting for Personal Services	LFA/LFC		Continue Study of Alternative methods of budgeting for personal services to provide flexibility/economy, including vacancy savings concept	Jon	Taryn
	38 #	Examine use and budgeting of proprietary funded programs	LFD	Med.	Is there a better alternative than rate setting?	Greg	Taryn
	39	Examine indirect cost allocations to state spec. revenue	LFD	Med.	examine allocation methods/amounts that are unbudgeted		Taryn

Status	Project Ref.No.	Project Name	Reference	Priority	Comments:	Assigned Lead	Mgmt Oversight
	40	Review of natural resource/environmental fees	LFD	Med.	Are they commensurate with costs? Who pays the balance?	Barb	Taryn
	41	Monitor Supreme Court IT implementation	LFD	Med.		Pat	Taryn
	42	Monitor legislative mandated interim studies on corrections/human services issues related to policy/budget	legislature	Med.	Resolutions assigned to other interim committees - indirect staffing requests/monitoring for fiscal impact	various	Taryn
	43	Develop publication - "Techniques in Revenue Analysis"	LFD	Med.	Educational/documentation of revenue estimate process		Terry
	44	General Fund status sheet - options and alternatives	LFD	Med.	Ways to improve budget status "report card"		Terry
	45	School finances: How are the dollars expended?	LFD	Med.	report on how school finances are allocated	Jim	Terry
	46	Monitor Office of Public Defender Financing	LFA/Legisl.	High	Area of concern due to variable costs/annualization	Pat	Taryn
	47	Statewide HR analysis	LFD	Med.	analysis of statewide human resource management, how it is funded, alternatives and options		Terry

Staff Ongoing Tasks

Ongoing	48	Agency Oversight/Monitoring - Issues Development	LFA	High	Staff development/expertise	Staff	Taryn
Ongoing	49	Analysis/Monitoring of HSRA Cash Flow Problem	LFA	Med.	Account is in tenuous cash flow condition	Greg	Taryn
Complete	50	Update/Improve MBARS for 2009 Legislative Session	LFA/OBPP	Med.	Required enhancements	Mike	Terry
Ongoing	51	Human Services Funding/Issues	LFA/HB 2	High		HS staff	Taryn
Ongoing	52	Monitor Corrections Population Projections/Assoc. Costs	LFA	High			Taryn
Ongoing	53	Assessment/Review for LFD Service Restructuring to a Term Limits Legislature	LFA	Med.	Adapt LFD services to meet the needs of a changing legislature under term limits	Jon	Clayton
	54	LFD Staff Training Curriculum Planning/Execution	LFA	Med.	Required training/continuing education	Taryn etal.	Taryn
	55	Statewide Bonding Program -- Status/Issues	LFA	Med.	monitor administration of program	Cathy	Terry
Ongoing	56	Update/Maintain Inventory/Agency Profiles	LFA	Med.	Update data from 2007 biennium project	Exp. Staff	Taryn
Ongoing	57	Monitor FWP general license a/ct – Projections/issues	LFA	Med.	Issues regarding potential raise in fees	Barb	Taryn
Ongoing	58	Caseload monitoring (TANF, food stamps, childcare, foster care, DD, Medicaid?)	LFA	Med.		Pat	Taryn
	59	Pre-session/session Legislative Fiscal Orientation	LFA	High	General Fiscal/HB2 "primer" for legislators		Taryn
Ongoing	60	Revenue Estimating Process – Data Access/Process Coordination	LFA	High	Enhance/improve flow of information used for estimating process	Rev. Staff	Terry/CS
Ongoing	61	Review/Revise Fiscal Note Process -- Internal monitoring	LFA	Med.	Improve process of fiscal note estimates/data flow	Roger	Terry
Ongoing	62	Monitor/review implementation of HIPPA at DPHHS	LFA	High		Lois/Pat	Taryn
Ongoing	63	Budget Database Analysis Tools - Enhancements	LFA	Med.	Provide analysis tools to staff to improve efficiency of staff work/product to legislature	Greg	Taryn

LFD Administrative

Behind Schedule	64	Documentation of LFD Procedures (IT Systems, BA, Leg Session)	LFA	High	Several processes not well documented, need better cross reference and training	Mike etal.	Terry/Taryn
	65	MBARS transition planning	LFD	High	Planning for upgrade or change to new budget system		Terry

Status	Project Ref.No.	Project Name	Reference	Priority	Comments:	Assigned Lead	Mgmt Oversight
In Process	66	Use of Staff Comp Time/Excess Leave Balances	Legislature	High	Imperative to meet Legisl. Directives, staff benefit	LFD mgrs	Clayton
	67	Revenue estimating data access issues	LFD	High	Resolve issues of data access with DOR		Terry
	68	Standard Format for LFD Budget Analysis/Fiscal Report Publications - Improve Process/Efficiency	LFA	Med.	Improve MBARS Capability/Formatting; other volumes	Jon/Mike	Terry
	69	Review of LFD Staffing/Job Assignments	LFA	Med.	Ensure workload distribution equity/adequacy	Terry/Taryn	Clayton
In Process	70	Full Implementation of Staff Evaluation/Merit Criteria	LFA/legisl.	High	Implement process, find funding source	Mgmt	Clayton

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LFD Proposed Work Plan Committee Major Studies Prioritization Worksheet

(Please complete in advance of June 18 LFC Meeting)

Topic	Why is this a topic?	Include Study in Work Plan? (Yes/No)	Priority Ranking	Comments for LFC Discussion
Study of Budget and Appropriations Processes of the State of Montana	LFD/LFD recommend			
Examination/Revision to LFD Products/Services	LFA recommend			
Study of Federal Medicaid Reimbursement for Tribal Services	Sen. Cobb			
State Government Budget Model	LFD recommend			
Performance Management Options	LFC initiative/ Sen. Cobb			
The Graying of Montana: Effect on State Govt. Workforce, Revenues and Expenditures	LFD recommend			
Study Rainy Day Funds	LFC initiative			
Statutory Appropriations/Transfers: Legislative Oversight	LFD recommend			