

Personal Services Budgeting

OPTIONS FOR LEGISLATIVE REVIEW
KRIS WILKINSON

JUNE 22, 2020

INTRODUCTION

HB 715, enacted by the 2019 Legislature, requires the Legislative Finance Committee to direct a study on fiscal and economic conditions. Included in the areas of research that may be included in the study are personal services budgeting practices. The purpose of this report is to discuss information that can be provided to the legislature on personal services appropriations included in HB 2 under the current budgeting process.

ESTABLISHING PERSONAL SERVICES APPROPRIATIONS

Since at least FY 1998, personal services have been budgeted based on a “snapshot” of actual salaries for authorized full time equivalent (FTE) as they existed just prior to budget development. The “snapshot” captures:

- Management decisions such as promotions or position reclassifications resulting from restructuring of work between employees, changes in technology that change position requirements, and other structural changes
- Employer benefit changes to items such as workers’ compensation and unemployment insurance
- Annualized costs of legislative pay plans
- Changes to longevity pay

The snapshot is used to establish the level of personal services funding in the Governor’s proposed budget.

OPTIONS FOR INFORMATION ON PERSONAL SERVICE BUDGETS

There are a number of options for providing comprehensive information on the personal services component of the budget including:

- Specifics on pay changes, including reasons for pay changes
- Expanded information on vacant positions
- Agency utilization of budgeted FTE
- Figures and narrative that outline the changes included in the statewide present law adjustments including:
 - Formula based changes
 - Management based decisions
 - Budget modifications
 - Shifts in funding
 - Other items specific to a biennia

Personal service impacts due to COVID-19 are evolving as the state moves through the process of addressing the pandemic. Additional information on the impacts will be included as part of the budget information provided to the legislature.

Until further data is available and analysis can be done it is not known what the impact of COVID-19 is, or how it will be reported to the legislature. Potential items that could be examined include:

- COVID -19 sick leave and family leave
- Temporary slow down in filling vacant positions
- Repurposing employees to assist with unemployment and other safety net programs

Pay Rate Changes

Information on the pay rate changes provided in the most recently completed fiscal year and included in the proposed budget is available. Figure 1 shows an example of the information on pay changes that can be provided. The pay adjustments would be provided for the most recently completed year. For example, for the 2023 biennium the pay adjustments would be shown for FY 2020 as these will be included in the proposed budget.

Figure 1

Department X Pay Adjustments FY 2020	
Reason	FY 2020 Salary
Market Adjustment	\$96,438
Career Ladder	36,443
Correct Inaccurate Pay	(940)
Performance Adjustment	54,659
Reclassification	20,981
Situational Pay Adjustment	2,127
Strategic Pay Adjustment	13,545
Supervisory Adjustment	22,723
Training Assignment Progression	46,754
Total Adjustments	\$292,730

The pay adjustments included above give an example of a portion of the management decisions included in the statewide present law adjustments. Management decisions are further discussed beginning on page 7. The information above can be expanded to include position description and program should the legislature determine that including pay rate changes would enhance legislative understanding and discussion of the personal services budget.

Vacant Positions

The number of positions showing vacant are measured as of a certain date and show only the positions vacant on that date. It takes time to fill a position once the employee either retires or leaves for another position. Some positions are seasonal and only filled during a certain time period. The snapshot is taken on one date in July preceding legislative session.

Current budget processes include funding for positions that are vacant on the snapshot date as part of the personal services budget. For the 2021 biennium, 9.3% or 1,207.25 FTE out of 12,913.91 FTE budgeted from all appropriation sources were vacant. In the 2021 biennium budget, the majority of positions that were vacant at the time of snapshot were funded at 83.0% of the market rate determined in the most recent salary survey. Figure 2 shows the vacant FTE included in the budget by agency. Figure 2 also includes the proposed funding for the positions.

The 2019 Legislature utilized information on vacate positions when making personal services funding decisions. Personal services funding for 246.26 FTE was reduced from the proposed 2021 biennium budget by the legislature.

Figure 2

Vacant Positions Included in Budget Proposal 2021 Biennium						
State Agency	Vacant FTE	General Fund	State Special Revenue	Federal Special Revenue	Proprietary	Total
Section A - General Government						
Legislative Branch	20.07	\$762,515	\$285,514	\$0	\$0	\$1,048,029
Consumer Counsel	0.04	1,603	1,366	0	0	2,969
Governor's Office	10.00	862,886	0	0	0	862,886
Commissioner of Political Practices	3.00	220,716	0	0	0	220,716
State Auditor's Office	5.00	474,876	0	0	0	474,876
Department of Revenue	65.86	2,562,412	3,634,550	0	0	6,196,962
Department of Administration	54.26	4,621,656	0	0	0	4,621,656
Department of Commerce	27.10	1,065,881	605,491	399,650	0	2,071,022
Department of Labor and Industry	62.17	0	5,308,435	0	0	5,308,435
Department of Military Affairs	<u>26.44</u>	<u>220,190</u>	<u>652,934</u>	<u>1,067,717</u>	<u>0</u>	<u>1,940,842</u>
Total Section A	273.94	10,792,735	10,488,291	1,467,367	0	22,748,394
Section B - Public Health and Human Services						
Department of Public Health and Human Services	<u>278.19</u>	<u>11,888,335</u>	<u>5,379,828</u>	<u>1,800,442</u>	<u>0</u>	<u>19,068,605</u>
Total Section B	278.19	11,888,335	5,379,828	1,800,442	0	19,068,605
Section C - Natural Resources and Transportation						
Department of Fish, Wildlife, and Parks	52.27	0	2,683,759	1,084,346	0	3,768,105
Department of Environmental Quality	50.74	559,049	1,948,809	1,508,895	0	4,016,753
Department of Transportation	145.92	0	9,480,376	796,311	0	10,276,687
Department of Livestock	22.11	0	480,341	985,008	0	1,465,349
Department of Natural Resource and Conservation	42.02	1,579,980	1,683,917	28,725	0	3,292,622
Department of Agriculture	<u>11.46</u>	<u>90,485</u>	<u>637,173</u>	<u>56,976</u>	<u>72,117</u>	<u>856,750</u>
Total Section C	324.52	2,229,514	16,914,375	4,460,260	72,117	23,676,266
Section D - Judicial, Law Enforcement and Justice						
Judicial Branch	48.56	0	3,477,793	0	0	3,477,793
Department of Justice	44.09	1,532,551	30,196	2,003,858	0	3,566,605
Public Service Commissioner	4.00	211,606	0	0	0	211,606
Office of the Public Defender	37.00	3,619,127	0	0	0	3,619,127
Department of Corrections	<u>135.99</u>	<u>1,496,183</u>	<u>5,055,311</u>	<u>294,939</u>	<u>1,279,076</u>	<u>8,125,509</u>
Total Section D	269.64	6,859,468	8,563,299	2,298,798	1,279,076	19,000,641
Section E - Education						
Office of Public Instruction	24.62	0	2,003,502	0	0	2,003,502
Board of Public Education	0.00	0	0	0	0	0
Office of the Commissioner of Higher Education	14.03	763,244	680,150	0	0	1,443,395
School for the Deaf and Blind	8.53	445,425	16,579	3,155	0	465,159
Montana Arts Council	1.00	76,925	4,527	503	0	81,955
Montana State Library	7.46	176,405	141,124	186,485	0	504,015
Montana Historical Society	5.32	<u>230,714</u>	<u>36,293</u>	<u>14,505</u>	<u>0</u>	<u>281,511</u>
Total Section E	60.96	1,692,713	2,882,175	204,648	0	4,779,537
Total Vacant Positions	1,207.25	\$33,462,766	\$44,227,969	\$10,231,515	\$1,351,193	\$89,273,442

Figure 3 shows additional information on vacant positions that can be provided to the legislature.

Figure 3

HB 2 Vacant Positions 5-Dec-19			
Agency	Vacant FTE	HB 2 FTE	% Vacant
Section A - General Government			
Legislative Branch	14.50	141.89	10.2%
Consumer Counsel	0.04	5.54	0.7%
Governor's Office	6.50	58.07	11.2%
Commissioner of Political Practices	0.00	7.00	0.0%
State Auditor's Office	13.50	74.00	18.2%
Department of Revenue	50.61	621.67	8.1%
Department of Administration	22.76	148.66	15.3%
Department of Commerce	8.20	48.05	17.1%
Department of Labor and Industry	68.97	661.98	10.4%
Department of Military Affairs	<u>22.71</u>	<u>212.75</u>	<u>10.7%</u>
Total Section A	207.79	1,979.61	10.5%
Section B - Public Health and Human Services			
Department of Public Health and Human Services	<u>281.17</u>	<u>2,834.70</u>	<u>9.9%</u>
Total Section B	281.17	2,834.70	9.9%
Section C - Natural Resources and Transportation			
Department of Fish, Wildlife, and Parks	71.43	695.74	10.3%
Department of Environmental Quality	49.73	365.54	13.6%
Department of Transportation	174.58	1,986.27	8.8%
Department of Livestock	11.75	133.63	8.8%
Department of Natural Resource and Conservation	42.86	534.61	8.0%
Department of Agriculture	<u>16.88</u>	<u>115.07</u>	<u>14.7%</u>
Total Section C	367.23	3,830.86	9.6%
Section D - Judicial, Law Enforcement and Justice			
Judicial Branch	25.16	456.44	5.5%
Department of Justice	50.13	776.91	6.5%
Public Service Commissioner	2.00	36.00	5.6%
Office of the Public Defender	24.50	302.44	8.1%
Department of Corrections	<u>109.00</u>	<u>1,274.17</u>	<u>8.6%</u>
Total Section D	210.79	2,845.96	7.4%
Section E - Education			
Office of Public Instruction	17.38	152.29	11.4%
Board of Public Education	0.00	3.00	0.0%
Office of the Commissioner of Higher Education	8.58	50.22	17.1%
School for the Deaf and Blind	5.21	83.47	6.2%
Montana Arts Council	1.00	7.00	14.3%
Montana State Library	5.51	29.46	18.7%
Montana Historical Society	<u>6.82</u>	<u>54.38</u>	<u>12.5%</u>
Total Section E	44.50	379.82	11.7%
Total Vacant Positions	1,111.48	11,870.95	9.4%

Figure 3 shows the number of HB 2 positions that were vacant, by agency as of December 5, 2019.

In addition to the agency and number of FTE associated with the vacant positions, the Legislative Fiscal Division (LFD) is able to establish the types of positions that are vacant and the length of time of the vacancy, as shown in the human resource system. Figure 4 shows the types of positions and programs that might have vacancies for Department X.

Figure 4

Department X Vacant Positions May 27, 2020			
Program	Position	FTE	Date Vacancy Occurred
Program 1	Lawyer	1.00	2/29/2020
	Administrative Assistant	1.00	2/5/2018
Program 2	Program Specialist	1.00	3/10/2020
	Engineer	1.00	3/27/2020
	Engineer	1.00	11/13/2019
	Engineer	0.09	5/5/2015
	Engineer	1.00	5/8/2020
	Engineer	1.00	4/28/2020
	Engineer	1.00	5/16/2020
	Engineer	1.00	5/2/2020
	Engineer	1.00	3/9/2020
	Engineer	3.00	9/19/2019
	Records Management Tech	1.00	11/16/2019
Program 3	Network Administrator	1.00	5/11/2020
	Network Administrator	1.00	3/19/2020
	Network Systems Analyst	1.00	5/9/2020
Program 4	Accounting Technician	1.00	3/30/2020
	Administrative Assistant	1.00	3/2/2020
	Administrative Assistant	1.00	12/16/2019
	Administrative Assistant	0.50	N/A
	Administrative Specialist	1.00	5/2/2020
	Compliance Specialist	1.00	4/4/2020
	Compliance Specialist	1.00	2/25/2017
	Data Control Tech	0.25	N/A
	Lawyer	1.00	3/9/2020
Training Development Tech	1.00	4/27/2020	
Program 5	Administrative Specialist	1.00	11/1/2019
	Electronics Engineer	1.00	1/21/2019
Program 6	Customer Service Clerk	1.00	3/30/2020
	License Permit Technician	0.50	5/23/2020
	License Permit Technician	1.00	4/28/2020
	Operations Manager	1.00	3/28/2020
	Program Specialist	1.00	3/5/2020
Total Vacant FTE		32.34	

As shown in Figure 4, the expanded data table allows the reader to examine which programs within the Department X have vacancies and the length of time the positions have been vacant as recorded on the human resource system. Information presented above could allow legislators to discuss issues such as recruitment and retention of staff with agency representatives at budget meetings.

It should be noted that:

- In certain cases, an agency will use a single individual to fill multiple positions. This keeps the position from showing as vacant but provides the agency with personal services appropriation authority that may be unused or repurposed
- Some agencies move current FTE into different position numbers throughout the year so that the length of time reported that a position is vacant does not accurately reflect the overall length of time positions have been vacant
- At times, the information can be overwhelming for legislators to sift through to make decisions

To address issues with positions that are partially filled or filled by current staff on a rotating basis, the legislature may wish to examine the budgeted hours for all HB 2 positions in an agency compared to the hours used during the last completed fiscal year.

UTILIZATION

As previously discussed, the information on vacant positions is limited as it reflects only the positions that are vacant on a specific day. Information on the annual utilization of FTE hours is also available. Figure 5 shows the utilization of FTE hours budgeted in HB 2 from July 1, 2019 through May 27, 2020. State employees are paid every two weeks. In FY 2020, payroll is budgeted for 2,096 hours due to the extra day of work for leap day.

Figure 5

State Agency Utilization of Budgeted HB 2 FTE Hours			
	Budgeted		
	Hours through May 20, 2020	Hours through May 20, 2020	% Hours Utilized
Section A - General Government			
Consumer Counsel	9,049	9,900	91.4%
Legislative Branch	226,804	245,682	92.3%
Governor's Office	91,054	96,426	94.4%
Commissioner of Political Practices	11,854	12,600	94.1%
State Auditor's Office	115,678	126,000	91.8%
Department of Revenue	1,051,133	1,119,546	93.9%
Department of Administration	239,203	253,350	94.4%
Department of Commerce	69,414	77,580	89.5%
Department of Labor and Industry	1,073,104	1,163,664	92.2%
Department of Military Affairs	398,714	369,774	107.8%
Total Section A	3,286,007	3,474,522	94.6%
Section B - Public Health and Human Services			
Department of Public Health and Human Services:	<u>4,813,182</u>	<u>5,044,392</u>	<u>95.4%</u>
Total Section B	4,813,182	5,044,392	95.4%
Section C - Natural Resources and Transportation			
Department of Fish, Wildlife, and Parks	1,282,922	1,319,112	97.3%
Department of Environmental Quality	563,570	618,408	91.1%
Department of Transportation	3,365,801	3,503,088	96.1%
Department of Livestock	226,662	233,316	97.1%
Department of Natural Resource and Conservatic	951,354	939,078	101.3%
Department of Agriculture	<u>176,368</u>	<u>200,952</u>	<u>87.8%</u>
Total Section C	6,566,677	6,813,954	96.4%
Section D - Judicial, Law Enforcement, and Justice			
Judicial Branch	772,911	798,444	96.8%
Department of Justice	1,385,754	1,405,476	98.6%
Public Service Commissioner	59,979	63,000	95.2%
Office of the Public Defender	510,640	538,992	94.7%
Department of Corrections	<u>2,092,392</u>	<u>2,259,306</u>	<u>92.6%</u>
Total Section D	4,821,675	5,065,218	95.2%
Section E - Education			
Office of Public Instruction	250,390	266,742	93.9%
Board of Public Education	4,600	5,400	85.2%
Office of the Commissioner of Higher Education	74,093	81,756	90.6%
School for the Deaf and Blind	174,934	140,796	124.2%
Montana Arts Council	9,654	10,800	89.4%
Montana State Library	43,543	51,678	84.3%
Montana Historical Society	84,122	94,608	88.9%
Total Section E	641,336	651,780	98.4%
Total HB 2 Hours	20,128,876	21,049,866	95.6%

As shown in Figure 5, utilization of FTE hours reflects the usage of positions throughout the year, thus giving a more complete picture of the use of the FTE and associated personal services funding in the most recently completed fiscal year. Figure 4 shows the data for 11 months of FY 2020 by agency. The information can also be provided by program. This information would allow

legislators to make informed decisions on the need for additional FTE or have a discussion on the continued need for the level of FTE included in the proposed budget.

One consideration regarding vacancies is that, as a budgeting tool, the legislature applies a rate reduction to personal services budgets to recognize the savings that may occur in a budget year due to turn over. This is referred to as applied vacancy savings. The applied vacancy savings doesn't allow an agency to operate with all positions filled in all programs throughout a fiscal year. In FY 2020 the applied vacancy savings rate was 2.0%.

STATEWIDE PRESENT LAW ADJUSTMENT CHANGES

Using the "snapshot" to establish the level of personal services funding in the biennial budget proposal results in a variety of changes that are included in the request for statewide present law adjustments. The following narrative describes the information currently provided to the legislature that synthesizes the changes that are included in the adjustment.

Break Down of Statewide Present Law Adjustment for Personal Services

The Legislative Fiscal Division provides information on the various changes that were the basis of the statewide present law adjustment for personal services. This analysis breaks the adjustment into multiple categories including:

- Formula based changes calculated independent of agency decisions, such as annualizing personal services costs included in the statewide pay plan adjustments, changes to benefit rates, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot, plus rate changes for workers' compensation and unemployment insurance
- Personal services management decisions that adjust employee pay or transfer personal services authority between programs. This includes raises or position changes that may increase or reduce a budget, such as hiring FTE at a lower rate to replace retired senior staff or moving FTE and funding between programs
- Other changes specific to a biennium including:
 - Changes to the applied vacancy savings rate
 - Budget impacts of other legislation
 - Potential impacts of Covid-19 pandemic and leave requirements for the 2023 biennium
- Budget modifications includes changes to the personal services budget such as transfer of personal services authority to operating expenses that occurred during the interim or vice versa. These transfers may impact the overall size of the personal services present law adjustment

The above explanation and related adjustments will be provided, by state agency, in the Legislative Fiscal Division’s Budget Analysis. Figure 6 shows an example of the analysis that would be included in the budget analysis for Department X.

Figure 6

Personal Services Present Law DP 1- FY 2020					
Program	Formula Based	Management Decisions	Biennium Specific	Budget Modifications	DP 1 SWPL
Program 1	\$100,819	(\$88,350)	\$318,267	\$373,296	\$704,032
Program 2	429,832	159,453	(538,475)	0	50,810
Program 3	40,243	42,633	177,792	263,562	524,230
Program 4	135,085	55,753	(121,191)	498,781	568,428
Program 5	46,822	(20,585)	141,803	0	168,040
Program 6	57,418	(13,433)	220,592	258,195	522,772
Agency Total	\$810,219	\$135,471	\$198,788	\$1,393,834	\$2,538,312

As reflected in Figure 6, information on the changes included for pay plan, benefits and longevity, titled formula based, management decisions, applied vacancy savings and other reinstatements, and budget modifications are provided by program.

In addition, the LFD presents narrative discussion on the changes included in the personal services figures. Depending upon the information revealed by such an analysis, this narrative would be designed to further clarify questions or issues that arise.

SUMMARY

The LFD can provide the Joint Appropriation Subcommittees further detailed information on personal services that can be used in making decisions on the executive’s proposed budget. Information can be summarized at the agency level or provided by program including:

- Specifics on pay changes
- Expanded information on vacant positions
- Utilization of budgeted FTE hours
- Figures and narrative that outline the changes included in the statewide present law adjustments

By the next meeting of the Legislative Finance Committee SB 310 and Personal Service Budget Subcommittee, LFD staff will have begun analysis and identified components for the statewide

present law adjustment proposed for the 2023 biennium. In addition, impacts of COVID-19 on personal services in FY 2021 and the 2023 biennium should be clearer. An additional report on these personal services elements can be prepared for discussion at the time of the next meeting.