



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
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To: Legislative Finance Committee (LFC) Members

From: Quinn Holzer and Amy Carlson

RE: Draft LFC Recommendations to Subcommittees

Statute requires that the LFC adopt certain recommendations for operations of the subcommittees during session.

5-12-205. Powers and duties of committee. The committee: ... (7) shall, before each regular and special legislative session involving budgetary matters, prepare recommendations to the house appropriations committee and the senate finance and claims committee on the application of certain budget issues. At a minimum, the recommendations must include procedures for the consistent application during each session of inflation factors, the allocation of fixed costs, and the personal services budget. The committee may also make recommendations on other issues of major concern in the budgeting process, such as estimating the cost of implementing particular programs based upon present law.

The attached draft captures the previous Legislative Finance Committee recommendations and adds potential items relevant for the current session. The LFC will need to take action on final recommendations during the December meeting.

New items or language are italicized and include:

- 10) alternate interim budget review language
- 11) New initiative performance measurement objectives
- 12) HB 424 recommendation re: policy committee communication
- 13) Positions Budgeted (PB) in place of FTE
- 14) Full Budget Review
- 15) Performance Audit Recommendations

The Legislative Finance Committee may suggest other recommendations for the 2023 Session and take action as desired at the December meeting.

2027 BIENNIUM LFC BUDGET RECOMMENDATIONS TO SUBCOMMITTEES

- 1) Budget Starting Point
 - a. Recommend that the appropriation subcommittees adopt the 2025 base as submitted by the executive as the starting point for budget deliberations.
 - i. Includes allocations to tie to legislative intent (*e.g. funding from other bills in previous session, added to HB 2 for this session*)
 - ii. Does not include the statewide present law adjustments for personal services, statewide fixed costs, and inflation/deflation
 - iii. One-time-only appropriations are excluded from the starting point

- 2) SWPL: Personal Services
 - a. Recommend subcommittees consider the statewide present law (SWPL) personal services adjustments in light of the following:
 - i. Statutory like changes included in the LFD calculated comparison
 - ii. Changes associated with agency actions that impact salaries
 - iii. *5% Vacancy Savings in the executive budget proposal*
 - iv. *Review responses from agencies to LFD questions included in Executive Budget Instructions*

- 3) SWPL: Fixed Costs
 - a. Recommend the Section A and *Section E* subcommittees examine fixed cost rates and provide directions regarding the acceptance of the rates to the other subcommittees. Any adjustments should be made on a consistent basis.

- 4) SWPL: Inflation
 - a. Direct the *Section C* subcommittee to examine the inflation/deflation factors and provide directions to the other subcommittees. Any adjustments should be made on a consistent basis.
 - i. *Motor Pool*

- 5) Internal Service Programs
 - a. Recommend to the appropriation subcommittees not to approve decision packages of internal service funded proprietary programs unless quantifiable rate impact information is provided.

6) Budget Proposals Requiring Legislation

- a. Direct the appropriation subcommittees to make no recommendations or adjustments to HB 2 until required legislation passes, except for K-12 inflation, which is defined as present law, and in alignment with companion bills.
 - i. This has historically meant that bills with a fiscal note do not get funded in HB 2 until either conference committee or an appropriation in another bill (similar to SB 191 in 2021) after these bills are all known.
 - ii. *In 2023, Senate Finance & Claims added language to HB 2 to coordinate funding for such bills with contingency language.*

This is separate from the recognition of the impact on the ending fund balance, where there is a set of rules that determines when fiscal notes are included in the fund balance. Generally, this is recognized when a bill is passing, but has not yet been finalized, as opposed to funding in HB 2 (or elsewhere), which is funded near the end of the process.

7) Volume 10

- a. Information technology budget process recommendations.
- b. Each subcommittee should consider the comparisons in volume 10 when adopting the IT budget for each agency.
- c. Section A subcommittee should review format of volume 10 and make recommendations for the next session.
 - i. Discussion topic:
 - ii. [https://budget.mt.gov/docs/execbudgets/2025 Budget/Volume-10-2025.pdf](https://budget.mt.gov/docs/execbudgets/2025%20Budget/Volume-10-2025.pdf)

8) Subcommittee Hearings Process

- a. Recommend that subcommittees consider consistent rules regarding materials and presentations from agencies. Specifically, it is recommended that agencies be required to submit materials for review three (3) committee days in advance of their presentation.

9) HB 2 Companion Bill

- a. Recommend the appropriation subcommittees determine any appropriate items for inclusion into a HB 2 companion bill and provide those items to the full House Appropriations Committee for further review. If needed, recommend that appropriations committee leadership request separate legislation to provide a vehicle or vehicles for enacting substantive language related to the implementation of appropriations in HB 2 and the legislation will be considered as part of the appropriations process.

- b. Recommend that companion bills be used to establish reporting requirements, providing the IBCs an opportunity to hear from the agencies throughout the interim as to the effectiveness of funding provided.
- c. Encourage timely movement of HB 2 to full House Approps, and the timeline for moving the companion bills. *(By the 45th Legislative day, to keep them closely tied)*
- d. If a Companion Bill is referred to a free conference committee, it shall be noticed in time to allow for public testimony both in person and remotely.
- e. Discourage utilization of companion bills as an open vehicle for late session carriers of significant policy unrelated to HB 2 and subcommittee intent.

10) One-Time-Only Alternative Designation

- a. Recommend the appropriation subcommittees not designate entire agency budget requests as “one time only” (OTO). Please use the language below to request an agency to provide a complete description of the budget for the subsequent legislative session.
 - i. “It is the intent of the legislature to consider the 2027 biennium budget for the department of _____ from zero to the full recommended budget. The department shall explain the necessity of each reporting level (RL4) of the budget, including the base budget for the budget submission for the 2027 biennium budget.”
- b. *An alternate process might allow for more time for getting into more detail in the interim by utilizing the IBCs:*
 - i. *“The Interim Budget Committee may consider the full budget of (department/division/specific programmatic subset/etc.) during the 2025 interim. The (department/division/specific programmatic subset/etc.) shall explain the necessity of each reporting level (RL4) of the budget, or pertinent sub-unit, and provide detail regarding the use, objectives, and results of appropriations provided by the legislature.”*

11) Key Performance Measures

- a. Recommend to the joint appropriation subcommittees to select critical performance measures for each agency for monitoring purposes during the 2025 interim and formalized as part of a separate bill(s) or resolution(s).
- b. Subcommittee members should be made aware that statute requires (MCA 17-7-111(3)(c)) agencies submit goals and objectives in the budgeting process, and subcommittees should review these in their budgeting process.
- c. *For new initiatives, programs, and funding requests, subcommittees should consider requiring measurable objectives and/or outcomes upon which to evaluate the effectiveness of the program. Language should be included to clarify that the funding will not be included in the base until such time as the subcommittee evaluates the results and concurs with effectiveness.*

NEW:

12) *Subcommittee communication with policy committees*

- a. *Recommend subcommittees set aside one hour per week, likely between 11 am – 12 noon, during which relevant policy committees would be invited to join subcommittees to discuss budgetary and policy priorities, highlight areas of concern, or preview budgetary constraints.*

13) *Use of PB vs FTE*

- a. *The LFC has endorsed the use of Positions Budgeted (PB) to describe the budgeting units used in deriving the Personal Services budget. Subcommittees should be aware that this terminology will be used in the Budget Analysis and that it will align with FTE (Full Time Equivalent) in the executive proposal and in some other bills, communications, etc.*
- b. *The LFD is developing a brochure to further describe PB*

14) *Complete a “Full Budget Review” on an agency, program, or sub-unit as identified by the IBC*

- a. *During the September IBC meeting, each budget section identified an area and notified agencies that they would be expected to provide a comprehensive overview and specific information regarding the full budget, including the base, for consideration by the subcommittee.*
- b. *It is recommended that the subcommittee consider the entire budget for the identified entity and consider the full appropriation anew.*
 - i. *Subcommittees will likely need to spend more time on this entity and plan to develop a full understanding of the scope, role, guiding statutes, objectives, regionality, etc. tied to the appropriation.*
 - ii. *Subcommittees should also make note of steps in this process that worked well or could be improved in the future.*

15) *Performance Audit Recommendations*

- a. *Recommend subcommittees consider areas where appropriations have been provided with specific intent to achieve identified goals or objectives and include in the companion bill (or HB 2 intent language) a recommendation that the Legislative Audit Committee direct a performance audit be done to ascertain the effectiveness of the appropriation in achieving the stated goals.*