

PERSONAL SERVICES ANALYSIS

A Report Prepared for the
Legislative Finance Committee

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PURPOSE

MCA 5-12-205 requires the Legislative Finance Committee (LFC) to recommend to Senate Finance and Claims and House Appropriations application specific budget issues. Recommendations must include “procedures for the consistent application during each session of inflation factors, the allocation of fixed costs, and the personal services budget that could benefit from consistent application.” The LFC is scheduled to complete this task in December. This report discusses the potential decision points for recommendation that would define the executive requested present law personal services amounts for subcommittee action.

INTRODUCTION

Particularly since the establishment of the broadband pay plan, the legislature has expressed frustration with the limited decision points and options in the traditional budgeting method for personal services. In this method, a single “statewide present law adjustment” was used to adjust the base to establish the budget for the next biennium. This adjustment was not separately funded or presented in a decision package, but was instead one of several adjustments to the base included in the adjustment’s lump sum.¹ As a temporary solution in the 2013 session, the Legislative Fiscal Division (LFD) broke down the executive’s statewide present law adjustment into three separate decision packages to provide the information for the legislature to further examine and discuss the reasons for requested changes.

2017 EXECUTIVE BUDGET METHODOLOGY: TWO DECISION PACKAGES

For the 2017 biennium executive budget the Office of Budget and Program Planning (OBPP) agreed to submit the executive budget with the FY 2014 actual base expenditures plus a distinct decision package for statewide present law adjustments. This decision package will include implementation of legislative, executive, and other management decisions, but will be separate from base expenditures. In addition to this statewide present law decision package, an executive decision package will be submitted to recognize the 4% FTE reduction adopted by the 2013 Legislature in HB 2 boilerplate language for FY 2014 and FY 2015. As the executive chose not to implement the FTE reduction until the 2017 biennium budget development, this decision package is needed to correct the base FTE.

These two decision packages may not provide the level of detail desired by the legislature to make budget decisions. This report outlines additional decision points applicable to the executive submitted request in terms of changes from the approved personal services budget and FTE in FY 2015.

DECISION POINTS

FY 2015 PERSONAL SERVICES

The first step in the process will be to adjust the FY 2014 actual personal services base expenditures to FY 2015 personal services appropriations. It is from the FY 2015 level that potential legislative decision points for FY 2016 and FY 2017 are broken out.

FY 2015 personal services appropriations are those contained in HB 2, HB 13, HB 377 and HB 454 of the 2013 Legislature, less one-time only appropriations. The FY 2015 base FTE are the number of FTE after the implementation of the boiler plate language contained in HB 2.

¹ In addition to adjustments to personal services, the statewide present law adjustment included vacancy savings and changes in fixed costs and inflation.

ADJUSTMENTS TO FY 2015

From the FY 2015 level, the executive requested level of personal services could be broken down into four options that would provide discreet decision points. The decision points are:

1. Annualization of the health insurance increase;
2. Annualization of the FY 2015 pay plan;
3. Restoration of funding to eliminate the additional 2% vacancy savings adopted by the 2013 Legislature; and
4. All other executive recommended changes to personal services that are not captured by these first three options.

Each of these items could be an individual decision package or could be combined with one or more other options in more comprehensive decision packages.

Annualization of Health Insurance Premium Increase

HB 13 of the 2013 legislative session contained a change in statute to increase health insurance contributions for FY 2015 for the Montana University System employees and for calendar 2015 for all other state employees. The increased cost for the second six months for state employees' health insurance for calendar year 2015 is not included in the FY 2015 appropriations and would be an addition to the FY 2015 appropriations.

Annualization of Executive Pay Plan

The HB 13 appropriation for personal services was a dollar amount equal to a 3% increase implemented on the first day of each fiscal year. However, the legislation did not require a specific percentage increase or an effective date.

The executive negotiated a pay plan that provided a 3% raise for FY 2014 on July 1, 2013 and a 5% raise for FY 2015 in November 2014. While sufficient appropriation authority exists in FY 2015, the appropriation needed in FY 2016 and FY 2017 is greater than the FY 2015 level. In addition, the Montana University System and Judiciary adopted pay increases in FY 2015 that will also need to be annualized and included in similar decision points to be fully funded.

The legislature has the policy choice to adopt this budget adjustment to cover the higher annualized costs of adopted pay plans in FY 2016 and FY 2017. If the legislature chooses not to fund this adjustment, agencies will need to manage personal services expenditures within available appropriations, but individual employee pay could not be reduced.

Restoration of the Funding that Eliminates the Additional 2% Vacancy Savings

The legislature applied and the executive implemented an additional 2% vacancy savings to most entities for the 2015 biennium. The FY 2015 personal services budget includes this reduction. In its instructions to agencies on how to build their budget requests, the executive has not included a vacancy savings rate for the 2017 biennium and has restored the funding for the 2% vacancy savings. The policy choice is whether the legislature wishes to restore this authority and eliminate vacancy savings or not.

All other changes

During the interim, management decisions, retirements, and other factors impact the cost of personal services for future years. These items include: pay adjustments, reclassifications, longevity changes, changes in applicable tax rates/workers compensation, and others. Some items included in "all other changes" are considered within the control of the agency, while others are driven by federal or state law. Note that any of these changes may be positive or negative.

The LFD is examining options to define these changes into agency controlled changes and those driven by state or federal law. An update will be provided to the LFC in December on this analysis.

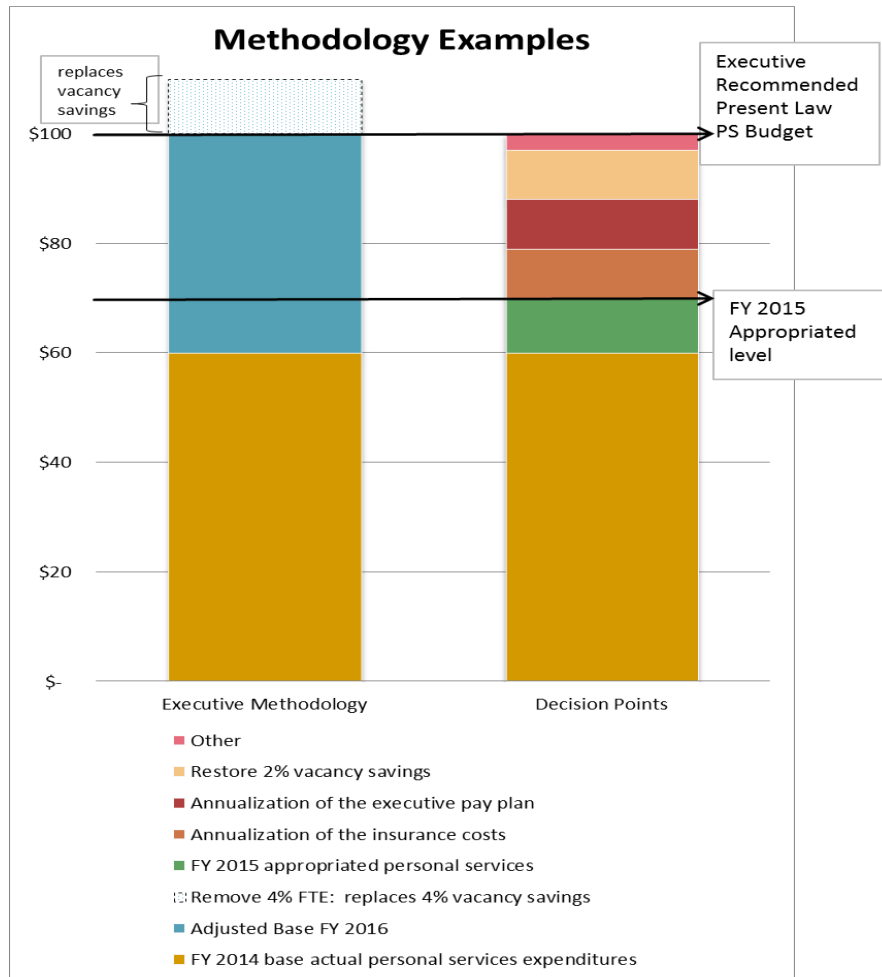
The legislature would have the option to adopt the executive requested amount as submitted or further examine the details of this composite amount. If other changes are relatively small, the legislature may determine further investigation is not necessary. If further examination is warranted, discussion with agencies could include recruitment and retention issues, agency career ladders, use of strategic pay, longevity increments, retirements, and others personnel issues facing the agency. With this additional examination the legislature has the opportunity to provide funding based upon the underlying needs of the agency.

COMPARISON TO EXECUTIVE METHODOLOGY

The graphic to the right illustrates the executive budget methodology and the decision points described in this report. Both methodologies begin at the actual FY 2014 base expenditures for personal services. The executive uses the traditional methodology to create a budget utilizing FY 2014 actual expenditures and the FY 2013 level of base FTE and suggests an additional adjustment to incorporate the FTE required reduction from the 2015 biennium.

The legislative approach first brings the FY 2014 budget to the FY 2015 budgeted level of FTE and appropriated personal services expenditures. To this amount adjustments are calculated for annualizing insurance and the executive pay plan, restoring vacancy savings, and other adjustments.

This analysis allows the legislature to examine personal services in increments and establish a process to create a personal services amount based on the previous budget level.



SUMMARY

The legislature could examine the executive personal services budget request utilizing the FY 2015 personal services appropriated amount as the comparison point and then incrementally making adjustments to determine the 2017 biennium personal services budget based on specific decision points.

NEXT STEPS

The LFC is required by statute to recommend approaches to specific budget issues that could benefit from consistent application to the chairs of Senate Finance and Claims and House Appropriations. The LFC is scheduled to make its recommendations at the December 2, 2014 meeting.