

BUDGET POLICY CHOICES FOR THE 2017 LEGISLATIVE SESSION

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

While statute defines the basic budget process, it allows for further refinement by tradition, agreements between the branches, and Legislative Finance Committee (LFC) recommendations. In the last interim, two key areas of budget development were reevaluated by the LFC: the level to start budget decision making and comparisons of personal services budgets.

In order for budgeting to go smoothly, the state's budget process requires executive and legislative staff discussion and planning. These discussions have begun for the 2017 session planning. Due to the timing of decisions made in the last interim, little time was available for joint planning on the final LFC recommendations. So while the LFC established the starting point or base budget for the 2015 session as FY 2015 legislative appropriations, (HB 2 with adjustments for pay plan, retirement bills and certain other bills without one-time-only (OTO) authority) the late change resulted in frustrations by all parties during the legislative budget process.

PURPOSE

The purpose of this report is to initiate discussion of budget policy choices for the 2017 legislative session and decisions early in the interim to enable dialogue and planning to occur between executive and legislative branch budget staff prior to the 2017 session.

The first part of the report provides two distinct options described below for a base budget:

- 1) Executive Implementation of the Legislative Budget
- 2) Executive Adjusted Budget

Each option includes details regarding the factors of the base budget and provides a few examples of the calculation and budget changes. The report also summarizes the main difference between the two options, which is the handling of executive budget changes.

The second part of this report will describe the comparison of legislative expected personal services costs to the executive snapshot calculations. This is intended to provide a quick overview of the issue, with the possibility of a detailed report at the December 2015 meeting of the LFC.

PART ONE: BASE BUDGET OPTIONS

The definition of base budget in statute, as shown below, removes OTO expenditures from the legislative base budget. Other parts of the law require comparisons to both actual previous fiscal year and current budget year to the requested budget.

MCA [17-7-102](#)

((4) (a) "Base budget" means the resources for the operation of state government that are of an ongoing and standard nature in the current biennium. The base budget for the state general fund and state special revenue funds may not exceed that level of funding authorized by the previous legislature.

Without further direction from the LFC, the Legislative Fiscal Division (LFD) would continue to implement the base budget as directed in the previous session. The following are budget options available to the legislature.

OPTION 1: EXECUTIVE IMPLEMENTATION OF THE LEGISLATIVE BUDGET

The Executive Implementation of the Legislative Budget is an updated and improved version of the 2015 session direction. This option updates the LFC recommendation established last session and incorporates specific legislative intent for the executive to allocate certain items such as pay plan. It represents the total appropriations made by the legislature, by type of expenditure (first level) and the subsequent allocations made by the executive. It does not include executive budget changes or reflect up to date expenditure patterns.

For both options: other elements for future discussion include how to include the several budget triggers approved in session.

Technical changes to HB 2 FY 2017 appropriations include:

- 1) Allocation of the pay plan, contingency base items and other items as instructed in HB 2
- 2) Reallocation of fixed costs to tie to schedules or rates approved during the 2015 session
- 3) Appropriation bills where established authority is intended for ongoing base expenditure; such as HB 33, "Appropriate money for new or expanded mental health crisis intervention"

Comparison to the 2015 session budgeting

This option makes improvements to the 2015 session process by:

- 1) increasing transparency in the budget process
- 2) tying to executive budget allocations
- 3) being available in detail to agencies early in the budget process

At this time agencies have completed the work required to establish the executive implementation of the legislative budget in the state accounting system. This work can be used to assist in creating the base budget detail necessary for budgeting. Currently the LFD plans to work with the executive to implement the technical adjustments through the IBARS system. This provides agencies with read-only access to our work to ensure that any programmatic or technical glitches are discussed long before the executive budget submission.

Examples

The following examples are simplified to be at the agency level instead of typical budgeting at the program level:

- 1) The first example is the Department of Fish, Wildlife and Parks (FWP), which at this time has a straight forward calculation of the base budget.

Of note, since OTO appropriations are always removed from the base budget, this decreases the FY 2017 appropriation, which is subsequently increased by adjusting for pay plan, personal services base contingency and contingency base funding. This creates a base budget 2.2% higher than the 2017 HB2 appropriation. This is due to the allocation of funds from the Governor's budget to the executive agencies for pay plan and base contingency appropriations.

Please view the FY 2017 Base Budget Estimate for FWP on the following page.

Biennial Appropriations: It is assumed in both options that biennial authority continuing from the first year of the biennium will not be added to the base budget.

FY 2017 Base Budget Estimate - Fish, Wildlife and Parks				
	GF	SSR	FED	Total
<u>HB0002 - FY 2017 Appropriation</u>	<u>\$974,000</u>	<u>\$60,598,121</u>	<u>\$19,906,078</u>	<u>\$81,478,199</u>
<u>OTO Removal</u>				
Aquatic Invasive Species	(974,000)			(974,000)
Operation Adjustment		(95,472)		(95,472)
Forest Mgmt FTE and Ops		(121,196)		(121,196)
Hunting Access Admin		(784,637)	(234,535)	(1,019,172)
Subtotal	<u>(974,000)</u>	<u>(1,001,305)</u>	<u>(234,535)</u>	<u>(2,209,840)</u>
<u>HB 2 2017 less OTO</u>	-	<u>59,596,816</u>	<u>19,671,543</u>	<u>79,268,359</u>
<u>Other Adjustments</u>				
Pay Plan Adjustment	-	1,745,558	641,736	2,387,294
HB 2 Correction	-	3,000	(3,000)	-
Personal Services Base Contingency	-	472,535	-	472,535
Contingency Base Funding	-	367,972	750,000	1,117,972
Subtotal	-	<u>2,589,065</u>	<u>1,388,736</u>	<u>3,977,801</u>
<u>Estimate of Base Budget</u>	-	<u>\$62,185,881</u>	<u>\$21,060,279</u>	<u>\$83,246,160</u>
<u>% change from HB 2 FY2017</u>	-	2.6%	5.8%	2.2%

- 2) Example 2 demonstrates how the Governor's office HB 2 FY 2017 appropriation falls 87% as transfers of authority are implemented for the pay plan and other base contingency appropriations. As that authority is transferred to the other agencies, the other agency's base budget increases (Such as FWP above) as this budget decreases.

FY 2017 Base Budget Estimate - Governor's office					
	GF	SSR	FED	PROP	Total
<u>HB0002 - FY 2017 Appropriation</u>	<u>\$28,703,051</u>	<u>\$19,097,418</u>	<u>\$13,817,655</u>	<u>\$335,237</u>	<u>\$61,953,361</u>
<u>OTO Removal</u>					
Personal Services Contingency (R/B/OTO)	-	-	-	-	-
<u>HB 2 2017 less OTO</u>	<u>\$28,703,051</u>	<u>\$19,097,418</u>	<u>\$13,817,655</u>	<u>\$335,237</u>	<u>\$61,953,361</u>
<u>Other Adjustments</u>					
Employee Pay and State Share (Pay Plan)	(16,577,433)	(13,263,238)	(8,708,832)	(291,650)	(38,841,153)
PS Contingency Base Funding	(2,450,922)	(1,959,152)	(1,290,514)	(43,587)	(5,744,175)
Contingency Base Funding	(1,369,078)	(3,875,028)	(3,818,309)	-	(9,062,415)
Subtotal	<u>(20,397,433)</u>	<u>(19,097,418)</u>	<u>(13,817,655)</u>	<u>(335,237)</u>	<u>(53,647,743)</u>
<u>Estimate of Base Budget</u>	<u>\$8,305,618</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$8,305,618</u>
<u>% change from HB 2 FY2017</u>	-71.06%	-100.00%	-100.00%	-100.00%	-87%

Executive Budget Changes

If the LFC does not change from the 2015 session recommendation as described in the previous section, the subsequent executive budget change transactions are fairly simple to identify. They can be presented in decision package format to start the discussion regarding these changes. These packages would tie the executive implemented legislative budget and the executive adjusted budget (described below). Similar activity occurred during the 2015 legislature which involved the subcommittees examining the budget changes and subsequently acting on changes made by the executive.

OPTION 2: EXECUTIVE ADJUSTED BUDGET

The difference between this option and the previous option is that the executive budget changes per MCA 17-7-138 and 17-7-139, and reorganizations are included in the base budget.

The implication of these budget changes on the legislatively approved budget is difficult to estimate at this time. As of this writing, there are 11 operating plan changes, three of which were related to OTO appropriations which would not be included in the base budget. The additional 11 program transfers include two changes related to OTO expenditures. The LFC receives a listing of such changes from the executive prior to each meeting.

Examples of Executive Budget Changes

The following examples illustrate the impact of these changes.

Operational Plan Adjustment per 17-7-138, MCA:

This operational plan change illustrates the movement of federal authority between operations to personal services to establish modified FTE to provide assistance with the Title one and special education programs.

Office of Public Instruction - OP602 - FY 2017		
Purpose: Move operations to personal services to fund modified FTE		
Appropriation and change	FED	Total
<u>Federal-State Level Activities (Biennial)</u>		
Increase Personal Services	500,000	500,000
Decrease Operations	(500,000)	(500,000)

Program Transfer per 17-7-139, MCA:

This program transfer illustrates when the authority was provided within one program of the agency, but implementation of the activity requires budget authority in an additional program. Since this is in an OTO appropriation, this program transfer would not be included in the base.

Executive Budget Changes include:

Operational plans adjustments per MCA 17-7-138 transfer appropriation authority within a program between first level expenditure objects within the same fiscal year

Program transfers per MCA 17-7-139 transfer appropriation authority between programs within the same fund type within the same fiscal year

Executive reorganizations of a department that requires the budget to be adjusted to represent the new structure

Fish, Wildlife and Parks - PT 304 - FY 2017 only			
Purpose: Program transfer moving a portion of the Aquatic Invasive Species funding from Fisheries to Enforcement and moving personal services funding from Communication to Enforcement.			
Appropriation and Change	GF	SSR	Total
<u>Aquatic Invasive Species (OTO)*</u>			
Reduce Operations in Fisheries Division	(\$90,000)		(\$90,000)
Increase Personal Services in Enforcement	64,000		64,000
Increase Operations in Enforcement	26,000		26,000
<u>Personal Services Contingency*</u>			
Reduce Personal Services in Communication		(\$51,707)	
Increase Personal Services In Enforcement		51,707	
Total	\$0	\$0	\$0

Base Budget Recommendation

The two options shown above are very similar, but have one major difference. The second option includes the executive budget changes (program transfers, operating plan changes, and reorganizations) in the base budget, while in the first option these executive budget changes would be presented separately in decision packages for consideration of the subcommittees next session.

The next step in the process is to provide the LFD direction at the December LFC meeting.

PART 2 PERSONAL SERVICES COMPARISONS

Like the base budget decision, the LFC made a new recommendation last session for comparing personal services costs. The following describes how the LFD proposes to make the personal services comparisons calculations transparent to agencies. The work plan outlines that any changes to this process be recommended by the LFC by March 2016.

BACKGROUND: EXECUTIVE SNAP SHOT BUDGETING CALCULATIONS

Currently the executive budgets personal services by taking a “snap shot” of current staffing of agency positions, which includes any pay adjustments approved by management. Then using the budget system, IBARS, the executive adjusts for changes in benefit costs, filling vacancies and other adjustments finalized by OBPP. This process may or may not reflect the intent of the previous legislature. For example, the snap shot automatically adopts management choices such as reclassifications and additional pay increases as well as executive decisions regarding the funding of vacant positions. These adjustments and the subsequent outcome may or may not be acceptable to the legislature.

Legislative Comparison Calculations

The legislative comparison would begin with the personal services budgets and detailed positions approved by the 2015 session and contained in IBARS. In addition to those amounts, the personal services contingency base and pay plan allocations would be added. The final step is to annualize those costs with the pay plan and other adjustments. The LFD intends to use IBARS for these calculations in order to improve transparency with the agencies and to allow agencies the opportunity to better answer legislative questions as to the differences between the personal services calculations. Specifically, the LFD intends to use IBARS to calculate: annualization of the pay plan salary and insurance costs; cost adjustments for benefit rate changes; and longevity adjustments.

Using IBARS to calculate these amounts should improve agency understanding of LFD calculations and enhance agencies ability to communicate any differences.

FUTURE ACTIVITY

The LFD will continue to meet with the executive to work through technical IBARS and budgeting issues. Any issues rising to the budget policy level will be brought to the LFC at future meetings. In addition, the LFC work plan indicates, the base budget decision and the personal services comparison report will occur at the December 2015 meeting. The decision regarding the personal services comparison is scheduled for the March 2016 meeting.