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# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director  
AMY CARLSON

September 23, 2016

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 recommendations summarize the action taken so far by the Legislative Finance Committee and our understanding of how to implement these actions.

The first recommendation is adoption of the 2017 Base budget as the starting point motion. It should be noted that the executive has lowered 2017 Base appropriations in the submitted base budget. This arbitrarily reduces four specific transactions within the agency base budgets and will alter biennium comparisons. The Legislative Fiscal Division will realign these base budgets to correspond to Legislative Appropriations. These transactions are detailed in the Base Budget report.

There are two new recommendations in the attached draft summary. Number 9 gives the subcommittees language to adopt if they wish to have the 2021 Biennium agency budget be explained from zero without removing the appropriations from the Base budget. Number 10 is a placeholder for how to present and explain the Volume 10 Information Technology process recommendations.

If the LFC members have suggested changes to this draft, we will include those choices for the December meeting for final adoption of LFC recommendations to the subcommittees.

**2019 Biennium Budget  
Recommendations for the application of certain budget issues for 2017 Legislative Session<sup>1</sup>**

#	<i>Decision Item</i>	<i>History</i>	<i>Discussion</i>	<i>Process</i>
1	<p><b><u>Budget Starting Point</u></b> Recommend the appropriations subcommittees adopt the 2017 appropriation as the starting point for budget deliberations.</p> <ul style="list-style-type: none"> <li>○ Includes adjustments to tie to legislative intent</li> <li>○ Does not include the statewide present law adjustments for personal services, statewide fixed costs, and inflation/deflation</li> <li>○ One-time-only appropriations are also excluded from the starting point</li> </ul>	<p>In preparation for the 2015 Legislative session the executive prepared the budget request using the 2014 actual expenditures and the legislature adopted the 2015 appropriation as the starting point, which required recalculation of decision packages to balance budget requests.</p>	<p>During the 2017 biennium interim, the executive and the Legislative Finance Committee agreed to use the FY 2017 base budget as the starting point for the 2019 biennium budget process.</p> <p>The adoption of the base as the starting point does not prevent a subcommittee, the full committees, or the legislature from reducing the budget later in the process.</p> <p>The executive submitted base budget has a few differences to the intent of the legislative budget.</p>	<p>Requires a motion by the subcommittees to adopt the 2017 base as the starting point.</p>
2	<p><b><u>SWPL: Personal Services</u></b> Recommend subcommittees consider the statewide present law (SWPL) personal services adjustments in light of the following:</p> <ul style="list-style-type: none"> <li>○ Statutory like changes</li> <li>○ Management decisions</li> <li>○ 4% Vacancy Savings in the executive budget proposal</li> </ul>	<p>During the 2015 Legislature, a statewide reduction to personal services in the amount of 2% was included for all agencies, and referenced in HB 2 as legislative intent that this fully funds current salaries and imposes a 2% vacancy savings.</p> <p>Budget instructions for the 2019 biennium from the executive to the agencies imposed a 4% vacancy savings except where those agencies were statutorily exempt from vacancy savings.</p>	<p>Individual appropriations subcommittee will be provided the opportunity to examine the changes in personal services as related to the items in column one and also have a discussion regarding management decisions. Subcommittees may develop alternative plans to providing authority for the personal services adjustment.</p>	<p>The LFD is preparing tables and communicating with agencies to prepare an explanation of the Personal Services management decisions impacting the Statewide Present Law adjustment. These tables will be included in the Budget Analysis.</p> <p>LFD has also created graphic illustrations of the calculations to assist in communicating the method utilized and explain the variations included.</p> <p>Theses adjustment are all presented in IBARS in DP 1-0-SWPL-Personal Services.</p>

<sup>1</sup> 5-12-205 (7), MCA

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3	<p><u>Fixed Costs</u> Recommend the General Government subcommittee to examine fixed cost rates and provide directions regarding the acceptance of the rates to the other subcommittees. Any adjustments shall be made on a consistent basis.</p>	<p>Since the 2013 Legislative session, the fixed cost adjustment has been presented in a decision package. General Government Subcommittee examined the rates and provided directions to the other subcommittees for adjustments.</p>	<p>This decision does not preclude the General Government Subcommittee from increasing, or decreasing a fixed cost rate. If such change occurs, these types of adjustments would occur as change packages in all agency budgets. Subcommittees should not reduce budgeted fixed costs unless directed to do so by the General Government Subcommittee.</p>	<p>The fixed costs will be considered in Section A (General Government) along with the budget of the Dept. of Administration.</p> <p>Motor Pool rates will be set in Section C through the Dept. of Transportation.</p> <p>ITSD rates will be described and set through Volume 10.</p> <p>Theses adjustment are all presented in IBARS in DP 2-0-SWPL-Fixed Costs.</p>
4	<p><u>Inflation or Deflation Factors in the Budget</u> Direct the General Government subcommittee to examine the inflation/deflation factors and provide directions to the other subcommittees. Any adjustments shall be made on a consistent basis.</p>	<p>Since the 2013 Legislative session, the inflation/deflation adjustment has been presented into a decision package.</p>	<p>This decision does not preclude the General Government Subcommittee from increasing, or decreasing inflation factors. If such change occurs, these types of adjustments would occur as change packages in all agency budgets. Subcommittees should not reduce budgeted fixed costs unless directed to do so by the General Government Subcommittee.</p>	<p>Theses adjustment are all presented in IBARS in DP 3-0-SWPL-Inflation Deflation.</p>
5	<p><u>Budget Proposals Requiring Legislation</u> Direct the appropriation subcommittees to make no recommendations or adjustments to HB 2 until required legislation passes, except for K-12 inflation which is present law.</p>	<p>This recommendation represents the direction provided by the LFC since the legislative sessions. Coordination of the contingent legislation is often completed in conference committee.</p>	<p>Legislation is often accompanied by fiscal notes, but not all fiscal notes need to be incorporated into HB 2. Deliberations in policy committees may influence some modifications to HB 2 to account for situations where an adjustment in funding is necessary to implement legislation.</p>	

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6	<p><u>HB 2 Companion Bill</u> 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. In addition recommend that appropriations committee leadership request 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.</p>	<p>This was included in the items discussed and adopted since the 2009 session. The companion bill should follow HB 2 as closely possible.</p>	<p>Legislation to implement HB 2 is purposeful by providing a vehicle for the legislature to enact provisions related to appropriations that are not appropriate for inclusion in HB 2. This is commonly referred to as the companion bill to HB 2. Among the potential uses are to:</p> <ul style="list-style-type: none"> <li>• Provide statutory changes necessary to implement provisions of the budget</li> <li>• Provide special instructions on use of or access to appropriations</li> <li>• Require agency action</li> </ul>	<p>LFD analysts would assist subcommittees to complete this task. A bill draft request needs to be available to complete this action.</p>
7	<p><u>Key performance measures</u> Recommend to the joint appropriation subcommittees to select a few critical performance measures for each agency for monitoring purposes during the 2017 interim and formalized as part of a separate bill(s) or resolution(s).</p>	<p>This process has evolved over the past several biennia. The 2011 Legislature agreed to SJR 26 and the LFC monitored a number of programs identified in the legislation during the 2013 interim. The same process was utilized in the 2013 session; however the bill died in process.</p> <p>If this was considered a valuable task, a recommendation to the joint committees would include the selection of performance measures for review during the 2017 interim.</p>	<p>State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. Reviewing this information and selecting related performance measures for further review may demonstrate to the legislature where budgetary adjustments are warranted and where the legislature might direct resources accordingly</p>	<p>LFD analysts would assist subcommittees to complete this task by incorporating this task into the budget hearing process.</p>
8	<p><u>Internal Service Programs</u> Recommend to the appropriation subcommittees not to approve decision packages of internal service funded proprietary programs unless quantifiable rate impact information is provided.</p>	<p>This recommendation has been adopted since the 2009 session.</p>	<p>“Internal service funded proprietary programs” refer to state programs that provide services to other state programs for fees based upon rates approved by the legislature. Budget instructions direct agencies to provide quantifiable rate impact information when submitting requests for rate changes.</p>	<p>LFD analysts would assist subcommittees to complete this task by incorporating this task into the budget hearing process.</p>

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9	<p><u>One-Time-Only Alternative Designation</u>          Recommend the appropriation subcommittees not to designate entire agency budget requests as “one time only” (OTO), but rather to consider the use of the language presented here as a way to indicate a desire to more fully consider the entire budget of an agency in the coming biennium.</p>	<p>During the 2015 Legislature, two agencies had almost their entire budget designated OTO as a way of indicating the entire budget was to be carefully reviewed in the coming biennium. These agencies have a minimal base budget going into the 2107 Legislature. However, the LFC has affirmed it is not the intention of the legislature to not fund these agencies going forward.</p>	<p>Throughout the 2017 biennium, the LFC has had conversations regarding the utility of the OTO status as a substitute for zero based budgeting. Attorney Julie Johnson provided a memo regarding options for targeted scrutiny</p>	<p><b><u>NEW ISSUE:</u></b> Alternate language for subcommittees to utilize: “It is the intent of the legislature to consider the 2021 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 2021 Biennium budget.”</p>
10	<p><u>Volume 10</u>          Information technology budget process recommendations.</p>			<p><b><u>NEW ISSUE:</u></b></p>