EXHIBIT 1
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HB

MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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DATE: January 3, 2011

TO: Chairs, Vice-Chairs, and Members of the Joint Appropriations Subcommittees

FROM: Representative Walt McNutt, Chairman of the House Appropriations Committee
Senator Dave Lewis, Chairman of Senate Finance and Claims Committee

RE: Recommendations of the Legislative Finance Committee (LFC) Relating to Global Budget Issues

In the June and November 2010 LFC meetings, the committee adopted recommendations concerning various budget issues that the joint appropriations subcommittees will face as they deliberate their respective agency budgets over the first 40 days of the 2011 Session. The chairs of the House Appropriations and Senate Finance and Claims Committees have discussed these recommendations and provide the following recommendations to the joint appropriations subcommittees.

Two of the recommendations provide direction to the subcommittees on the starting point for the review of budgets.

Decision Item	Recommendation	Suggested Motion or Action
1. Starting Point for Subcommittee Deliberations	**The initial motion in all appropriation subcommittees for a starting point for budget deliberations should include: the adjusted base to include personal services adjustments, statewide fixed costs, and inflation; any decision packages necessary to implement the two percent reductions approved in the 2009 session in an ongoing manner; and the five percent reduction plans provided in 17-7-111 (3)(f), MCA.**	In subcommittee, the following motion would be made in executive action when the subcommittee first meets: *"I move that for all agency budgets in this Section ___, the adjusted base to include personal services adjustments, statewide fixed costs, and inflation; any decision packages necessary to implement the two percent reductions approved in the 2009 session in an ongoing manner; the five percent reduction plans provided in 17-7-111 (3)(f), MCA, and vacancy savings as proposed in the executive budget be adopted as the starting point for subcommittee actions."*
2. Vacancy Savings	**Subcommittees are directed to adopt vacancy savings as proposed in the executive budget. For most agencies and programs this is vacancy savings of 4% but the few exceptions in the executive budget are to be initially adopted as proposed.**	The motion should be adopted in the first few days of subcommittee hearings.

There are two recommendations that relate to maintaining consistency between subcommittee treatment of agencies for the sake of budget system conformity as well as equitable treatment of agencies.

Decision Item	Recommendation	Suggested Motion or Action
3. Fixed Costs in the Budget	**Joint appropriations subcommittees are directed to consistently apply fixed costs in agency budgets as included by the executive budget request. Adjustments to fixed cost rates shall be determined by the subcommittee examining the service provider and shall be globally adjusted on a consistent basis.**	No action required as long as a subcommittee, other than the one responsible for the particular rate, does not try to change fixed costs in the proposed budget
4. Inflation/ Deflation Factors in the Budget	**Joint appropriations subcommittees are directed to not vary from the executive budget proposed inflation or deflation factors. Subsequent adjustments, if any, shall be applied globally in the budget.**	No action required as long as a subcommittee does not try to change inflation/deflation in one or a few agencies

The remaining recommendations relate more to subcommittee procedure in the conduct of their business.

Decision Item	Recommendation	Suggested Motion or Action
5. Proposals Requiring Legislation	Implementation of some proposals that require general appropriations act (HB 2) appropriations will require implementation of complementary legislation. **For budget proposals that require separate legislation to implement the proposal, joint appropriations subcommittees are directed to make no adjustments to the general appropriations act until required legislation passes, except for K-12 inflation which is present law if adopted by the subcommittee, and except for bills that enact substantive language needed to implement appropriations in the general appropriations act.**	Communicate any proposed variation to the chairs of the full appropriations committees.
6. Separate Legislation to Implement the General Appropriations Act	There shall be no substantive law in the general appropriations act. **If needed, appropriations committee leadership shall request legislation, to provide a vehicle or vehicles for enacting substantive language related to the implementation of appropriations in the general appropriations act.**	Subcommittees should alert the chairs of the full committees of items to be included in legislation to implement HB 2 – the general appropriations act.

7. Integrate "Goals and Objectives" into the Appropriations Process	**Direct performance measurements to be included in the decisions of the appropriation subcommittees:** • **Review of the starting point and discussion of anticipated outcomes given the new base. This allows for legislative discussion on current program performance, the effects of reducing the previous base and the impacts on related performance measurements** • **Decisions on a few critical measurable performance measures for each agency made at each step of the appropriation process and formalized as part of a bill(s) or resolution**	Subcommittees need to be cognizant of goals and objectives identified in the Legislative Fiscal Division (LFD) budget analysis. Subcommittee chairs and vice-chairs should keep in mind that the goals and objectives discussions in subcommittee should be translated into a brief presentation for legislators prior to floor action.

The recommendations above translate into proposals for the joint appropriations subcommittees to be used in the review and deliberations of the budgets of the agencies under there purview. These "global budget issues" are address for a number of reasons. A desire to vary from these recommendations should be discussed with the chairs of the full appropriations committees to ensure that proposed actions do not cause unmanageable inequities or inconsistencies among agencies, or cause budget process or system problems. Subcommittee staff and other LFD staff can provide assistance.

Prepared on behalf of Representative McNutt and Senator Lewis by Jon Moe, Fiscal Specialist, Legislative Fiscal Division