

# Legislative Budget Analysis

2011 Biennium



## Volume 3 through 7 – Agency Budgets

Presented to the Sixty-First Legislature

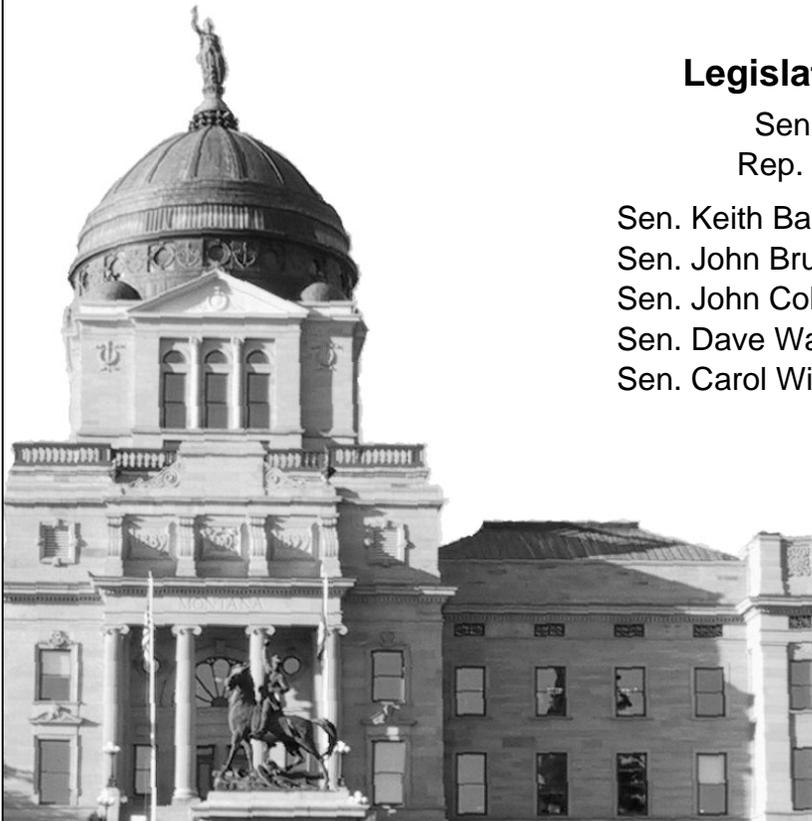
Submitted by the  
**Legislative Fiscal Division**

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### Legislative Finance Committee

Sen. Trudi Schmidt, Chairman  
Rep. Rick Ripley, Vice Chairman

Sen. Keith Bales	Rep. Ron Erickson
Sen. John Brueggeman	Rep. Cynthia Hiner
Sen. John Cobb	Rep. Dave Kasten
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Sen. Carol Williams	Rep. Janna Taylor





# AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

## GENERAL GOVERNMENT (Section A)

- Legislative Branch
- Consumer Counsel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Revenue
- Administration
- Montana Consensus Council
- Commerce
- Labor and Industry
- Military Affairs

## HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

## NATURAL RESOURCES AND TRANSPORTATION (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Transportation
- Livestock
- Natural Resources and Conservation
- Agriculture

## JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE (Section D)

- Judicial Branch
- Crime Control Division
- Justice
- Public Service Regulation
- Office of Public Defender
- Corrections

## EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Montana Arts Council
- State Library Commission
- Montana Historical Society
- Commissioner of Higher Education
- Community Colleges
- University Units and Colleges of Technology
- Agricultural Experiment Station
- Montana Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

## LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Long-Range Information Technology Program
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program
- Quality School Facilities Program

Where can you find each section in the *Legislative Budget Analysis 2011 Biennium*, Volumes 3-7?

- Volume 3 contains Section A
- Volume 4 contains Section B
- Volume 5 contains Section C
- Volume 6 contains Section D
- Volume 7 contains Sections E & F

# AGENCY BUDGET ANALYSIS (ROAD MAP)

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The purpose of the “Agency Budget Analysis” (LFD Volumes 3 through 7) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

## BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget;
2. Present law budget; and
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division and on the Internet at [http://leg.mt.gov/content/publications/fiscal/leg\\_reference/Understanding\\_State\\_Finances.pdf](http://leg.mt.gov/content/publications/fiscal/leg_reference/Understanding_State_Finances.pdf)). The analysis is presented in a manner to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

## LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative; and
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

## COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative; and
2. The program narrative.

## Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium by year. The reader can use this table to get a general idea of the size and funding of the agency, and compare the upcoming biennium totals to the current biennium.
2. **Agency Description** is a brief description of the agency, along with its mission statement.
3. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
4. **Agency Discussion** provides additional information or overarching discussion. In addition, if the previous legislature funded any new initiatives of an agency-wide nature, a brief update is provided. For each agency, any agency-wide goals and objectives pertinent to the legislature's discussion, as well as a recap of any agency-wide goals and objectives monitored by the Legislative Finance Committee during the interim, are listed and discussed as appropriate.
5. **Personal Services** provides the legislature, as part of a new initiative, with pertinent data on personal services that would allow the legislature to identify and address those factors impacting personal services expenditures and related policy issues. Factors addressed in this section include market salaries and obstacles to achievement of market goals. The program sections address other, program specific questions.
6. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
7. **Statutory Appropriation** is a table showing any statutory appropriations received by the agency, in order to provide a more complete picture of total appropriations.
8. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
9. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
  - o **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for FY 2007, or supplemental appropriations approved in FY 2006
  - o **Reorganizations** details any major reorganization that took place in the 2007 biennium or is proposed by the executive for the 2009 biennium
10. **Language** includes any agency-wide language proposed by the executive.
11. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
12. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
13. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and budget summary tables, the agency description, mission, and the highlights and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

## ***Program Narrative***

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium, by year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst. If the previous legislature funded any new initiatives, a brief update is provided.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. **Program Reorganization** details any program reorganizations that took place in the 2005 biennium or that are proposed by the executive for the 2009 biennium.
7. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
8. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
  - o Statewide present law adjustments, which include most personal services adjustments, the executive’s vacancy savings recommendation, and adjustments due to fixed costs and inflation
  - o Other present law adjustments proposed by the executive
9. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The section begins with a discussion that addresses personal services expenditures and policy issues specific to the program, including market rate, vacancies, how the legislatively applied vacancy savings was met, pay changes made outside of any legislative pay changes, and the number of employees eligible for full retirement and the related unfunded liability. This discussion is followed by a description of each adjustment proposed by the Governor. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
10. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
11. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive. For certain new proposals (and significant present law adjustments), a discussion submitted by the agency (with editing for clarity and brevity by LFD staff) is included that discusses goals, performance criteria, milestones and timetables, and other information designed to provide the legislature with information with which to evaluate the proposal. LFD staff provides any comments or issues with the submission.
12. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.

13. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
14. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following:

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through FY 2009; and
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

## **STATEWIDE PRESENT LAW ADJUSTMENTS**

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

### ***Personal Services***

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the upcoming biennium personal services costs different from actual base year costs. The most important are:

#### **Current Biennium Pay Plan and Other Benefits**

The 2007 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay of 3.0 percent in each year of the biennium and a further 0.6 percent discretionary fund increase, both beginning on October 1 of each year.
2. An increase in insurance rates of \$33 per month beginning on January 1, 2008 and a further increase of \$36 per month on January 1, 2009 (the increases for the Montana University System begin on July 1 of each fiscal year).

Since the pay plan was increased in FY 2009 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2011 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

## **Vacancy Savings**

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in FY 2008.

## **Termination Pay**

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

## **Other Adjustments to Pay**

All other changes to salaries authorized during the biennium through the “snapshot” date (July of FY 2008) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue or comment.

## **Vacancy Savings**

As of this writing, the executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty, and those in agencies with fewer than 20 full-time equivalent positions, the Judicial Branch, the highway patrol, game wardens, and the Legislative Branch.

## **Inflation/Deflation**

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the “Reference” section.

## **Fixed Costs**

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as information technology, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Transportation Subcommittee will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the “Reference” section.