

PERSONAL SERVICES BUDGET OPTIONS

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

The purpose of this report is a follow up to the report “Budgeting Options for the 2015 Legislature” that was provided to the Legislative Fiscal Committee (LFC) at the September 2013 meeting.¹ That report provided an examination of statewide present law (SWPL) adjustments as they relate to personal services costs, and listed two options:

- 1) Utilize the submission of the executive, which will include decision packages for SWPL adjustments, or
- 2) Further break down the personal services SWPL package into two components: the amount anticipated by the legislature and the balance of the personal services request.

This report will provide background to the implementation of HB 13 and then address the second option. The summary will address any potential impacts related to the development of Internet Budget Analysis and Reporting System (IBARS).

HB 13 IMPLEMENTATION

The 2013 Legislature passed and the Executive approved HB 13 directing the implementation of a pay plan that:

- Increased base pay with particular attention to the lower bands and those who did not receive an increase during the 2013 biennium,
- Increased state share contributions for health insurance,
- Appropriated \$113.9 million total funds, \$58.0 million general fund for the 2015 biennium for pay and insurance increases, and
- Provided appropriations for personal services contingencies of \$1.85 million total funds, \$1.1 million general fund.

The executive negotiated a pay plan with labor unions that provided for:

- 3% base pay increase as of July 1, 2013 and
- 5% base pay increase as of November 15, 2014.

The executive’s negotiated pay plan is within the appropriation authority established by HB 13 for the 2015 biennium. However, the later implementation date at a higher percentage rate than that utilized for establishing HB 13 authority, does result in an additional budget adjustment for FY 2016 and forward. The fiscal impact of the negotiated plan is a component the legislature may wish to examine.

PERSONAL SERVICES BREAKOUTS

In September, the LFD staff provided the option that, if the SWPL decision package submitted by the executive does not provide enough detail, the legislature could consider further splitting the submitted personal services SWPL decision package into two parts. Since then, the LFD has refined this to three components in order to isolate the impacts of the implementation of HB 13, as discussed above. The three components calculated by the LFD, could be:

- Legislative Projected – This component would estimate the budget adjustment needed to fund the personal services authorized in FY 2015, with adjustments for the HB 13² pay plan authorized by the legislature
- Executive Pay Plan- This component would estimate the additional budget adjustment needed to annualize the FY 2015 pay plan negotiated by the Governor
- Remaining Personal Services– This component would be the difference between the amount requested in total and the pay plan adjustments. This number may be positive or negative

¹ The report can be found at http://leg.mt.gov/content/Publications/fiscal/interim/2013_financecmty_Sept/Budgeting%20Options%20For%202015%20Session.pdf.

² Also includes funding from HB 377 and HB 354.

Each component is discussed in further detail and illustrated utilizing approximate amounts for all executive branch agencies. A single agency example is in the appendix.

FY 2016 Legislative Projected

FY 2015 appropriations for personal services include the cost of implementing a 3% increase in salary for the entire year (in addition to the 3% increase in FY 2014, or compounded 6.1% for the biennium), and all insurance increases in FY 2014 and 6 months of FY 2015. Therefore, FY 2015 can serve as a proxy for implementation of the legislatively approved pay plan in the 2017 biennium, with the annualization of an additional 6 months of insurance.

The table below provides a summary for the anticipated costs of personal services in FY 2016 for the executive branch using these assumptions. The Legislative Branch, Judicial Branch, and university system have been removed in this example due to potential differences in the implementation of HB13.

Estimated FY 16 Personal Services - Legislative Projected					
Fund	General Fund	State Special	Federal	Proprietary	Total
FY 15 Personal Services Budget	\$328,005,966	\$289,168,335	\$173,475,843	\$5,865,981	\$796,516,125
Insurance	\$2,565,488	\$1,922,877	\$1,226,788	\$43,739	\$5,758,891

FY 2015 personal services is equal to the amounts appropriated for personal services by the 2013 Legislature and include authority from HB 2, HB 13 (pay plan bill), HB 377 (teachers retirement bill), and HB 454 (public employee retirement bill). The insurance amount is calculated as the additional \$81 per employee for the last six months of FY 2015 and is based on the count of FTE funded in HB 2 after the impact of the boiler plate language establishing legislative intent that specifies that the number of FTE will be reduced in the 2017 biennium.³ Under this scenario, the anticipated personal services budget growth is \$5.8 million or 0.72%, or the amount to annualize the increase in health insurance premiums. Because this increase is not initiated by the agency, but is applied statewide, the LFC could, if it chose, recommend a global funding decision.

Executive Implementation of HB 13

As stated, the HB 13 appropriation was calculated as approximately 3% per year. The Governor negotiated a pay plan that delays implementation until November 15 (about 38.5% into FY 2015) and uses the additional funds generated from the later date to increase the pay plan from the approximate 3% calculated by the legislature to 5% in FY 2015 but delayed. The 2% difference for FY 2015 creates the need for a budget adjustment for personal services costs in FY 2016 and forward.

The following shows the amounts calculated for this increase, based upon the application of an additional 2% to the amounts calculated for the 3% legislative appropriation discussed above. Because this increase was not initiated by the agency, but rather directed by the executive, it could be separated out so that the legislature could, if it chose, make a global funding decision.

Executive Pay Plan					
FY 2016 Estimate - Impact of additional					
Fund	General Fund	State Special	Federal	Proprietary	Total
FY 15 Personal Services Budget	\$328,005,966	\$289,168,335	\$173,475,843	\$5,865,981	\$796,516,125
Additional 2%	\$6,560,119	\$5,783,367	\$3,469,517	\$117,320	\$15,930,323

³ From HB 2: Section 3. Legislative intent - It is the intent of the legislature that the appropriations for personal services contained in this bill for fiscal year 2014 and fiscal year 2015, except for the reductions contained in decision packages that remove an additional vacancy savings amount, are supported by the number of FTE that are funded. It is the intent of the legislature that this net level of FTE is the level that will be used to calculate personal services funding in the next biennium.

Remaining Personal Services SWPL

A number of other factors will impact the personal services appropriations request, including but not limited to other benefit or tax adjustments, broadband pay adjustments, reclassifications, hiring at higher or lower levels than the incumbent, and actual vacancy savings. The third potential component would capture the difference between the final executive SWPL personal services request, and the legislative projection (insurance) and Governor's negotiated pay plan amounts.

In order to illustrate this concept, the following table shows the total personal services in the three components as summarized in the preceding sections:

1. Legislative Projected - 3% per year implemented on July 1, plus an additional 6 months insurance,
2. Executive Pay Plan – the additional cost as a result of the FY 2015 delayed implementation of the Governor's negotiated 5% increase, and
3. Remaining Personal Services – the amount remaining after the legislative appropriation and the executive pay plan amounts are subtracted from the executive's SWPL personal services request.

The remaining personal services amount and the analysis of the contributing factors would be the basis of beginning the conversation about the change in personal services not related to HB 13 implementation. The following is a hypothetical example for illustrative purposes, only.

FY 2016 Estimate - All other/Remaining Personal Services Calculation					
Fund	General Fund	State Special	Federal	Proprietary	Total
SWPL PS Executive Request	\$10,831,402	\$9,239,125	\$5,615,900	\$192,154	\$25,878,581
Legislative Projection (Insurance)	2,565,488	1,922,877	1,226,788	43,739	5,758,891
Executive Pay Plan	6,560,119	5,783,367	3,469,517	117,320	15,930,323
Remaining Personal Services	<u>1,705,795</u>	<u>1,532,881</u>	<u>919,595</u>	<u>31,096</u>	<u>4,189,367</u>
Total	<u>\$10,831,402</u>	<u>\$9,239,125</u>	<u>\$5,615,900</u>	<u>\$192,154</u>	<u>\$25,878,581</u>

SUMMARY

The cost and funding for personal services is a standard topic of any legislative session. The 2015 session will be no different except for the opportunity to examine the changes in personal services differently. The three potential budget components allow legislative deliberations based on the continuation of the pay plan and other factors impacting personal services costs.

- Legislative Projected – This amount is an extension of what was approved in the 2013 legislative session. The LFC could provide a recommendation⁴ to the chairs of the 2015 House Appropriations Committee and Senate Finance and Claims committee to approve this component across the board.
- Executive Pay Plan– This amount is the 2% needed to annualize the 5% pay increase negotiated and implemented by the executive FY 2015. The LFC could make the recommendation to examine this as a statewide issue at the leadership level and provide adequate direction to subcommittee chairs to allow for consistency.
- Remaining Personal Services– This amount includes both non-discretionary and discretionary adjustments made during the interim that impact ongoing personal services costs. This provides valuable information on the various issues facing the agencies, and therefore should be discussed in subcommittee. Because the calculation of the other two items would involve the application of some assumptions, the amounts in this item would be approximates. As stated earlier this amount could be either negative or positive.

⁴ Per 2-12-205(7), MCA...

IBARS AND NEXT STEPS

IBARS

This approach requires the LFD to break an executive submitted decision package down into multiple components. The staff would utilize data from the submitted package as well as simple calculations outside of IBARS to build any resulting decision packages. The data sets necessary to automate the calculations as part of this process have been created and with updates can be used for the building of decision packages. There is no need for additional IBARS configuration to handle this activity.

NEXT STEPS

The LFC provides recommendations on the application of certain budget matters prior to each legislative session, including personal services. Traditionally, these recommendations have been completed at the November LFC meeting prior to the session. Unless directed otherwise, the LFD will continue refining this process with input from the Office of Budget and Program Planning and routinely update the LFC.

APPENDIX

Below is an example of the breakout for the Montana State Library.

Montana State Library					
EXAMPLE - FY 16 -All other/Remaining Personal Services Calculation					
	General Fund	State Special	Federal	Proprietary	Total
SWPL PS Executive Request	\$52,640	\$6,657	\$9,260	\$0	\$68,557
Legislative Projection (Insurance)	11,408	1,443	2,007	0	14,857
Executive Pay Plan	32,986	4,171	5,803	0	42,960
Remaining Personal Services	<u>8,247</u>	<u>1,043</u>	<u>1,451</u>	<u>0</u>	<u>10,740</u>
Total	\$52,640	\$6,657	\$9,260	\$0	\$68,557

