

HJR-17 FUNDING PAY INCREASES IN FY 2013

A Report Prepared for the
Legislative Finance Committee

By
Kris Wilkinson
Senior Fiscal Analyst

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INTRODUCTION

The 2011 Legislature did not provide funding for pay plan increases in the 2013 biennium. Using the authority provided in statutes governing the broadband pay plan, state agencies provided market adjustments of about \$11.2 million to state employees in FY 2012.

The purpose of this report is to provide the legislature with information on the mechanisms used to fund various pay increases in the 2013 biennium. Increases provided in FY 2012 were fully implemented in FY 2013 but, with the exception of longevity and Montana Highway Patrol (MHP), funding to pay for the changes was not provided through specific legislative approval. Funding to continue the 2013 biennium pay increases in the 2015 biennium was considered by the 2013 Legislature as part of the statewide present law adjustments.

Please note that a precise determination of the mechanisms used is not possible.

FLEXIBILITY IN BUDGETING AUTHORIZED BY THE LEGISLATURE

While the legislature approves the level of funding for personal services, the Governor authorizes the number of FTE that are hired within that funding level. Almost 85% of the funding for the 14,202 FTE authorized by the Governor in FY 2013 is provided through HB 2. The remaining FTE were funded through:

- Proprietary rates – 8.50%
- Statutory appropriations - 0.67%
- Modified positions utilizing various funding sources – 1.78%
- Budget amendments, administrative appropriations, private funds, and other – 4.14%

While the legislature provides funding for personal services in each year of the biennium, it also grants authority to allow the executive to manage budget and funding changes during the interim. This flexibility includes allowing state agencies to:

- Move funding between expenditure categories, such as operating expenses to personal services
- Transfer authority between programs within an agency
- Carry forward up to 30% of appropriation authority provided in HB 2 for personal services, operating expenses, and equipment for the next two fiscal years for any purpose that is consistent with the goals and objectives of the agency
- Add additional funding through the budget amendment process that was not anticipated at the time the legislature was convened, such as additional federal grants

The Office of Budget and Program Planning approves additional budget authority, budget changes such as program transfers, and carry forward authority for executive branch agencies. The Legislative Finance Committee reviews all budget amendments and program transfers and operating plan changes over a certain amount.

USES OF FLEXIBILITY TO FUND ADDITIONAL PERSONAL SERVICE COSTS

Figure 1 shows the annualized costs of the pay adjustments provided by state agencies in the 2013 biennium.

Figure 1

Salary Changes for the 2013 Biennium						
Annualized Costs						
By Reason						
Reason	Awarded in FY 2012	% of Total	Awarded in FY 2013	% of Total	Annualized Costs 2013 Biennium	% of Total
Legislative Appropriations						
Blue Collar Pay Raise*	\$8,559	0.04%	\$1,473,143	5.93%	\$1,481,702	3.37%
Emergency Firefighters	38,901	0.20%	266,094	1.07%	304,996	0.69%
Longevity	1,619,711	8.45%	1,589,179	6.40%	3,208,890	7.29%
Montana Highway Patrol	479,734	2.50%	81,568	0.33%	561,302	1.28%
HB 13 Statutory Pay Raise*	<u>18,116</u>	<u>0.09%</u>	<u>14,206,361</u>	<u>57.18%</u>	<u>14,224,477</u>	<u>32.32%</u>
Total Legislative Appropriations	2,165,021	11.30%	17,616,345	70.91%	19,781,366	44.95%
Alternatively Funded						
Market Adjustment	11,179,818	58.34%	2,709,077	10.90%	13,888,894	31.56%
Career Ladder	994,013	5.19%	1,127,822	4.54%	2,121,835	4.82%
Commissioner of Higher Education Pay Changes	63,064	0.33%	151,762	0.61%	214,826	0.49%
Compentency	275,219	1.44%	203,099	0.82%	478,317	1.09%
Correction Inaccurate Pay	(2,507,345)	-13.08%	(1,227,575)	-4.94%	(3,734,920)	-8.49%
Exempt Employee Pay	210,692	1.10%	217,610	0.88%	428,302	0.97%
Judicial Branch Pay Changes	431,184	2.25%	16,322	0.07%	447,506	1.02%
Move to Entry of Pay Band	57,965	0.30%	44,793	0.18%	102,757	0.23%
Merit Pay Changes	30,343	0.16%	27,315	0.11%	57,658	0.13%
Merit - Montana State Fund	440,700	2.30%	417,327	1.68%	858,027	1.95%
Negotiated Pay Schedule	971,739	5.07%	821,596	3.31%	1,793,335	4.07%
Proficiency Agreement Progression	11,642	0.06%	0	0.00%	11,642	0.03%
Performance Pay End	9,581	0.05%	2,080	0.01%	11,661	0.03%
Performance Adjustment	1,622,526	8.47%	256,493	1.03%	1,879,019	4.27%
Reclassification	2,082,985	10.87%	1,262,694	5.08%	3,345,678	7.60%
Situational Pay End	(65,407)	-0.34%	(60,506)	-0.24%	(125,914)	-0.29%
Situational Pay	223,385	1.17%	254,287	1.02%	477,672	1.09%
Strategic Pay	456,075	2.38%	562,822	2.27%	1,018,897	2.32%
Supervisory Pay End	(18,490)	-0.10%	(2,263)	-0.01%	(20,753)	-0.05%
Supervisory Pay	71,440	0.37%	55,297	0.22%	126,737	0.29%
Training Assignment Progression	<u>458,233</u>	<u>2.39%</u>	<u>387,680</u>	<u>1.56%</u>	<u>845,914</u>	<u>1.92%</u>
Total Alternatively Funded	<u>16,999,361</u>	<u>88.70%</u>	<u>7,227,730</u>	<u>29.09%</u>	<u>24,227,091</u>	<u>55.05%</u>
Grand Total 2013 Biennium Pay Adjustments	<u>\$19,164,382</u>	<u>100.00%</u>	<u>\$24,844,075</u>	<u>100.00%</u>	<u>\$44,008,457</u>	<u>100.00%</u>

* Majority of these increases provided on June 29, 2013 for the first pay period of FY 2014

It should be noted that the costs shown above are the annual cost of the increases from all funding sources. FY 2012 increases would have been fully annualized in FY 2013. Pay increases are granted throughout the year so that the full costs are not realized until the subsequent fiscal year. Thus the \$24.8 million in FY 2013 increases would not be fully annualized until FY 2014. The 2013 Legislature provided specific appropriations for about 45% of the pay adjustments provided over the biennium, including: 1) longevity and MHP increases in both years of the biennium; and 2) HB 13 increases and blue collar pay raises for FY 2014, some of which were awarded at the end of FY 2013. Emergency firefighter pay is provided through statutory appropriations for disasters and emergencies.

Figure 2 shows the FY 2013 costs of the pay adjustments awarded by agencies in both fiscal years of the biennium, the amount of funding granted by the legislature for such increases as longevity, HB 13 changes, blue collar raises, and emergency firefighters, and the additional authority needed from other sources, whether vacancy savings or movement of appropriation authority. It should be noted that the pay adjustment costs are for all sources of authority.

Figure 2

FY 2013 Costs for Pay Adjustments*					
Pay Adjustments - All Funding					
State Agency	Awarded in FY 2012	Awarded in FY 2013	Total FY 2013 Costs	Legislative Appropriations	Additional Authority Needed
Consumer Council	\$1,538	\$6,114	\$7,652	\$3,563	\$4,089
Legislative Branch	180,524	84,316	264,841	33,521	231,320
Judicial Branch	533,451	46,581	580,032	66,445	513,587
Governor's Office	246,265	20,353	266,617	8,804	257,813
Secretary Of State's Office	47,988	39,246	87,233	1,490	85,744
Commissioner Of Political Practices	3,490	11,513	15,003	1,284	13,719
State Auditor's Office	110,415	87,028	197,444	15,986	181,458
Office Of Public Instruction	110,347	50,295	160,643	43,099	117,543
Department Of Justice	806,774	213,701	1,020,474	745,015	275,459
Crime Control Division	34,301	6,370	40,671	4,525	36,146
Public Service Regulation	169,474	6,925	176,399	8,766	167,633
Board Of Public Education	1,357	14,007	15,363	1,381	13,982
Commissioner Of Higher Education	120,778	147,039	267,818	35,219	232,599
School For The Deaf & Blind	79,898	18,949	98,847	4,856	93,991
Montana Arts Council	19,791	30,172	49,962	2,631	47,331
Montana State Library**	31,181	4,015	35,195	17,018	18,178
Montana Historical Society	31,182	4,749	35,930	17,777	18,153
Department Of Fish, Wildlife & Parks	2,702,889	106,327	2,809,216	182,438	2,626,778
Department Of Environmental Quality	342,910	123,577	466,487	114,689	351,798
Department Of Transportation	791,072	450,355	1,241,428	459,057	782,370
Department Of Livestock	17,283	13,933	31,216	29,966	1,249
Dept Of Natural Resources & Conservation	917,002	380,449	1,297,451	370,040	927,411
Department Of Revenue	931,348	330,102	1,261,450	121,461	1,139,989
Department Of Administration	716,509	333,090	1,049,599	134,129	915,470
Office Of The Public Defender	340,155	135,091	475,247	26,731	448,516
Department Of Agriculture	285,850	59,113	344,964	28,319	316,644
Department Of Corrections	1,151,818	501,127	1,652,945	202,268	1,450,677
Department Of Commerce	1,156,522	77,594	1,234,116	36,238	1,197,878
Department Of Labor & Industry	1,627,838	384,010	2,011,849	152,706	1,859,142
Department Of Military Affairs	385,115	160,245	545,359	40,005	505,354
Department of Public Health and Human Services	<u>7,225,574</u>	<u>1,516,869</u>	<u>8,742,444</u>	<u>430,269</u>	<u>8,312,175</u>
Grand Total	<u>\$21,120,639</u>	<u>\$5,363,256</u>	<u>\$26,483,895</u>	<u>\$3,339,697</u>	<u>\$23,144,198</u>

* Corrections to pay were not included in these numbers
 **Majority of adjustments in FY 2012 were one-time only

The totals by agency shown in Figure 2 do not tie to those in Figure 1 for two reasons:

- o FY 2013 costs reflect the actual costs incurred in the fiscal year in Figure 2 and show the total annual cost of the increases in Figure 1
- o Corrections for inaccurate pay are not included in Figure 2. Had the corrections been included the Department of Fish, Wildlife, and Parks would show (\$134,591) in FY 2012 and (\$554,778) in FY 2013, understating the increases given. Other agencies also had some offsets

As shown in Figure 2, agencies needed \$23.1 million to provide for pay increases for employees in FY 2013. The remainder of the report provides additional information on the sources of funding for the increases.

Vacancy Savings

As state above, almost 85% of the funding for pay adjustments made in the 2013 biennium was for positions funded in HB 2. One mechanism used by state agencies to fund personal service increases is management of vacant positions. The legislature reduces personal services budgets for an anticipated amount of vacancy savings, generally 4%. Funding resulting from higher vacancy levels can use used to fund pay increases. Funding is generated in two ways:

- o An incumbent vacates the position, leaving the position open. Funding for personal services associated with the position is then available for other uses. The amount of funding generated is determined based on the length of time the position is vacant.

- A new incumbent is hired at a lower salary due to less experience, knowledge, skills, and abilities. The difference between the salary of the new incumbent and the old incumbent makes funding available for other uses

In FY 2013, personal services for most state agencies were reduced by 4% for anticipated vacancy savings. Figure 3 shows the following for FY 2013:

- FTE funded in HB 2
- Percentage of HB 2 positions that were vacant
- Budgeted HB 2 personal services funding (net of 4% vacancy savings)
- Actual personal services costs, including pay raises awarded to employees
- HB 2 authority remaining at the end of the fiscal year

Figure 3

HB 2 Personal Services Funding						
FY 2013						
State Agency	FTE	% of Vacant Positions	Budgeted Funding	Actual Personal Services	Remaining Budget Authority	% of Budgeted
Consumer Council	5.54	91.53%	\$574,618	483,842	\$90,776	15.80%
Legislative Branch	140.14	91.72%	10,397,249	9,528,138	869,111	8.36%
Judicial Branch	412.58	98.04%	30,260,661	30,145,585	115,076	0.38%
Governor's Office*	58.07	96.92%	4,325,929	4,371,091	(45,162)	-1.04%
Commissioner Of Political Practices	6.00	84.05%	306,626	284,268	22,358	7.29%
State Auditor's Office	86.80	92.60%	5,320,219	5,453,947	(133,728)	-2.51%
Office Of Public Instruction	163.61	95.16%	10,477,879	10,409,310	68,569	0.65%
Department Of Justice	754.85	94.25%	50,335,798	48,229,628	2,106,170	4.18%
Crime Control Division	17.50	98.57%	1,085,513	1,117,752	(32,239)	-2.97%
Public Service Regulation	40.00	97.16%	3,056,595	2,982,635	73,960	2.42%
Board Of Public Education	4.00	86.63%	300,687	187,667	113,020	37.59%
Commissioner Of Higher Education	93.88	95.03%	5,856,233	5,269,319	586,914	10.02%
School For The Deaf & Blind	88.61	121.83%	5,567,198	5,512,888	54,310	0.98%
Montana Arts Council	7.00	108.04%	539,635	613,787	(74,152)	-13.74%
Montana State Library**	28.25	92.38%	1,717,067	2,044,343	(327,276)	-19.06%
Montana Historical Society	59.83	93.10%	3,280,613	2,797,985	482,628	14.71%
Department Of Fish, Wildlife & Parks	693.61	97.94%	40,892,592	41,214,776	(322,184)	-0.79%
Department Of Environmental Quality	383.48	94.85%	26,714,611	25,167,227	1,547,384	5.79%
Department Of Transportation	2,111.26	95.42%	142,766,309	136,986,159	5,780,150	4.05%
Department Of Livestock	142.76	105.11%	7,460,721	7,193,882	266,839	3.58%
Dept Of Natural Resources & Conservation*	544.78	96.63%	33,086,794	36,528,207	(3,441,413)	-10.40%
Department Of Revenue	661.28	94.88%	36,729,916	36,806,862	(76,946)	-0.21%
Department Of Administration	151.63	92.49%	10,219,023	9,785,633	433,390	4.24%
Office Of The Public Defender*	209.50	98.67%	13,139,401	13,865,514	(726,113)	-5.53%
Department Of Agriculture	119.40	93.46%	6,589,688	6,631,977	(42,289)	-0.64%
Department Of Corrections	1,279.64	94.54%	70,284,414	70,961,718	(677,304)	-0.96%
Department Of Commerce	56.00	88.46%	3,561,961	3,447,936	114,025	3.20%
Department Of Labor & Industry	756.60	97.57%	42,467,324	40,168,935	2,298,389	5.41%
Department Of Military Affairs	199.22	108.32%	11,581,499	11,724,709	(143,210)	-1.24%
Department of Public Health and Human Services	<u>2,929.60</u>	<u>98.53%</u>	<u>159,732,190</u>	<u>159,871,835</u>	<u>(139,645)</u>	<u>-0.09%</u>
	<u>12,205.42</u>		<u>\$738,628,963</u>	<u>\$729,787,555</u>	<u>\$8,841,408</u>	1.20%

* Received supplemental appropriations in FY 2013 in addition to HB 2

**Additional personal services spending due to budget changes in federal grants

Even with the legislatively budgeted 4% vacancy savings requirement, over \$8.8 million of HB 2 personal services authority was unused by state agencies in FY 2013. The agencies that kept personal service costs within the budget provided by the legislature also had the capacity for pay adjustments for incumbent personnel. In other words, the vacancy savings funding generated in FY 2013 was sufficient to provide for state employee pay, including support for FY 2012 and FY 2013 pay adjustments, in all but 12 of the 30 state agencies shown in Figure 2. It is not clear, however, what actions agencies were required to take to ensure they generated 4% vacancy savings and were able to support employee pay increases. For example, current employees may have had to work longer hours to cover for unfilled positions, or certain non-critical tasks may have been left undone.

As shown in Figure 3, 12 agencies had personal services costs above their FY 2013 budgets including:

- Governor's Office

- State Auditor's Office
- Board of Crime Control
- Montana Arts Council
- Montana State Library
- Department of Fish, Wildlife, and Parks
- Department of Natural Resources and Conservation
- Office of the Public Defender
- Department of Agriculture
- Department of Corrections
- Department of Military Affairs
- Department of Public Health and Human Services

Some of the agencies with higher personal services costs were provided supplemental appropriations, including:

- Governor's Office - \$276,061 exempt staff payouts
- Department of Natural Resources and Conservation - \$1,000,000 fire suppression
- Office of the Public Defender - \$1,300,000 Public Defender and Appellate Defender

Supplemental appropriation amounts are not included in Figure 3.

The following sections discuss other methodologies used by state agencies to fund personal service costs that were higher than anticipated, either due to pay increases or other factors such as retirement payouts or overtime costs.

Expenditure Category Transfers and Carry forward Authority

As discussed earlier, state agencies are granted flexibility to move appropriation authority between first level expenditure categories and to use carry forward authority. Agencies also receive additional authority for federal grants that are at times used to provide funding for personal services costs for current employees. Figure 4 shows movement of additional authority to personal services, either through:

- Changes in expenditures categories
- Carry forward authority
- Additional federal funding. While a portion of the federal funding was used for modified FTE, a portion was used for current FTE

Figure 4

FY 2013 Additional Personal Services Authority				
State Agency	Additional Authority Needed	Category Transfers and Nonbudgeted Funds	Carry Forward	Budget Amendments*
Consumer Council	\$0	\$0	\$0	\$0
Legislative Branch	0	0	0	0
Judicial Branch	0	0	210,066	0
Governor's Office	0	0	91,693	0
Secretary Of State's Office	0	0	0	0
Commissioner Of Political Practices	0	0	0	0
State Auditor's Office	133,728	60,600	135,375	0
Office Of Public Instruction	0	0	94,492	0
Department Of Justice	0	(42,033)	398,122	0
Crime Control Division	32,239	42,967	0	0
Public Service Regulation	0	0	20,000	0
Board Of Public Education	0	0	0	0
Commissioner Of Higher Education	0	357,040	0	0
School For The Deaf & Blind	0	0	0	0
Montana Arts Council	74,152	58,936	0	0
Montana State Library	327,276	777,704	0	0
Montana Historical Society	0	16,300	0	0
Department Of Fish, Wildlife & Parks	322,184	1,935,414	504,589	0
Department Of Environmental Quality	0	321,492	163,076	0
Department Of Transportation	0	338,677	0	0
Department Of Livestock	0	0	111,176	0
Dept Of Natural Resources & Conservation	2,441,413	146,425	277,294	953,097
Department Of Revenue	76,946	740	17,391	71,576
Department Of Administration	0	0	138,052	0
Office Of The Public Defender	0	369,639	0	0
Department Of Agriculture	42,289	175,145	97,585	0
Department Of Corrections	0	(508,588)	0	425,910
Department Of Commerce	0	1,030,089	0	0
Department Of Labor & Industry	0	2,015,080	15,400	0
Department Of Military Affairs	143,210	394,918	12,760	0
Department of Public Health and Human Services	<u>139,645</u>	<u>3,428,112</u>	<u>0</u>	<u>0</u>
Grand Total	<u>\$3,733,082</u>	<u>\$10,918,657</u>	<u>\$2,287,071</u>	<u>\$1,450,583</u>

* Examined for agencies with personal services costs above amounts provided through category transfers and carryforward

Overall, of the 12 agencies that needed additional funding, budget flexibility provided that funding.

CONCLUSION

State agencies were able to fund various pay adjustments by:

- Utilizing vacancy savings that were realized at a higher rate than budgeted by the legislature
- Transferring appropriation authority to personal services from other categories, mainly operating costs
- Using carry forward authority
- Allowing current personnel to spend a portion of their time on federal grants that were not anticipated when the budget was developed