

PERSONAL SERVICES BUDGET REVIEW PROJECT

Primary goal of the project: To review the current process used to budget for personal services in order to identify legislative concerns with the process and provide options for addressing the legislative concerns.

Assumption: The project will minimize duplication of efforts undertaken in the previous study of the process that is documented in the following report, but use the previous work as a springboard for analysis and option development:

http://leg.mt.gov/content/publications/fiscal/interim/financecmty_june2002/vacancy_savings.pdf

NOVEMBER 28, 2007, PERSONAL SERVICES PROJECT OUTLINE

- Introduction of attendees and expected flow of the meeting (Greg DeWitt, LFD)
- Why are we doing the study? (Greg DeWitt, LFD)
- Summarize the 2002 study (Greg DeWitt, LFD)
- What has staff done to date? (Greg DeWitt, LFD)
- Concerns identified with the current process (Greg DeWitt, LFD)
- Options currently being developed (Greg DeWitt, LFD)
- Plan for the rest of the project (Greg DeWitt, LFD)
- Subcommittee comments and direction (Chairman Wanzenried)
- Reporting to the LFC in December (Chairman Wanzenried/staff)

WHY IS THE PROJECT BEING UNDERTAKEN?

- Personal services comprised 18.3 percent of the total HB 2 and HB 13 budget of all funds in FY 2007 (this is up from 16.7 percent in FY 2000)
- Statewide present law adjustments for personal services comprised 10 percent of the HB 2 budget growth from the base in the 2009 biennium budget and there is not adequate transparency about factors that drove those figures, so the legislature is not able to easily evaluate this portion of the budget and make informed policy decisions
- With the statewide move to the broadband pay plan, there is more flexibility for state agencies to change position pay levels, which means personal services expenditures will become less a statewide matter and more an agency level matter, and the legislative pay plan will continue to be a similar factor in determining personal services growth
- Concerns about broadband pay plan adjustments and the magnitude of increases in personal services costs included in the statewide present law adjustment for personal services for the 2009 biennium budget provided significant distractions and confusion during 2007 legislative budget hearings that were attributed to transparency issues
- The 2001 Legislature, in the boiler plate language of HB 2, directed a study of vacancy savings. The LFC completed the study, but due to distractions associated with the poor state financial condition, never took action to address the study findings

CONCERNS WITH CURRENT PROCESS OF BUDGETING FOR PERSONAL SERVICES

Two concerns with the current method of funding personal services are the focus of the study and related options: 1) vacancy savings; and 2) full funding of personal services

Vacancy Savings

- Global application of vacancy savings doesn't take into account the specific operational impacts due to the functions of the agency and associated staffing requirements within budgeted programs
- Applying vacancy savings may mask recruitment and retention issues
- Requiring agencies to generate vacancy savings could be the factor behind long-term vacancies of some positions of which the workload may be being picked up by requested new positions or increases in overtime
- Vacancy savings can be absorbed to differing degrees depending upon agency size, functions performed, and funding sources (larger agencies have more flexibility to absorb than smaller agencies with more than the 20.00 FTE agency size threshold chosen for granting exceptions from the application of vacancy savings, agencies required to support 24/7 operations have less flexibility, agencies with limited revenue options have less flexibility)
- Exceptions granted to selected groups or agencies (for the 2009 biennium, the legislature exempted the Public Service Commission, Department of Justice Forensic Science Division, the Department of Corrections 24/7 direct supervision staff, university system faculty, elected officials, the Legislative Branch, and the Judicial Branch from vacancy savings; and statute exempts the highway patrol and game wardens in the Department of Fish, Wildlife, and Parks) are not always supported by operational impacts, and when vacancy savings is achieved, the funding can be used for other purposes that may not be implied in the policy decisions of the legislature
- While the use of a contingency pool to offset funding impacts in agencies helps mitigate vacancy savings issues, it gives the executive a great deal of discretion over allocation of the legislative appropriation
- Different disparities between actual vacancy rates and the budgeted rate may give some agencies a funding advantage relative to other agencies and past use of standard rates makes it impossible to know what the naturally occurring vacancy rate is
- With vacancy savings applied as a statewide present law adjustment, the state budgeting system presentation is not transparent as to funding or factors associated with vacancies within a budgeted program, and the process for the legislature to impact changes is somewhat cumbersome to implement

Note: For reference, the concept of vacancy savings was first implemented by the legislature in the 1975 legislative session, based on a recommendation by the office of the Legislative Fiscal Analyst.

Full Costing of Personal Services

- The salaries used to cost positions include both pay increases directly funded by the legislature and pay increases determined by agency management actions that were never directly funded by the legislature
- The presentation of the statewide present law adjustment that adjusts base personal service expenditures to the full position funding level for the ensuing biennium is not transparent as to funding; and since the adjustment is system generated and simply included as a line item on a budget table without a related narrative for the executive to justify individual program factors behind the adjustments, inherently lacks transparency. As such, legislative staff are compelled to tell the story based on available data which doesn't articulate the policy reasons behind the pay change transactions
- With the statewide movement to the broadband pay plan, as directed in HB 13, the increased flexibility given to agency management to provide salary adjustments under a market based compensation system diverges a portion of the present law adjustment for personal services from being a statewide policy issue to more of an agency or program policy issue, including funding sources

OPTIONS BEING DEVELOPED FOR PERSONAL SERVICES PROJECT

Full Costing of Personal Services

- No change
- Current methodology of developing budgets based on position attributes, but split statewide personal services adjustment into two components:

- Annualize previous pay plan
- Past pay adjustments outside the pay plan
 - Separate item of statewide adjustment
 - Separate decision packages at program level
- Current methodology of developing budgets based on position attributes and presented as it currently is in a statewide personal services adjustment, but address transparency with an expanded narrative discussion
 - Included in Executive Budget request
 - Not included in Executive Budget request, but a structured part of the Legislative Budget Analysis
- Different approach to budgeting not directly tied to position attributes but agency goals and objectives (options of the 2002 study)
- Separate adjustment beyond cost of living increases to address agency pay plan issues

Vacancy Savings

- No change
- Use it as a tool, but use different rates at the agency or program level depending upon program operational factors (24/7, public safety interest to fill fast),and included as:
 - A statewide present law adjustment with narrative to provide justification
 - A separated decision package in each program
- Instead of using vacancy savings, evaluate positions and eliminate long-term vacant positions with minimal programmatic impacts while vacant
- Other options as identified in the 2002 study

Note: Options outlined above may require timing considerations due to systems limitations, for example some may require implementation in a later budget cycle after system changes are implemented, while others could be implemented sooner. Additionally, some options may require legislation prior to implementation.