

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditor:
Cindy Jorgenson

MEMORANDUM

TO: The Legislative Audit Committee
FROM: Angus Maciver, Legislative Auditor 
DATE: September 30, 2020
RE: 2023 Biennium Budget Personal Services Change Package
ATTACHMENT: Legislative Branch Personal Services costs in the 202023 Biennium

In conjunction with the Legislative Audit Division (LAD) / Program 28 biennial budget proposal, the following outlines issues relating to our personal services budget and our ability to maintain a competitive pay plan for staff. Although the upcoming budget cycle is likely to be highly unpredictable due to the impacts of the COVID-19 pandemic on state revenues, the issues we face relative to competitive compensation predate the current environment and will likely continue in future years. Despite the current uncertainty, we believe the legislature's administrative committees should be aware of these issues, regardless of the likelihood that appropriators can act on these proposals.

Branch Competitiveness in State Government Compensation

In recent years, LAD has experienced increasing competition for staff (hiring and retention) with other state agencies. Other agencies have always competed with us for qualified staff, but we have traditionally been more concerned with private sector competition. In the past two fiscal years, almost all our turnover among non-retirement staff has been attributable to staff leaving to work for other state agencies. In all cases these staff have received more competitive pay offers. In some cases, these pay offers reflect greater levels of responsibility, but in others there does not appear to be a significant difference in the required knowledge, skills and abilities. The following table shows the average differences in compensation between LAD positions and positions in other agencies for these individuals. These averages are calculated based on actual pay data for seven former staff members ranging from entry-level to experienced Audit Managers.

Compensation Changes for Former LAD Employees	
LAD Average Base Compensation	\$61,185
Competing Agency Average Base Compensation	\$71,795
Average Difference in Base Compensation	\$10,610
Percent Difference/Increase	+ 17%

Source: Statewide Accounting, budgeting and Human Resources System (SABHRS)

Compensation is almost never the sole reason why employees leave an organization and individual experience is always important. For this reason, the experience of individual LAD staff (recent or otherwise) only provide anecdotal evidence. Of greater significance are long-term trends in personal services budgets among state agencies. Personal services budgets can shift over

time for a variety of reasons, but absent significant changes in the number of allocated positions, greater increases in resources translate into higher levels of compensation for staff. One way of analyzing this is to look at personal services budgets per allocated FTE position over time. The following table provides comparisons between LAD, the legislative branch (including LAD), and selected other units or agencies within the executive branch. The following executive branch units or agencies were chosen for comparative purposes because they compete directly with the branch for staff in similar positions or occupational groups:

- Office of the Commissioner of Higher Education
- Department of Administration – Banking and Financial Institutions Division
- Commissioner of Securities and Insurance
- Montana Department of Transportation – General Operations Program
- Department of Justice – Legal Services Division
- Department of Administration – State Financial Services Division
- Governor’s Office – Office of Budget and Program Planning

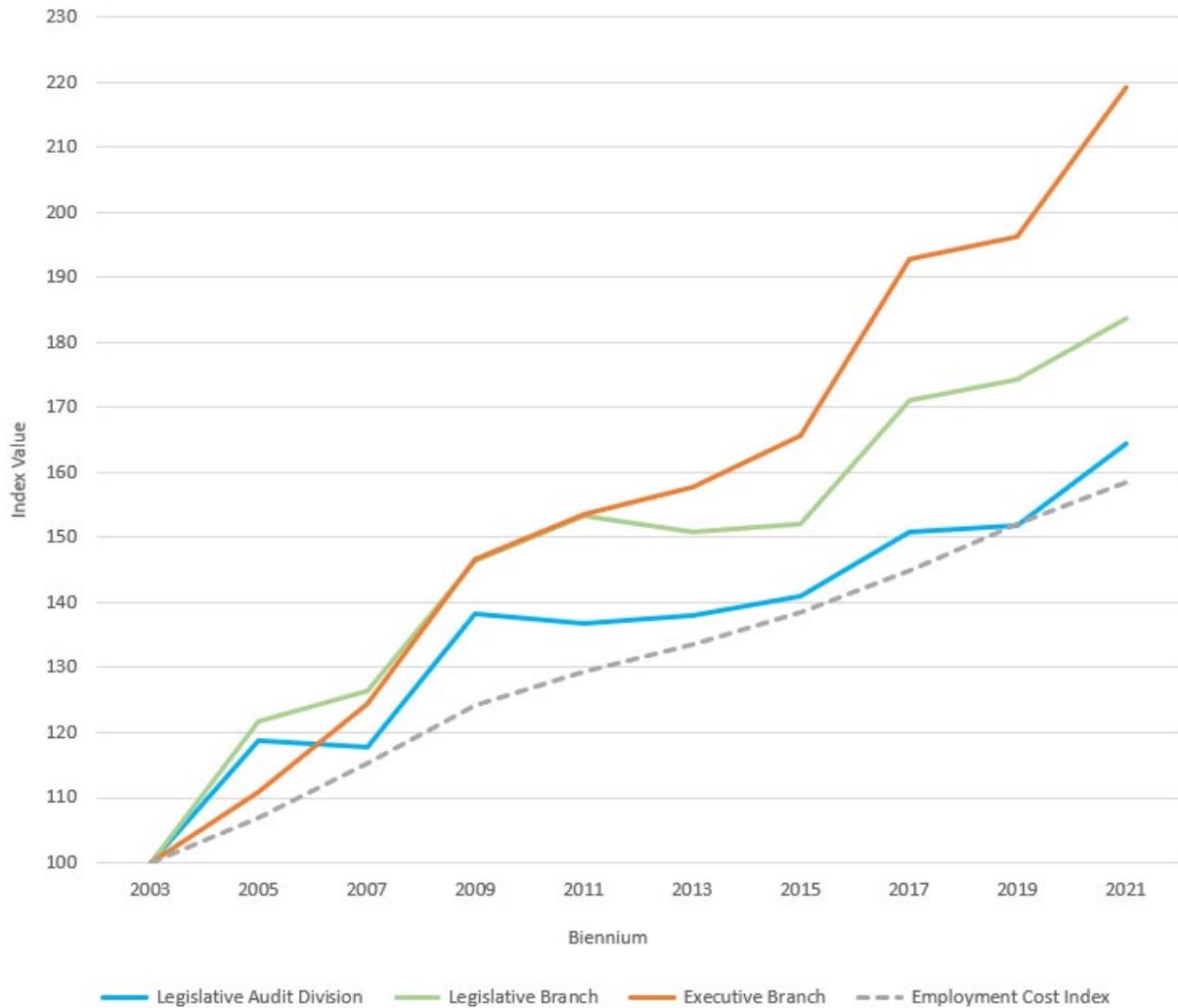
For analytical purposes, we grouped all these executive branch units together and calculated total values for the group, versus the legislative branch and LAD. The compensation value shown is personal services appropriations per allocated FTE (the total personal services appropriated budget divided by the total number of allocated FTE positions). Information is shown over a two-decade period between the 2002/2003 biennium and the 2020/2021 biennium, with the percentage change over the entire period.

Agency / Administrative Unit	Appropriated Personal Services Per Allocated FTE Position		
	2003 Biennium	2021 Biennium	% Change
Executive Branch Agencies or Units	\$86,873	\$190,302	119%
Legislative Branch Permanent Staff Divisions	\$98,526	\$180,895	84%
Legislative Audit Division	\$101,474	\$166,896	64%

Source: Legislative Fiscal Division biennial fiscal reports

This analysis does not provide a perfect comparison as all organizations have individual circumstances impacting their budgets over time. For example, changes in organizational structures, the allocation of positions or the type of positions can impact trends for individual programs. However, incremental differences that are sustained over time ultimately have effects. Biennial trend data is shown for these comparisons in the following chart, which uses indexed values to illustrate changes in appropriated personal services per allocated FTE for each of the comparison groups relative to each other.

Change in Appropriated Personal Services Per Allocated FTE Position
 2003 – 2021 Biennium (Indexed, 2003 Biennium = 100)



Source: Legislative Fiscal Division biennial fiscal reports

In addition to the comparison agencies, this chart also includes the US Bureau of Labor Statistics employment cost index (ECI) for state and local government employees (total compensation – management and professional occupations). The ECI provides a reference for growth in employment costs in the public sector and can serve as a baseline for expected inflationary growth in compensation. As shown, LAD appropriations per FTE have adhered fairly closely to the ECI, while executive branch agencies have tracked above this level. Again, specific explanations can provide some context for these differences. For example, the legislative branch has seen significant investments in higher-paid technology-related positions over this period that have undoubtedly affected the trend relative to the ECI. However, LAD and the rest of the branch are also typically competing with these other agencies for staff with very similar professional skills and experience, including accounting/finance, policy and operational analysis, legal services, and technology and data analysis. On a dollar-for-dollar basis, we are currently losing the race to attract and keep people with these skill sets. If these trends continue, we will continue

to struggle to maintain parity with other state agencies and the legislature’s collective institutional knowledge and strength as a co-equal branch of government will suffer in consequence.

LAD Competitive Compensation Change Package

LAD has been working to address strategic challenges relating to our workforce for the past two years. As part of our Workforce of the Future strategic initiative, we have undertaken a complete re-evaluation of our allocated positions, career ladder progression for staff, and associated occupational wage ranges. By the end of calendar year 2020, we will be in a position to transition staff into newly described positions, based on new expectations regarding required knowledge, skills and abilities. Our current statewide present law adjustments submitted as part our 2023 biennial budget proposal reflect some of these changes, but only in terms of higher compensation for entry-level staff and only for positions that are currently vacant. This is the appropriate method for calculating present law adjustments but doesn’t capture additional resources that would be needed to move our pay plan into a more competitive position relative to other agencies.

The following table shows the extent of the additional funding needed to address this situation. These values are estimates and are based on our expectations regarding existing staff positions under our new career ladder progression.

	FY 2022	FY 2023	Biennium
Additional Salary	180,529	180,861	424,814
Additional Benefits	31,593	31,832	
Total Personal Services	212,122	212,692	

As shown, we estimate the total cost of moving our staff to a more competitive compensation model to be around \$212,000 in each fiscal year. If the Legislative Audit Committee is supportive of the concept of a budgetary change package to address these issues, further work could be conducted to provide more exact estimates for consideration by the appropriations sub-committee during the session.



Montana State Legislative Branch

66th Legislature

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

September 11, 2020

To: Leadership of the Legislative Council, Legislative Audit Committee, and Legislative Finance Committee

From: Susan B. Fox, Executive Director of the Legislative Services Division *SBF*
Angus Maciver Legislative Auditor *Am*
Amy Carlson Legislative Fiscal Analyst *AC*

RE: Legislative Branch Personal Services costs in the 2023 Biennium

Each of the divisions within the legislative branch are experiencing different employee pay challenges. The Fiscal Division and the Audit Division are experiencing competitive pay issues that threaten the ability of each of these divisions to provide expected levels of service to the legislature. Compression of pay between senior staff and more recently hired staff is especially challenging within the Legislative Services Division, but also a concern within the other two divisions. In addition to pay, retirement payout costs are on the horizon.

Potential full retirements in the next biennium for the branch total about \$800,000, with over half of that amount in the Services Division, with the remainder split between Audit and Fiscal Divisions. Traditionally the retirement costs are paid for through either: 1) vacancy savings by keeping positions open while you are refilling the position and by hiring at the entry salary which is typically lower than the salary of the person leaving; or 2) the retirement reserve account which currently has no funding.

Salary compression occurs across the branch. Staff that are in the same position for extended periods receive statutory pay increases and have less opportunity for market or merit increases. In some positions newly hired staff have opportunity for advancement through the career ladders, but pay typically stalls in positions without career ladders or when a person has been in the highest rung of the ladder for several years. Legislative Services especially has concerns in this area.

The competitive salary issues within the Fiscal Division (LFD) and the Audit Division (LAD) have resulted in high turnover in both divisions. The Audit Division has documented that the average employee moving from Audit to the executive branch garners an extra \$10,610 per year base salary increase. The Fiscal Division has documented the average employee moving from Fiscal to the executive branch garners an extra \$8,149 per year base salary increase. In addition, the private sector has recruited from the Audit and Fiscal Divisions, but salary comparisons are not available to the private sector jobs.

In order to address these concerns, we respectfully request:

- 1) The three administrative committees each review pay considerations within the division they oversee and make recommendations to the 2021 legislative session.
- 2) A one-time deposit to the retirement reserve of \$300,000 from the general fund for use by the three divisions for retirement costs be recommended to the 2021 session.

We understand that the current budget is uncertain and would appreciate the opportunity to advance a proposal given the long-term needs of the branch. We each have background details that describe the pay challenges that each division faces and are ready to work with the committees to develop specific pay proposals or a placeholder to be submitted to the joint subcommittee and full legislature for final determination.

We appreciate the opportunity we have in serving the legislature, and we look forward to working with you to continue to improve branch employment stability through this process.