

LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditor:
Cindy Jorgenson

MEMORANDUM

TO: Legislative Audit Committee members
FROM: Angus Maciver, Legislative Auditor *AM*
DATE: October 1, 2020
RE: Legislative Audit Division budget request for the 2022/2023 biennium
ATTACHMENT: Budget Narrative

The Legislative Audit Committee is the approving authority for the portion of the legislative branch budget allocated to the Legislative Audit Division (Program 28). In advance of final submission of the division's budget for the next biennium, the attached summary is provided for your review. The Program 28 summary shows our budget request with FTE, first level expenditure detail (Personal Services and Operating), and fund sources. Our preliminary budget request includes anticipated statewide present law adjustments and at least one decision package relating to present law adjustments in Operating expenses for the division. Review and discussion of our budget request at the October 6, 2020, committee meeting will also include analysis of the process for estimating agency appropriations that generate the state special revenue share of our funding.

Our budget request reflects two significant strategic trends, which are discussed as follows:

1. Staff turnover with the division has now stabilized at or around our target of not exceeding 10% annually. By focusing on both recruiting and retaining employees, we have been able to begin rebuilding our average experience levels and invest more in staff professional development. The resultant increases in our personal services budget request reflects these investment choices.
2. Our operating request primarily consists of re-appropriation or reallocation of existing resources. The operating change package include regular cyclical adjustments that allow us to meet our obligations under auditing standards, but this proposal also includes changes to reflect recent Legislative Audit Committee decisions on expanding the scale and scope of peer review activities. We are also requesting the continuation of one-time-only funding from the current biennium associated with technology training and tools. Impacts from the COVID-19 pandemic have prevented us from fully implementing planned investments in this area, which has limited our ability to demonstrate the effectiveness of this funding for legislators. Rather than request inclusion of this funding in the base budget, we are proposing an extension of its one-time-only status.

The attached materials also include analysis of longer-term trends in our funding, which we hope will provide good context for consideration of our budget request for the next biennium. We are also providing separate additional analysis of personal services budget trends for the division and the legislative branch versus executive branch agencies. This is not currently part of our formal budget submission, but should form part of the committee's discussions leading up to the legislative session.

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STATEWIDE AND OTHER PRESENT LAW ADJUSTMENTS

Legislative Audit Division						UPDATED:		9/23/2020	
Program 28									
2023 Bien Budget Request									
For Approval by LAC October, 2020									
PG 28 Budget Request, 2021 Bien	2021 Budget Starting Point	2022 SWPL Change Package	2022 PL Change Package	2022 NP (BIEN/OTO) IT Training	2022 Total Budget Request	2023 SWPL Change Package	2023 PL Change Package	2022 NP (BIEN/OTO) IT Training	2023 Total Budget Request
61100 Salaries (Base, Longevity)	3,362,066	137,823	-		3,499,889	149,947	-		3,512,013
61400 Benefits (incl Taxes)	1,128,585	145,768	-		1,274,353	151,371	-		1,279,956
61000 Personal Services	4,490,651	283,591	-	-	4,774,242	301,318	-	-	4,791,969
62000 Operating Expenses	194,871	1,828	44,127	20,000	260,826	2,037	26,993	20,000	243,901
Total Expenditures	\$ 4,685,522	\$ 285,419	\$ 44,127	\$ 20,000	\$ 5,035,068	\$ 303,355	\$ 26,993	\$ 20,000	\$ 5,035,870
01 GENERAL FUND	2,706,842	165,543	25,594	11,600	2,909,579	175,946	15,656	11,600	2,910,044
02 STATE SPECIAL REV. FUNDS	1,978,680	119,876	18,533	8,400	2,125,489	127,409	11,337	8,400	2,125,826
Total Funding	4,685,522	285,419	44,127	20,000	5,035,068	303,355	26,993	20,000	5,035,870
0 FULL TIME EQUIVALENT	52.75				52.75				52.75
Detail Agency PL Change Package:									
1) FY 2022 Cyclical Adj.- Leg Branch Audit (Contr Svcs) not in 2021 Base			\$ 18,870				\$ -		
2) FY 22-23 Begin New Peer Review Cycle			\$ 20,000				\$ 20,000		
3) FY 2022 Software Licensing Adjustment			\$ (2,000)				\$ -		
4) FY 22-23 ITSD Phone			\$ 7,101				\$ 6,993		
5) FY 2022 LAC Travel			\$ 2,500				\$ -		
6) FY 2022 Other Services Adjustment			\$ (2,344)				\$ -		

PERSONAL SERVICES DETAIL - SALARIES

Our total personal services request for FY 2022 is \$4,774,242 and \$4,791,969 in FY 2023. This represents an increase of \$283,591 between the base year of FY 2021 and the first year of the next biennium. Of this increase, the majority consists of salaries (base and longevity) at an additional \$137,823 in FY 2022. After adjusting for an error in assigning salaries in the base year (FY 2021), this is a 5% increase over the base year and includes statutory adjustments (longevity increments and the annualization of statewide pay adjustments), market-based adjustments made in response to the biennial Legislative Branch salary survey, and adjustments made under the Legislative Branch performance-based pay plan. The final adjustment element is turnover differential, which adjusts downwards for the effect of re-hiring positions at a lower entry-level salary. The approximate amounts for each of these different kinds of adjustments are shown in the table below.

<u>Adjustment Type</u>	<u>Description</u>	<u>Total Amount</u>	<u>Percent of Change Package *</u>
IBARS Adjustment	Correction of base year error assigning salary funding	(\$37,217)	-
Statutory	Annualized impacts of statutory increases in base pay	\$67,959	25%
Longevity	Statutory increases in pay based on length of service	\$11,332	4%
Career Advancement	Career ladder advancement/promotions for individual staff	\$76,508	29%
Performance Pay	Performance-based pay increases/decreases for individual staff	\$77,391	29%
Market	Increases in entry-level salaries based on the branch salary survey	\$22,966	9%
Turnover Differential	Differential effects of turnover for positions re-hired at entry	(\$86,154)	-
Total Adjustments	Combined impact of adjustments and differentials	\$132,785	96%

* Adjustment amounts were calculated based on SABHRS data for individual staff. This data was used as a basis for estimating the budgetary impact of adjustments as components of the statewide present law change package for personal services, which captures approximately 96% of the total included in the budget request for the next biennium.

PERSONAL SERVICES DETAIL – BENEFITS

Our personal services budget request includes an additional \$145,768 in FY 2022 and \$151,371 in FY 2023 for employee benefits. Benefits consists of state contributions for group health insurance, employer contributions for retirement plans, and employer-paid taxes and insurance (Medicare, Social Security, Workers’ Compensation, and Unemployment Insurance). Benefits increase for the 2023 biennium are larger than would usually be expected, partly as a result of the base year error (approximately \$37,000 was over-allocated to salaries in the base year), but also because turnover differential for high-paid positions results in more savings for salaries than benefits as components of the personal services budget. Benefits increases are otherwise attributable to increases in salaries, although changes in tax rates and retirement contributions can also have an effect. The following table shows the benefits portion of our request by type and as a percentage of both the Benefits and the Personal Services total budgets.

Benefit Type	Fiscal Year 2022	Percent of Benefits	Percent of Total Personal Services
Group Health Insurance	\$670,344	52.6%	14%
Retirement Systems Contributions	\$313,649	24.6%	6.6%
Social Security	\$216,993	16.7%	4.5%
Medicare	\$50,748	4%	1%
Workers’ Compensation	\$13,901	1%	0.3%
Unemployment Insurance	\$8,719	0.7%	0.2%
Total	\$1,274,354		

OPERATING DETAIL

<u>Present Law Change Package Detail</u>	FY 2022	FY 2023
1. Legislative Branch audit contract		
This is part of the regular cyclical adjustments made in the LAD budget each biennium. These costs are associated with the contract for the statutorily required financial-compliance audit of the Legislative Branch. These costs are not included in the base year operating budget as the audit is typically performed in the first year of each biennium. We are requesting these costs be included for the first fiscal year of the upcoming biennium .	18,870	
2. New Yellow Book peer review cycle		
This is part of the regular cyclical adjustments made in the LAD budget each biennium. However, for the 2023 biennium we are proposing an adjustment in the peer review schedule to include supplementary review under the performance audit standards by the National Conference of State Legislatures. This proposal is the result of decisions by the Legislative Audit Committee. In the initial period of this new cycle, we anticipate one review occurring in FY 2022 and one in FY 2023. Subsequent biennial periods will generally only include one review. Based on the current contract with the National State Auditor's Association, we expect total peer review costs in the next biennium to be between \$30,000-\$40,000 total. Costs of \$20,000 are therefore proposed for each fiscal year to address any contingencies.	20,000	20,000
3. FY 2022 software licensing adjustment		
Adjustment in software licensing costs for the first year of the new biennium versus the base year	-2,000	
4. ITSD telephone services		
Requested increase in both fiscal years to address increase in ITSD rates for telephone/voice services	7,101	6,993
5. Legislative Audit Committee travel adjustment		
Adjustment in LAC travel costs for the first year of the new biennium versus the base year	2,500	
6. Other services adjustment		
Adjustment in other services for the first year of the new biennium versus the base year	-2,344	

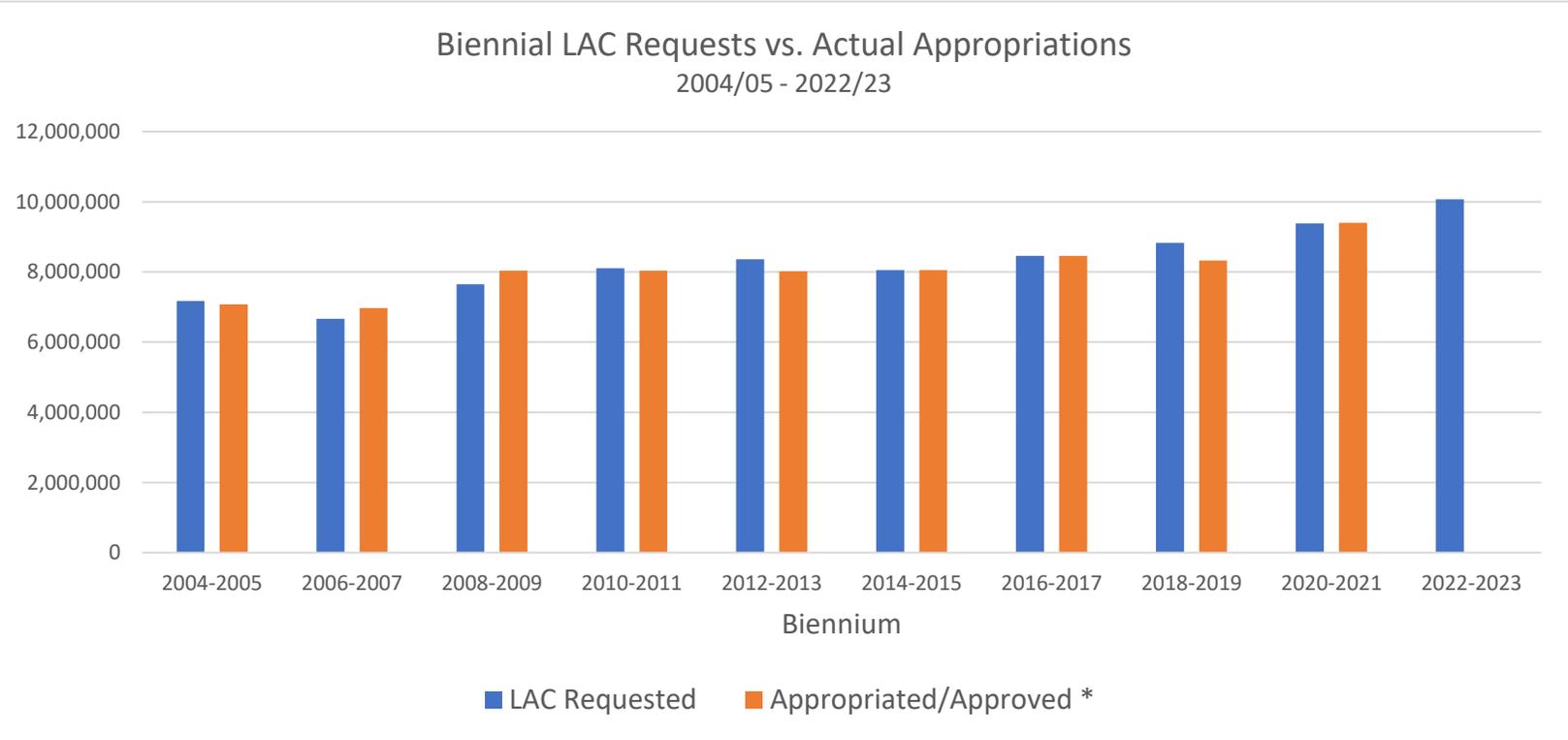
BIENNIAL CHANGE

The following table shows the total LAD biennial budget increasing 7% when comparing the request for the upcoming biennium with the budget as requested and adopted for the previous biennium. For both personal services and operating, this biennium-to-biennium increase is also around 7%.

<u>Comparison Type</u>	<u>2022 - 2021 Biennium</u>	<u>2022 - 2023 Biennium</u>	<u>Percent Change</u>
Biennium to Biennium – As/If Appropriated	\$9,396,102	\$10,070,938	7.2%
Biennium to Biennium - LAC Requested	\$9,380,678	\$10,070,938	7.4%
Biennium to Biennium - Personal Services LAC Requested	\$8,919,445	\$9,566,211	7.3%
Biennium to Biennium - Operating LAC Requested	\$471,786	\$504,727	7.0%

BIENNIAL CHANGE – LONGER TIME HORIZON

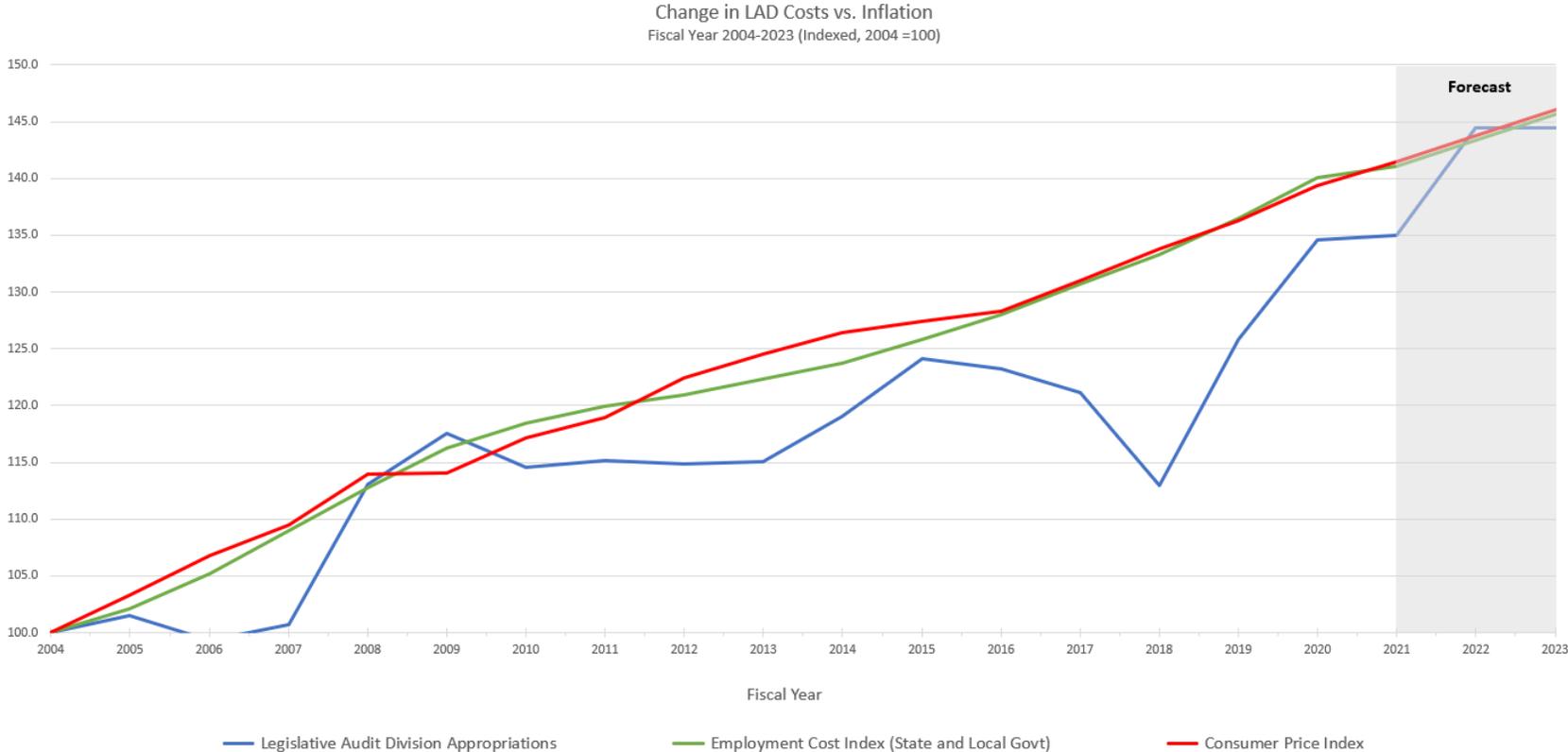
In addition to the biennium-to-biennium comparison, a longer time horizon can often provide more context, especially during periods when there have been significant budget reductions. The following figure shows both LAC budget requests and approved/appropriated funding since the 2004-2005 biennium. Over this period there has been steady overall growth, and requests and appropriations have tracked fairly closely. Since the 2004-2005 biennium, appropriations have increased by an average of 3.8% each biennium and have ranged from a 15% increase in the 2008-2009 biennium, to a 2% decrease in the 2018-2019 biennium.



* All HB2 and other ongoing appropriations as identified in the LFD Fiscal Report. Does not include non-recurring/carryforward appropriation authority.

CHANGE IN COSTS – LONG-TERM PICTURE

The appropriated budget for LAD has shown periods of both increases and decreases in recent years. But what level of growth should be seen as realistic or appropriate? One way of answering this question is to look at the trend relative to inflation in the general economy. This next chart shows LAD appropriations as compared with indexed values for general inflation (Consumer Price Index) and wage inflation for state and local government employees (Employment Cost Index). The index presentation method uses a common starting point to show rates of growth for different values relative to each other. As shown, since FY 2004 LAD appropriations have tracked at or below inflationary growth for the majority of the time period. After a period between FY 2017 and 2020 when we experienced well-below inflationary growth, we expect the trend to revert to a more sustainable pattern in the future.



CHANGE IN COSTS – REAL DOLLARS / ADJUSTING FOR INFLATION

Any trends apparent in a series of monetary values over time include changes that are attributable to the effects of inflation. Adjusting for inflation is, therefore, a common analytical approach that shows trends in constant dollars, as opposed to nominal or current dollars. When this approach is applied to LAD appropriations since FY 2004, the next chart shows that our budget request for the next biennium is essentially the same level of resources that was requested almost 20 years ago (shown as constant dollars in the chart and indicated as the red “baseline”). In one sense this is unremarkable; LAD has not experienced significant changes in its legal authority or scope of responsibility over this period, so minimal inflation-adjusted growth should be expected. However, it is also good evidence that we have been prudent in allocating resources and controlling costs. Our budget request for the next biennium (shown in the forecast period on the chart) is a continuation of this trend and further evidence that we have been responsible stewards of the resources granted to us.

