



HB 424

Personal Services
Budgeting Report
to LFC & OBPP

2025 BIENNIUM

DRAFT



LEGISLATIVE
FISCAL DIVISION

HB 424 (2023 Session) working group final report to the Legislative Finance Committee (LFC) and the Office of Budget and Program Planning (OBPP)

A comprehensive discussion of the budgeting process in general, and specifically personal services budgeting, can be found in the following pages. However, the working group was specifically charged with including “specific proposals for improving transparency, efficiency, accuracy, and effectiveness in budgeting, as well as the development of potential output and outcome measures, supplemental data and analysis considered necessary, and any potentially necessary changes to budgeting laws, rules, or regulations.”¹

SPECIFIC RECOMMENDATIONS OF THE WORKING GROUP INCLUDE:

Consider alternate terminology to “FTE” for budgeting purposes.

While FTE for budgeting purposes is not defined in statute, it has long been used as the basis for budgeting the expected costs of personal services for the coming biennium. While FTE stands for “Full Time Equivalents,” the concern exists that budget legislators view these as “Full Time Employees” rather than understanding the nuanced use of FTE for developing the budget.

- The working group recommends the use of “Full Time Positions Budgeted” (FTPB) as an alternative to FTE

Consider an intentional approach to increasing communication between budget subcommittees and corollary policy committees.

A natural disconnect exists between a desire for policies and the funding necessary to implement those policies. However, it may be possible to mitigate this by facilitating greater communication earlier in the process, with the hopes of letting policy committees know what is being considered in the budget process and the constraints the budget may be under and what policies are being considered that may need to be included in the final budget.

- The working group recommends budget subcommittees designate one hour per week, likely between 11 am – 12 noon, during their regularly scheduled committee time, during which policy committees would be invited to participate in a joint meeting intended to open communication on budgetary and policy priorities, highlight areas of concern, or preview budgetary constraints

¹ HB 424 (2023 Session), Section 10 (5)

Direct the Legislative Fiscal Division (LFD) to publish a dashboard specific to the personal services budgets, history, and associated trends for state agencies.

Some of the frustration around personal services stems from a lack of understanding or transparency around the budget, how it is utilized, budget modifications, and other data points. While even a complete picture of the data available won't explain all the circumstances and factors that may have resulted in that reality, gaining a better understanding of the current situation in agencies should facilitate a better conversation between agencies and legislators.

- Request that the LFD publish a tool for legislators to provide a detailed analysis of agency personal services. This tool should include summary statistics of the types subcommittees have been using (i.e. vacancy percentages, length of vacancies, utilization rates, current vacancies, etc.) allowing for further analysis and guided conversations

Direct the LFD to develop a PowerBI tool tied to the budget analysis process that would show the requested budget in context of a longer history.

The budget analysis shows a large amount of detail about the requested budget, but there is limited ability to view the budget request in relation to a larger history. The immediately preceding (current) biennium is the only one shown for comparison. While overall expenditure histories across 20 years have been included in the agency profiles, there is no ability to break this overall agency expenditures down into smaller units (i.e. divisions, fund types, expenditure categories, etc.). It is understood that this will be challenging in agencies where there have been significant reorganizations.

- Request the LFD to develop and implement an online PowerBI tool that would allow for an interactive comparison of the budget request and expenditures to 20 years of history for each agency and program by fund type and expenditure category

Direct the LFD to consider alternate, simpler ways to communicate the budget request for the House and Senate floor sessions, rather than the traditional "HB 2 Narrative" document.

Legislators who are not a part of the subcommittee and budgeting process have reported that the "HB 2 Narrative" document provided for floor discussion is so thick as to be intimidating, overly complicated, and "far, far too much." While the information in this document might be more helpful to members of the subcommittees who have already been familiarized with much of the data and information, it is simply too much to digest when this document is provided with almost no lead time for floor discussion, amendments, and subsequent voting.

- Request the LFD develop a more approachable method with only the most necessary information for the printed document. Staff should be reviewed to make sure all the detailed information is still available for legislators so inclined to dig deeper, and drill down as allowed in that tool
 - The 2023 Session HB 2 tool is available for review here: <https://leg.mt.gov/lfd/hb2/>

Direct the LFD to continue to develop and utilize online tools for legislative use and education, without fully transitioning to paperless reporting.

New technology combined with staff expertise has allowed for greater efficiencies and visualizations of state budgeting data. This data work has allowed staff to be more nimble and provide a greater array of responses and educational materials online. Additionally, this data has become central to the work of a wider group of legislators and new legislative missions. However, the need for printed materials and traditional approaches cannot yet be abandoned completely. Not all legislators have adequate access or technological skill to effectively leverage these technologies.

- Request the LFD to continue with a balanced approach to both online and printed educational materials as they transition to more and better online data visualization

Coordinate with OBPP to include specific questions for agency response in the budgeting process.

The LFD traditionally includes questions to agencies in the “Executive Budget Instructions” to gather additional context to assist legislators in better understanding specific aspects of their budget reality. However, these questions are included in instructions that do not go out until approximately September, and many agencies are limited in their ability to respond in a timely manner.

- Ask the LFD to communicate personal services budgeting questions directly to agencies on an earlier timeline, including OBPP in the communication and for formal inclusion in the *Budget Instructions*. Subcommittees should expect to see responses during session budget presentations to better understand the issues, concerns, and realities of each agency’s unique hiring pressures, concerns, and timelines

Questions used in the Quarterly Fiscal Report interim process:

- How much did you pay to contractors? How much of the amount paid to contractors do you estimate is due to vacant positions? If contractors were paid because of vacant positions, what are the types of vacant positions that resulted in the need for contractors?
- How much did you pay in overtime? How much of the overtime paid do you estimate is due to vacant positions? If overtime was paid because of vacant positions, what are the types of vacant positions that resulted in the need for overtime?

PERSONAL SERVICES BUDGETING BACKGROUND

The HB 424 working group reviewed a wide variety of information and background in considering alternative approaches to budgeting for personal services in Montana state government.

As evidenced by a report to the Legislative Finance Committee in 2002 entitled "[Vacancy Savings/Personal Services Budgeting Study](#)," this is not a new issue facing the Montana Legislature. One quote from that report indicates "[p]ersonal services budgeting in Montana state government has been a source of concern for legislators for a long time." HB 424 serves as evidence that legislators continue to have concerns around personal services budgeting in Montana.

Survey

HB 424 directed a survey to be conducted of peer states' personal services budgeting methodology and outcomes. The Legislative Fiscal Division (LFD) sent the survey out to 50 state legislatures. States were asked to provide information on 1) the development and creation of personal services budgets; 2) how funding may be utilized, how vacancies are addressed in regard to the budget; and 3) successes and challenges of their current personal services budgeting process. Of the 50 states, 22 responses were received.

While states approach budgeting for state personnel in differing manners, all states reported some dissatisfaction with the process, and there did not appear to be any approach that stood out as an overall better way for Montana to emulate. Many other states have annual legislatures with a greater ability to adjust to changes in the hiring landscape as they develop. More prescriptive personal services budgeting approaches are similar to the Montana approach prior to the broadband pay approach adopted by the Montana legislature in 1999 as a result of challenges experienced in that system. (see the Strengths and Weaknesses section of this report for more information.)

Personal Services survey response memo

A [summary of the survey results](#) was presented to the HB 424 working group in September, 2023.

Complete survey data

A [compilation of all survey responses](#) can be found on the HB 424 committee page.

Budgeting Software Vendor input

As another direct requirement of HB 424, the LFD sought input from the "vendor of the state's budgeting software system on potential options for personal services budgeting." The following information was compiled by staff as a result of direct conversations with AGS, the Internet Budget and Reporting System (IBARS) vendor.

How the IBARS system is used by different states for personal services budgeting.

IBARS is the system used by the State of Montana for budgeting. This system is also used by other states so it can be useful to understand differences in approaches to personal services budgeting.

There is not a standard approach to personal services budgeting, every state does it somewhat differently. IBARS as a system is designed to accommodate the existing processes states have, and thus also does not have a single standard approach.

Despite there not being a standard approach there are similar pieces that exist in how states do the personal services budgeting process. One of the similarities is having a point in time dataset of position costs as it is necessary to have data to start with. It is also quite common to have benefits calculations done by position, often including some form of vacancy savings.

Although there are multiple differences in process, there appears to be one area in particular where there is a functional difference in the way Montana does personal services budgeting compared to some other states. This difference is in the more prescriptive usage of pay grades and an associated salary schedule. In Montana, adjustments to the starting point are achieved by change packages that are often calculated outside the system, which provides a great amount of flexibility. In a somewhat more prescriptive approach used by some other states, salaries across agencies are adjusted as the entire class code is adjusted. This allows for adjustments to be made on the grouping of positions, which then calculates the change package. The methodology here has some standardization advantages as well as additional data within the system that helps explain the new adjustments. However, utilizing the class codes does require more setup and switching to it would require a significant effort.

Geographically, the more prescriptive approach is more often utilized by coastal states while the more flexible approach is used more in midwestern states, this may be due to the amount of work needed by each approach. Timing could also be a factor. As one of the few states with a biennial legislature, Montana cannot take advantage of the annual budget adjustments afforded annual legislatures.

Strengths and Weaknesses of Montana's Personal Services Budgeting Process

Since the 1999 Legislature modified laws to allow for more flexibility in pay through the adoption of a "broadband" pay classification and compensation system (see this [2002 report](#) for additional background), Montana's personal services budgeting process has had over two decades to adjust and learn to effectively use this system. There are some apparent advantages to this system, but there appear to be some challenges as well.

Strengths of the personal services budgeting system:

- Greater flexibility to adjust pay for problematic hiring areas between legislative sessions due to the broadband system
 - Hiring difficulties in the 1990s originally precipitated the move to the broadband pay system, and this challenge was again evident during the early 2020s
- The "snapshot" taken in July of even-numbered years accurately captures the cost of the existing workforce and includes any adjustments necessary for worker's compensation, longevity increases, legislatively approved pay adjustments (commonly HB 13), as well as management decisions made to reclassify positions, make market adjustments, provide promotions, or implement other cost adjustments
- Allows the executive to include in the budget needed authority for positions that are currently vacant, but will be filled moving forward

- Interim flexibility allows adjustments to be able to hire contracted workers when state positions cannot be filled
- The legislature indirectly impacts overall personal services budgets through the number of FTE they approve
- Using a percentage allowance for “vacancy savings” gives the legislature a fairly simple method by which to adjust the overall budget, in recognition of the fact that agencies will experience a natural rate of attrition and never be fully staffed throughout an interim

Weaknesses of the personal services budgeting system:

- Especially in light of term limits, it can be very difficult for legislators to accurately understand the connection between agency missions and specific legislative mandates (i.e. What level of FTE or personnel is necessary/sufficient for specific deliverables?)
- All adjustments, whether due to direct legislative authorization or management decisions, are shown only as a single “decision package” for legislators in DP 1, which captures *any* adjustment from what was already in the base budget
- Many legislators are left with the impression that HB 13 pay plan adjustments are the only pay increases provided to state employees, when other options are available to management for pay adjustments
- Understanding the connection, or lack thereof, between FTE and actual positions has proven to be challenging for many decisionmakers
- Vacancy savings can have different meanings, from budgeted vacancy savings, in expectation of turnover, to actual realized vacancy savings within an agency. Legislative expectations of how vacancy savings impacts an agency can vary significantly from how agencies plan for and view vacancy savings
- Actual vacancy savings can be dramatically different across agencies, while budgeted vacancy savings is usually applied fairly evenly
- Some HB 2 FTE were originally authorized in specific ongoing policy bills, rather than in HB 2. For subsequent sessions, these FTE are considered base HB 2 FTE, and legislators can miss the link between policy bills and the creation of ongoing personnel costs
- There exists a common misperception that the legislature has direct control over state employees, when in reality, they control the overall budget, but the executive maintains complete autonomy over who they hire within that overall budget

In the [2002 report on personal services budgeting](#) referenced earlier, it is stated that “management decisions for promotions and position upgrades are automatically built into the base budget without even a cursory review by the legislature.” While there is still a level of opaqueness in this process, this has been somewhat mitigated by two specific changes.

The first is that the legislature no longer uses the actual costs from the first year of the biennium to establish the base budget but uses the second-year budget as the base instead. As a result, those changes are not directly included in the base. However, they are automatically included in the statewide present law adjustment to personal services, commonly referred to as DP 1.

The second way this has been addressed is through education and additional breakdowns provided by staff. For the last several biennia, the Legislative Fiscal Division has been providing a break-down of DP 1 in the budget analysis for all agencies. The intent behind this breakdown has been to allow legislators to better understand the various components that impact the changes in the personal services budget. Typically, these changes have been organized into three or four overall categories, and staff work to help legislators understand what is happening in each category. Categories such as *legislatively approved changes*, *management decisions*, and *budget modifications* can have varied impacts on the “statewide present law” (SWPL) adjustment in DP 1. This breakdown has helped legislators gain a better understanding of the different things that can impact the personal service budget overall and provide the legislative review that was previously missing.

General Budgeting Background Information

While not included as recommendations to the LFC and OBPP in this report, it should be noted that the HB 424 working group also served as a sounding board for the LFD in considering changes to some of their traditional session budgeting documents. Due to timing constraints, the LFD was required to begin the modification process earlier, to have necessary programming completed by the budgeting software vendor. While wholesale changes are not expected, several adjustments are being made to simplify the reports, minimize duplication, address common questions, and improve overall communication.

Suggested revisions were reported to the working group in the following memoranda:

- [Potential Budget Analysis Revisions Memo](#)
- [Potential Quarterly Report Revisions Memo](#)