MONTANA LEGISLATIVE BRANCH

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Director
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TO: HB 424 Study of State Budget Process & Personal Services Expenditures

FROM: Mark Yakubovich, Fiscal Specialist

RE: HB 424 Personal Services Survey Memo

HB 424 (2023 session) directs that a survey be conducted of peer states' personal services budgeting methodology and outcomes. The Legislative Fiscal Division 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.

PERSONAL SERVICES BUDGET CREATION

The first question of the survey asked whether the state's legislature approves a 1-year or 2-year budget for personal services. 14 out of 22 surveyed states (64%) approve a 1-year budget and 8 out of 22 surveyed states (36%) approve a 2-year budget for personal services.

States with a 2-year budget also allow adjustments to be made during a non-legislative session year, with the exception of North Dakota. North Dakota meets biennially and does not have a non-budget session. Though limited budgetary changes are able to be made with the approval of the state's Emergency Commission and Budget Section, in general, adjustments are not made to the budget once it is set during the legislative session. For the other seven states with a 2-year budget, adjustments to the personal services budget are made in various ways, such as adjusting the biennial budget during a non-legislative session year (Connecticut, North Carolina, Washington), amending the budget bill or passing a stand-alone appropriation bill (Kentucky), adjusting by subsequent action of the Legislature (Oregon), and through a statutory process called Budget Execution, which is available to transfer appropriation authority when the Legislature is not in session (Texas).

Based on the surveyed states, the creation of the personal services budget is more commonly determined by the amount of FTE or approximate employee numbers, but the amount approved by the legislature can be used flexibly by the executive. This was seen amongst 16 states (72%), but some of those states specified that the level of flexibility remained within each agency or within their personal services appropriation. North Carolina provided the example, if an employee leaves a position, then the agency can reduce the salary of the position to increase the salary of a different position. The agency could also eliminate positions to increase salary capacity for higher priority positions.

Specific dollar amounts allocated for each employee and a lump-sum allocated to the executive are the other two ways that the surveyed state's develop their personal services budget. Arizona and Mississippi were the only two states who utilize a lump-sum for their personal service budget.

When taking a look at how the executive can use personal services funding, 19 out of 22 (86%) surveyed states allow the executive to use the funding in other ways. Utilizing personal services funding for operating costs, program delivery costs, and contracts for labor are some examples of alternative ways the executive uses personal services funding in other states. Some states with a 2-year budget are unique when compared to states with a 1-year budget due to their need of approval by the Legislature, vote by a committee, or legislation to move funding between appropriations, line-items, or transferring dollars between accounts.

VACANCIES

Budgeting for vacant positions and anticipated employee turnover were the next items addressed in the personal services survey. 15 out of 22 (68%) surveyed states stated they budget for filled and vacant positions in the same way. There were some variations in response that differed state-by-state on how filled and vacant positions are budgeted. Idaho stated they budget the same for filled and vacant positions, except they only budget for salary increases for filled positions and do not budget for salary increases on vacant positions. Oregon and Wisconsin budget similarly for filled and vacant positions, vacant positions are budgeted at the minimum of the salary range and filled positions are budgeted at the current employee salary level. Washington also budgets the same for filled and vacant positions, but the legislature may choose to assume savings from known or anticipated vacancies.

Kentucky does not budget the same way for filled and vacant positions. Their 2024-2026 budget instructions allow for vacant positions to be requested in the base and any vacant positions that do not fit in the base can be requested as an additional budget request item. Of the surveyed states, there were four states who do not adjust their personal services budget for vacant positions (Arizona, Connecticut, Colorado, Georgia). The Connecticut legislature authorizes both a position count and a personal services appropriation and the appropriation acts as a cap on which positions can be filled.

When asked if the states have seen higher vacancies and greater salary pressures than normal within the last 3 years, all responded yes with the exception of West Virginia who was unable to answer at the time. In order to mitigate the issue of higher vacancies and greater salary pressures, the surveyed states have implemented a various range of strategies. This has been seen through salary increases, stipends & bonuses, increased contributions to health benefits, additional contributions to the 401k program, and added sign-on bonuses for higher vacancy positions. Both Delaware and Georgia have made efforts to mitigate high vacancy rate positions like correctional officers, law enforcement officers, nurses, and mental health staff. Delaware provided a $10,000 sign on bonus for correctional officers, with a $2,500 retention bonus. Maryland provided general salary increases to state employees totaling 26.3% from FY19-FY24. The bulk of the increases have been between FY22-FY24. Idaho has added alternative strategies from tuition assistance to work from home options.

TURNOVER

Reducing the personal services budget for anticipated employee turnover occurs in 11 of the 22 surveyed states. The 11 surveyed states who reduce their personal services budget for anticipated employee turnover address this in a couple different ways. Oregon calculates a “vacancy factor” that is intended to anticipate budget savings that is reasonably expected from staff turnover during the biennium. Texas bases their future biennial budgets primarily on historical spending, which includes anticipated employee turnover. Texas further explained that if an agency is understaffed, then excess appropriations for employees would be transferred back into the general revenue fund and would be available for future general-purpose spending. If a pattern of unfilled positions is reported, the Legislature may reduce the agency’s FTE cap and funding levels. Utah will compare appropriated amounts to actual spending and calculate a discount factor that is then applied to subsequent appropriations.

SUCCESSES & CHALLENGES IN STATE PERSONAL SERVICES

State personal services is an area a majority of the surveyed states specifically mentioned they are currently trying to address. Kentucky’s Personnel Cabinet is contracting with a vendor to complete a comprehensive compensation study due November 1, 2023 to be considered during their 2024 regular session. Mississippi is working through a new state employee classification and compensation system to ensure agencies have an adequate amount of funding allowed for vacancies and to more accurately classify their state employees to ensure employees are paid within the market salary ranges. They also take multiple snapshots throughout the year to ensure they have a more accurate budgetary amount for personal services. This also allows the Legislature to get a full picture of how agencies are spending their funding.

There were three states (Michigan, North Carolina, Pennsylvania) who mentioned their data analysis adding to the success of their state personal services. Michigan budgets personal services based on the number of FTEs needed to perform the position duties and not on actual FTEs. In Pennsylvania, the General Assembly and the Governor's Budget Office have access to the same data sources and updated data can be incorporated throughout the different phases of the budget cycle. North Carolina has direct access to the HR/payroll system that is applied to state agencies. They also budget for positions regardless of vacancy status to reduce volatility in salary budgeting and to provide the executive branch flexibility to address underbudgeted or unanticipated expenses.

Challenges regarding state personal services generally come from a lack of resources or an issue with the personal services data. Arkansas, Georgia, and Mississippi specifically stated that having enough resources were their biggest challenge. Arkansas stated anytime positions are eliminated in an appropriation bill, it has a direct impact on the state and employee contributions for employee benefits and insurance. One of the challenges Mississippi faces is that some agencies want to have the flexibility to move money from personal service budgets to other categories, which typically is contractual services. Some agencies utilize contracted workers instead of hiring state positions due to the labor market impacting the fill rates for hard-to-hire positions.

Iowa, Kentucky, and Washington mentioned available data and transparency of data as their biggest challenge. Iowa has recently moved to a new HR system, but that complicated the historical analysis of the Executive Branch FTE positions. Kentucky is unable to calculate the amount of "vacancy credits" an agency has from their available data sources. In Washington, the legislative and executive branch staff are currently working together to improve the transparency in the calculations performed by the executive branch for compensation adjustments.