

## MONTANA EMPLOYEE BUDGETING OPTIONS

### Personal Services & FTE

Budgeting for personal services (personnel) in Montana state government has long been done utilizing legislatively authorized FTE to create a statewide present law request from the executive to the legislature. This request is intended to fully fund all authorized FTE, and often reduces the total request by a percentage amount for “vacancy savings” intended to recognize that most agencies are not fully staffed throughout the year. However, many agencies experience higher actual vacancy savings. The difference between the budget and the actual savings is used by agencies for flexibility within legislatively authorized parameters.

One example of the authorized flexibility is within the broadband pay plan ([MCA 2-18-301](#)). The legislature has given agencies flexibility to adjust salaries within specific ranges. However, agencies cannot provide pay adjustments beyond the amount appropriated by the legislature. As such, the realized vacancy savings are one way in which agencies maintain flexibility to provide necessary pay adjustments, while staying within the legislative appropriation. Efforts to completely “right-size” FTE to needed personnel would reduce agency flexibility to operate within the broadband pay plan. As such, the following framework attempts to balance a desire to identify actual needed personnel needs with agency flexibility for operational realities.

#### ***Basic Approach***

Consistent with legislative conversations both during the 2023 Session and the September meeting of this working group, the proposed approach to considering personal services, FTE, budgeting, and flexibility would have two basic components. Each of these components could be approached in a variety of ways and will likely require some ongoing conversations between the legislature and the executive to find a solution that is considered workable from both perspectives.

Reduction of FTE	Establishment of Budget Flexibility Account
Options vary widely from legislatively directed to executive controlled. Within that range exist options for the legislature to direct specific or general targets and expectations while providing the executive with the authority and responsibility to manage the details.	There are two main considerations in the establishment of budget flexibility for agencies:  <ol style="list-style-type: none"><li data-bbox="873 1325 1498 1436">1. Amount: size of agency, number of FTE being reduced, historical realized vacancy savings, etc.</li><li data-bbox="873 1440 1498 1472">2. Control: Agency and/or OBPP</li></ol>

#### Reduction of FTE

Assuming the legislative objective is to achieve a level of FTE that would not include “excess” FTE agencies use for budget flexibility purposes, a variety of approaches could be utilized. Regardless of the approach, it should be noted that expectations and flexibility may currently be very different in a small agency as compared to a larger agency.

Over the last several legislative sessions, various subcommittees have looked at vacant FTE, how long they have been vacant, and other smaller factors to identify FTE they may want to eliminate. While this analysis has been instructive for legislators, it has not resulted in significant numbers of FTE being eliminated, as the executive

branch has typically pushed back against this for a variety of reasons. While the creation of a new and separate “flexibility” account may incentivize further cooperation, challenges remain for the legislature to specifically identify which FTE should be eliminated without unintended consequences. If the legislature does wish to maintain specific control over the elimination of FTE, the subcommittees will need to spend time working toward this end.

Alternately, the legislature could choose to establish targets or ranges of FTE to be eliminated but leave the details up to the executive during the interim. It may even be possible to incentivize FTE elimination with the structure of the “flexibility” account in such a way that the size of the account is tied to the number of FTE eliminated by the executive, without a specific number of FTE targeted for elimination.

Regardless of the way in which FTE are identified for elimination, it is recommended that the funding for a flexibility account be carefully linked to eliminated FTE to incentivize a careful consideration of which FTE are truly necessary. Eliminated FTE would not then be used in the subsequent snapshot, eliminating that funding from personal services in the following session. However, the funding in the flexibility account(s) likely would need to be considered base funding, or the executive and agencies would be discouraged from considering FTE for elimination.

#### Establishment of Budget Flexibility Account

The reality of a two-year budget cycle often means that a certain amount of flexibility is needed by the executive to successfully manage through an interim. Personal services budgeting pressure was experienced in a more acute manner during the 2023 biennium, where certain positions were very challenging to fill. These positions ranged from public defenders to information technology professionals to nurses at the state hospital and corrections officers at the state prison. A personal services flexibility account would provide a source of funding for use within the existing broadband pay plan authorized by the legislature to make carefully considered specific adjustments rather than the HB 3 pay plan that is applied evenly across all positions.

The legislature will want to consider where the authority lies for flexibility account(s). Two primary options would be to use the funding freed up by the elimination of FTE in agencies to establish flexibility accounts specific to those agencies. While this might better incentivize individual agencies to consider which FTE are necessary, it could also result in very inconsistent uses of the flexibility accounts. Conversely, a single large flexibility account could be established under the purview of the Governor’s budget office (OBPP), which would require agencies to justify any uses, and OBPP to monitor and approve such uses.

Some budgeting options specifically prohibit the use of funds for providing raises to state employees (carry-forward authority is an example of this). The legislature may wish to consider specifically authorizing the use of the flexibility account(s) for providing raises within the scope of the broadband pay plan, and for contract labor when employees cannot be hired. Alternately, there may be other uses that the legislature would want to restrict, such as office equipment, vehicles, providing grants, or other specific categories of spending.

The legislature should also consider whether the amount provided in the flexibility account(s) would be considered base funding for that account in subsequent years, or in the area it is utilized. In other words, if an agency uses \$1.0 million of this funding to hire contract labor, would the legislature expect to see \$1.0 million additional in the next biennium base for contract labor, or to simply maintain the amount in the flexibility account?

## ***Other Consideration***

### **Vacancy Savings**

The application of a budget reduction for expected “vacancy savings” has often been used in the completion of the HB 2 budget. This is done in recognition of the fact that agencies experience some level of turnover and rarely are 100.0% staffed.

If agencies are budgeted for fewer FTE, but provided with some level of budget flexibility, the concept and scope of the inclusion of vacancy savings should be considered. It may be that a change of the type outlined in this document would necessitate the elimination or drastic reduction of applied vacancy savings. Smaller agencies can sometimes struggle with vacancy savings now (agencies with less than 20.00 FTE are exempt) and this could exacerbate the issue.

### **Budget Change Documents**

Through the use of Budget Change Documents (BCDs), agencies currently work through OBPP to adjust their budget as necessary throughout the interim. This flexibility has been authorized by the legislature in statute and is often necessary to address issues that arise throughout the interim, while the legislature is not in session. Due to the snapshot process, there is a direct impact on agency base budgets when funding is moved between personal services and other accounting categories. The legislature may wish to consider whether to allow budget movement in or out of personal services if a personal services flexibility account is established.