

HB 424 PERSONAL SERVICES BUDGETING OPTIONS

Three Primary Options

1. Provide lump sum appropriation authority for personal services, eliminating the current process
2. Take a 2-step approach that includes:
 - a. A reduction of overall FTE
 - b. Establishment of a Personal Services Flexibility Fund
3. Continue to use the current personal services budgeting process
 - a. Budget subcommittees continue to have the ability to evaluate FTE & personal services budgets for each agency and make individual decisions

Lump Sum Authority

Technically, the legislature has always appropriated funding for personal services, but lacks the authority to tell the executive who to hire or how many. FTE is not defined in statute but has been used as a proxy for establishing a necessary budget.

Establishing a fixed amount for personal services each biennium could be highly subjective without a standard from which to begin. The use of existing FTE, and the snapshot process that establishes the current cost of funding those positions and employees gives a starting point for appropriators.

Moving toward a lump sum budget for personal services could be a viable alternative, but a process for doing this has not been identified and could be fraught with numerous unidentified challenges.

Decision Point: Option 2

Assuming the legislature chooses to pursue Option 2, the following are available as additional Decision Points

FTE Reduction Options

- A. Legislature Driven
 - a. Designated reductions based on actual (FY 2024?) data
 - i. Vacancies, Utilization, etc.
 - b. Instruct subcommittees to reduce FTE, with an overall target for each Section
 - i. Allows for a more informed approach and differences between small and large agencies, etc.
- B. Executive Driven
 - a. Pass legislation with rules of access to Personal Services Flexibility Fund (*see Decision Point Option 2 / Step 2*) based on the FTE and personal services budget reductions achieved in the coming biennia
 - i. Potentially require a minimum FTE reduction?

Decision Point: Option 2-A
Legislature Driven

The legislature has a variety of options for prescribing the reduction of FTE.

1) Designated formula-based reductions:

Taking into consideration the known aspects of the current personal services budget, the legislature could choose to specify FTE and budget amounts for reduction.

Formula example

One way to reduce FTE could be to eliminate all vacant FTE, either at the time of the snapshot, or currently vacant.

Challenges with this approach include current hiring efforts, or positions that have been filled since the snapshot was taken. Vacancies are always as of a point in time, so some allowance for fluctuation may be necessary.

One way to address this could be done similar to how vacancy savings are budgeted. A percentage allowance could be provided for ongoing hiring efforts. To continue with the vacancy savings example, a 4% allowance could be made to allow for some flexibility in hiring. An agency with 10% actual vacancy would then be reduced by 6%, rather than the entire vacancy.

Other options for targeted FTE reductions include the use of utilization data, which is a better indicator of personal services use across time.

2) Subcommittee control:

The LFC could choose to include objectives for FTE reduction into the “Guidance to Subcommittees” to be considered later this calendar year for the 2025 Legislative Session. While the same data could still be utilized, and the guidance could go so far as to establish starting points for this conversation, using a similar approach as described in the “formula-based” option, this would allow subcommittees to gain a better understanding of the individual agency situations, and take that information into consideration. The relative size of the agency, personal services budget, current challenges, and many more issues could be taken into consideration.

Subcommittee example

Overall section targets could be established in a similar manner to above, based on agency level data. But subcommittees would have the ability to make decisions about where they may need to make smaller or larger reductions based on further input from the Executive Branch.

Decision Point: Option 2-B
Executive Driven

The legislature would need to develop rules of access for a Personal Services Flexibility Fund (more information below) that would be tied to the number and value of the FTE eliminated by the executive.

Executive reductions

A variety of parameters could be established by the legislature, but the executive would be ultimately responsible for identifying FTE for elimination.

The legislature may want to consider a minimum for reduction, and the maximum would be implicit in the amount available in the flexibility fund. Additionally, access could be dollar-for-dollar, or at some ratio of the total FTE reductions. Alternatively, it could also be established in such a way that as more FTE are eliminated, the ratio at which the fund is made available could increase.

All of this would need thought through and would require additional, specific legislation.

Decision Point: Option 2 | Step 2
Personal Services Flexibility Fund

Regardless of the method identified for reducing FTE, the second stage of this process is whether to establish a Personal Services Flexibility Fund, and at what level. There are a variety of decisions to be made in regard to this fund, including the following:

- Would this be a single fund, established in OBPP under their control for the targeted use wherever needs are greatest? Or would this result in a fund for each agency, based on the FTE reductions made?
 - If the Office of Budget & Program Planning (OBPP), would the Judicial Branch and Legislative Branch have separate funds?
- Would the fund be established at a level tied directly to FTE reductions made during the 2025 Session?
 - The fund could be the equivalent of any ratio of the monetary value of the FTE reductions
- What rules of access need to be established for the executive to use these funds? (Especially if the executive is tasked with identifying and eliminating FTE.)
- Would this fund be considered “Base” funding for future biennia?
 - Assuming the flexibility fund is used, it would increase budgets in specific agencies. The legislature would likely not want the funding to be considered base funding in both areas
- Should the flexibility fund only be an option for general fund positions?

Personal Services Flexibility Fund example

The legislature could establish a fund with X% of the general fund value of the FTE reductions made, and place this fund under the control of OBPP. During the interim, OBPP could use this fund to address personal services crises as they arise, regardless of in which agency they occur.

For the 2027 Session base budget, if the flexibility fund were to be considered base funding, then the agency adjustments would need to be presented to the legislature for approval. It could be difficult NOT to approve these adjustments however, as they would be included in salaries and potentially in union agreements.

*Maintaining a flexibility fund AND building in personal services increases may seem duplicative. In practice, this is not overly different from what can happen now when agencies use funding from vacant FTE to fund management decisions (e.g. raises or positions reclassifications) or move personal services funding to other budget categories where it is captured in the base. During the snapshot, the FTE are again fully funded, and the other uses can be either captured in the base or presented as part of DP 1.

Decision Point: Option 3

Continue the current personal services budgeting process

The legislature may choose to make no changes to the way personal services are currently budgeted. That does not, however, mean the legislature has no options. Subcommittees, whether at the direction of the Legislative Finance Committee or session leadership, could still choose to make targeted FTE reductions. Reductions of a relatively smaller amount, with no corresponding flexibility fund, could still achieve a similar goal. Agencies would likely maintain some personal services flexibility (depending on the size and scope of FTE reductions) and the subcommittees could make targeted adjustments.

Subcommittee FTE consideration

The Legislative Fiscal Division has continued to develop tools and information to help subcommittees understand the adjustments and reality of FTE and personal services in each agency. In addition to the categorization of the DP 1 adjustments the LFD has been providing for the last several years, new PowerBI tools will continue to allow legislators to better understand what is happening in each agency.

In the past, the legislature has considered the real vacancy rate, utilization rates, personal services adjustments, amount of time individual positions have been vacant, and other unique information to make informed decisions. It may be that the legislature will continue to develop more targeted methods of evaluation within the existing personal services budgeting structure.

Not changing the process used to develop the budget for personal services does not have to mean the legislature has no options for modifying the overall budget.