

Joint House Appropriations and Senate Finance and Claims Subcommittee Process

A Legislator's Deep Dive Guide into HB 2 Budgeting

Committees Balance Spending with Revenue

House

- Appropriations Committee
- About 20 members
- Split proportionately between the parties



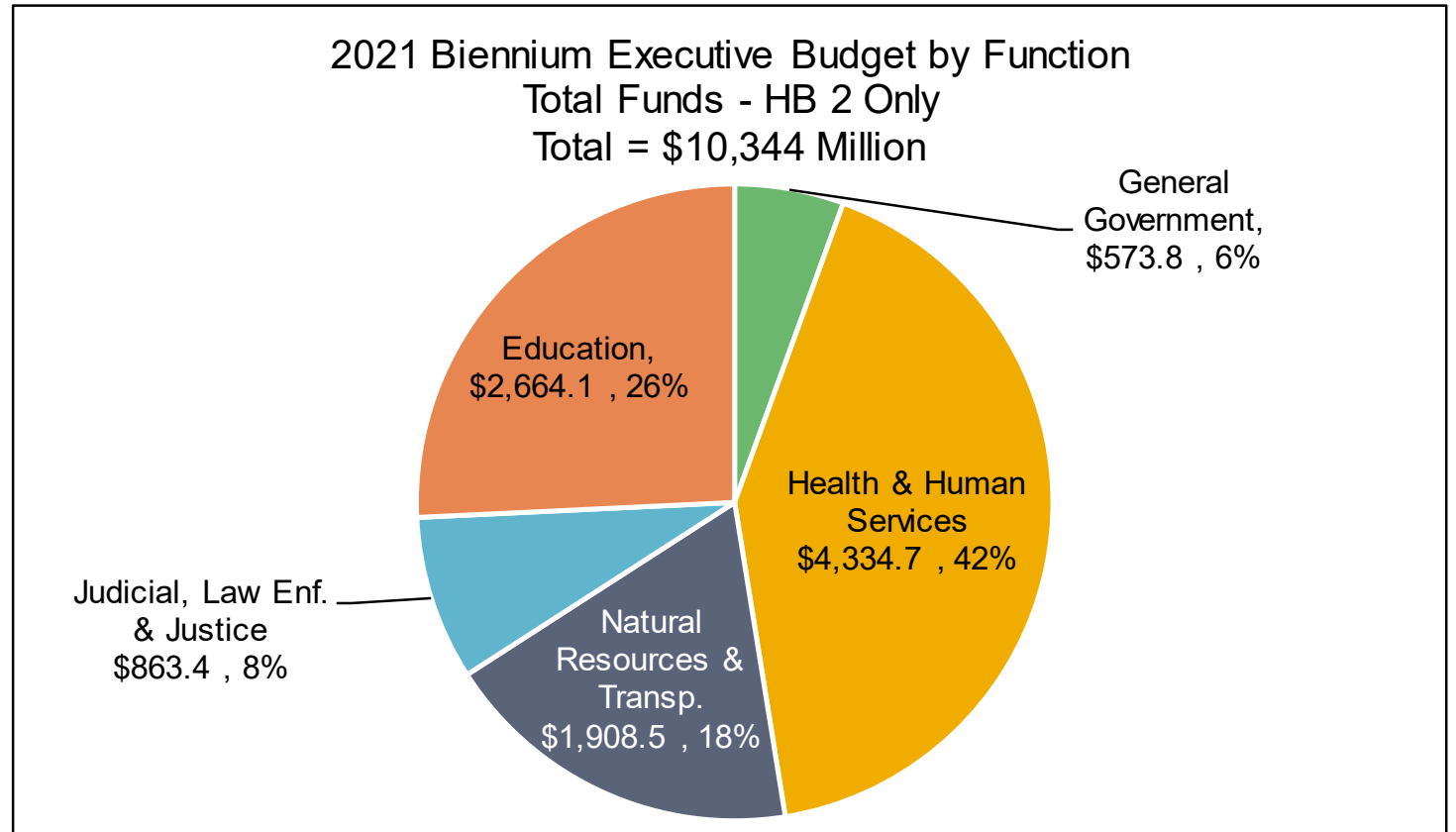
Senate

- Finance and Claims Committee
- About 20 members
- Split proportionately between the parties



Largest Appropriation Bill – HB 2

- Legislature appropriates state agency budgets each legislative session through House Bill 2, the General Appropriations Act
- 2 year budget



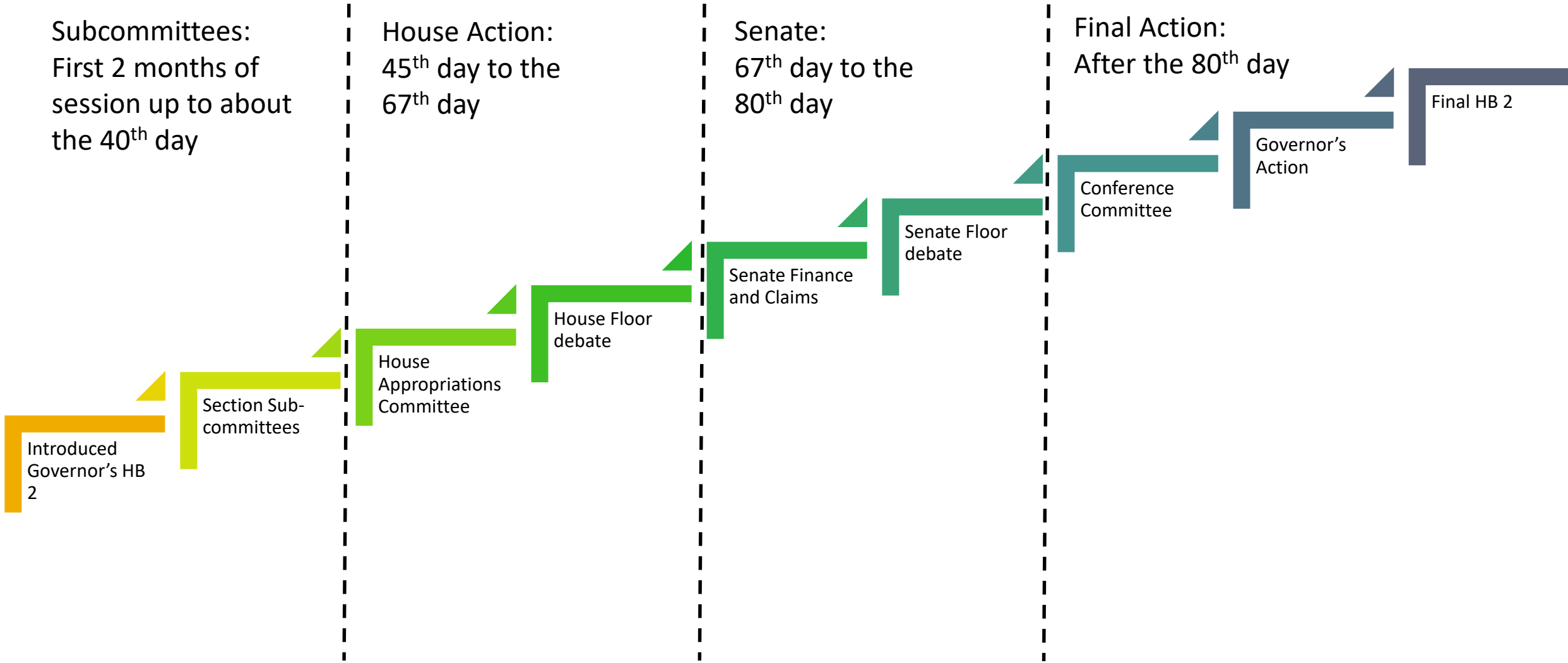
HB 2 Process

Subcommittees:
First 2 months of
session up to about
the 40th day

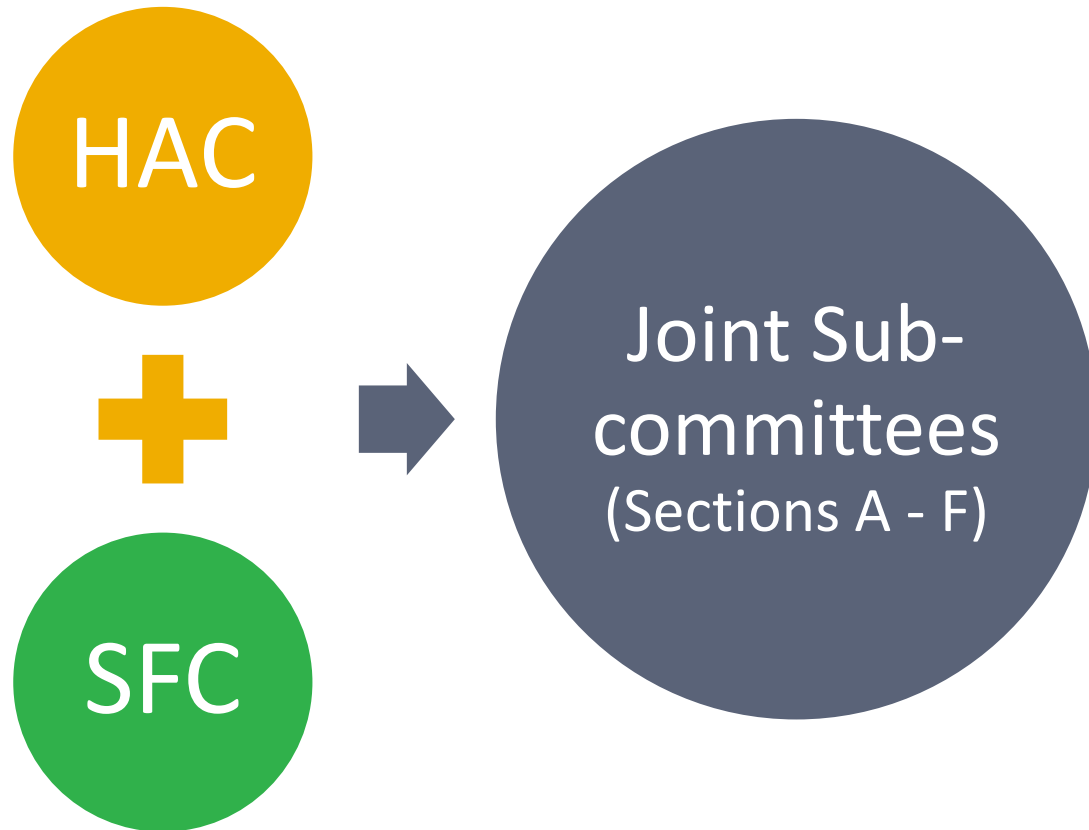
House Action:
45th day to the
67th day

Senate:
67th day to the
80th day

Final Action:
After the 80th day

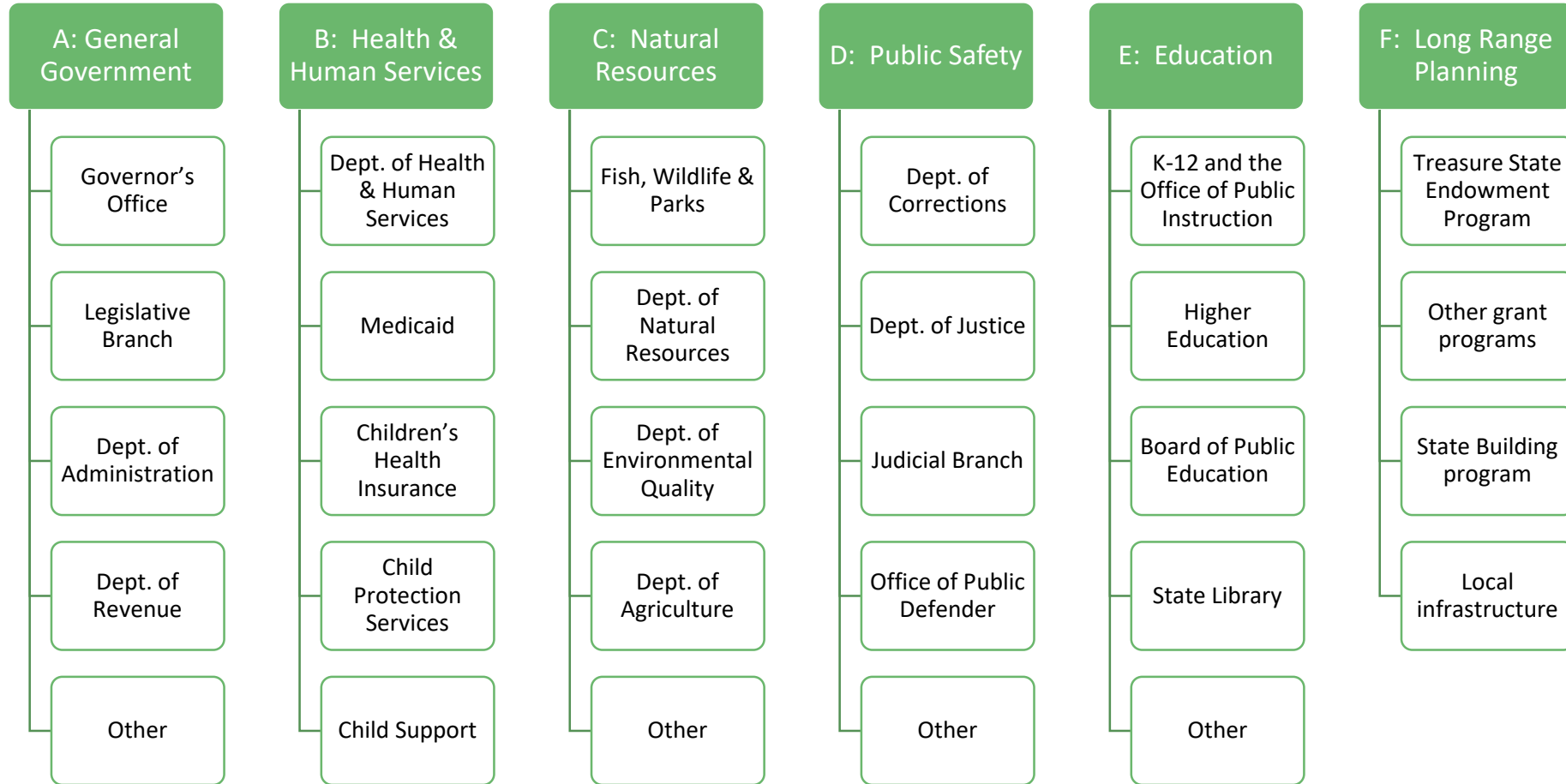


1st Step for HB 2 - Joint Subcommittee Work

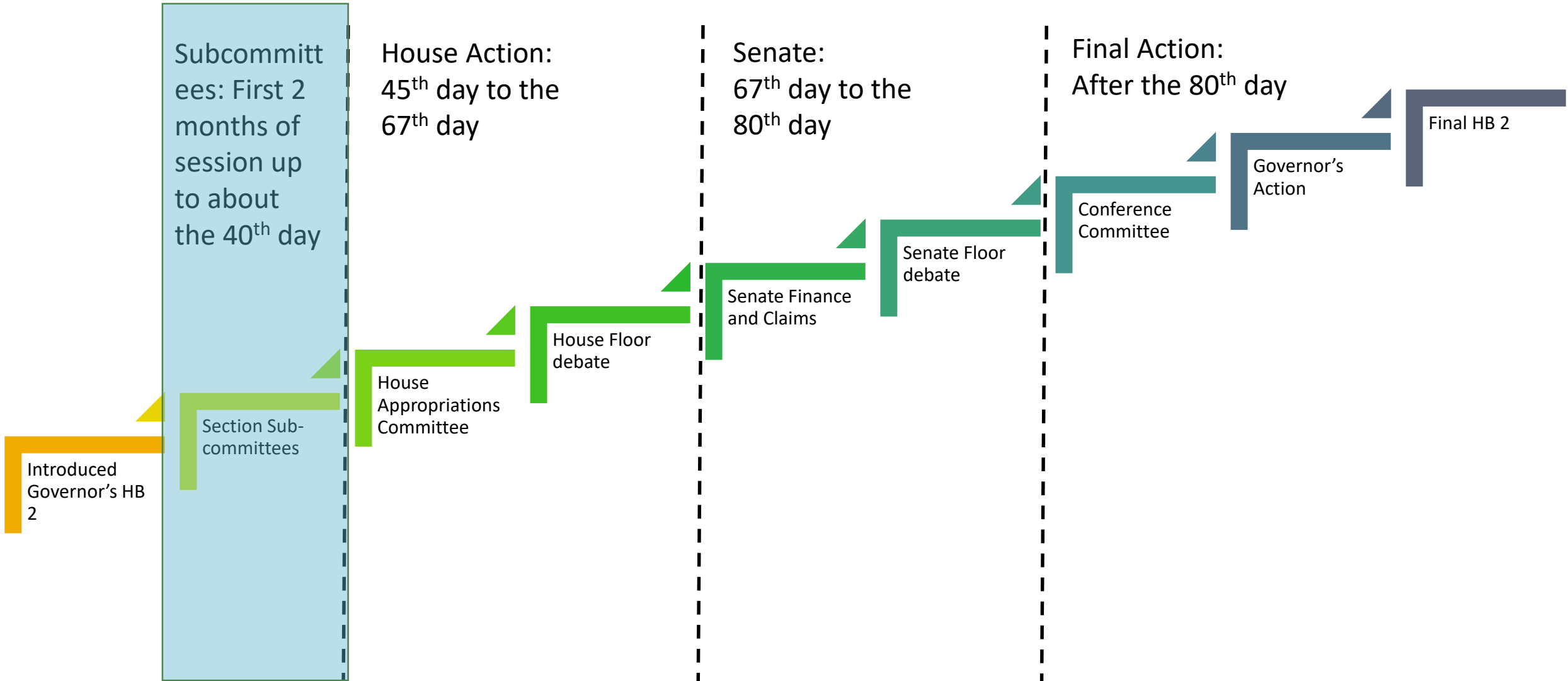


- Members of House Appropriations (HAC) and Senate Finance and Claims (SFC) comprise the membership of subcommittees
- Study all details of HB 2 proposal
- Make recommendations

Joint Subcommittee Split by Section of Government



HB 2 Process: Subcommittees



Subcommittees Study HB 2 & Make Recommendations:

Study the Budget Proposal

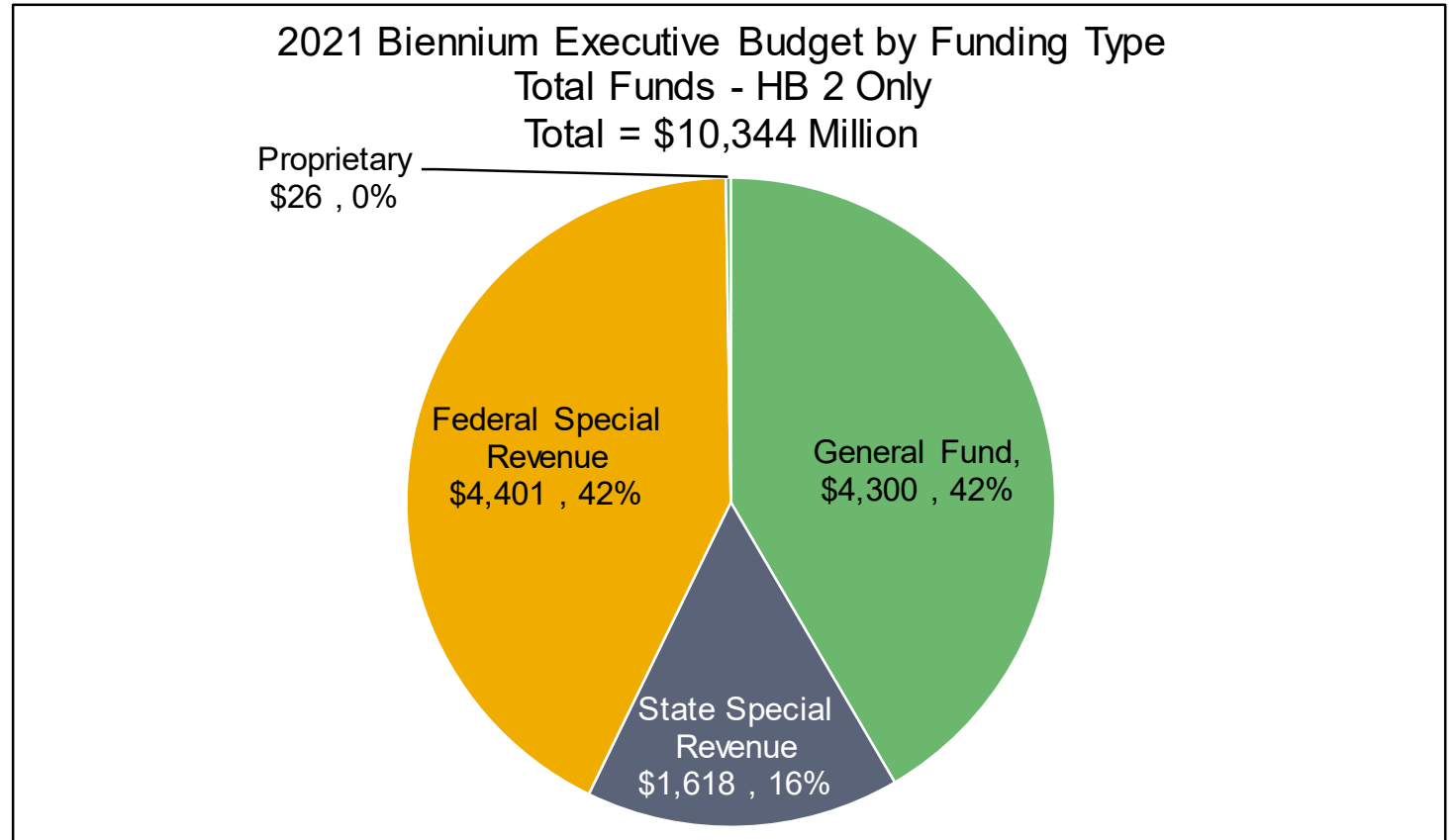
- HB 2 Funding
- Base Budget
- Present Law
- New Proposal
- Budget Instructions
- Snapshot Budgeting Tool
- Vacancy Savings

Make Recommendations

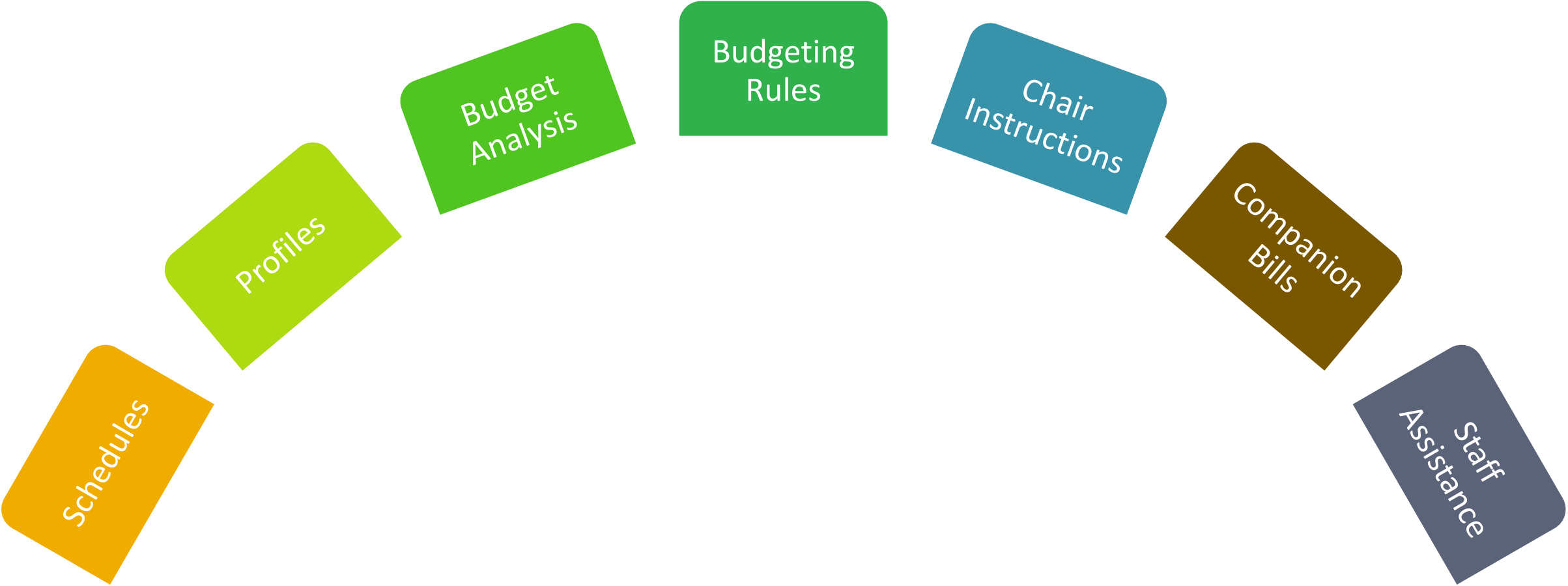
- Budget Instructions from HAC & SFC Chairs
- Decision Packages
- More Options
 - Line item appropriations
 - Restrict appropriations

Subcommittees look at HB 2 Funding

- Subcommittee members study funding and recommend appropriations accordingly



Tools for Subcommittees



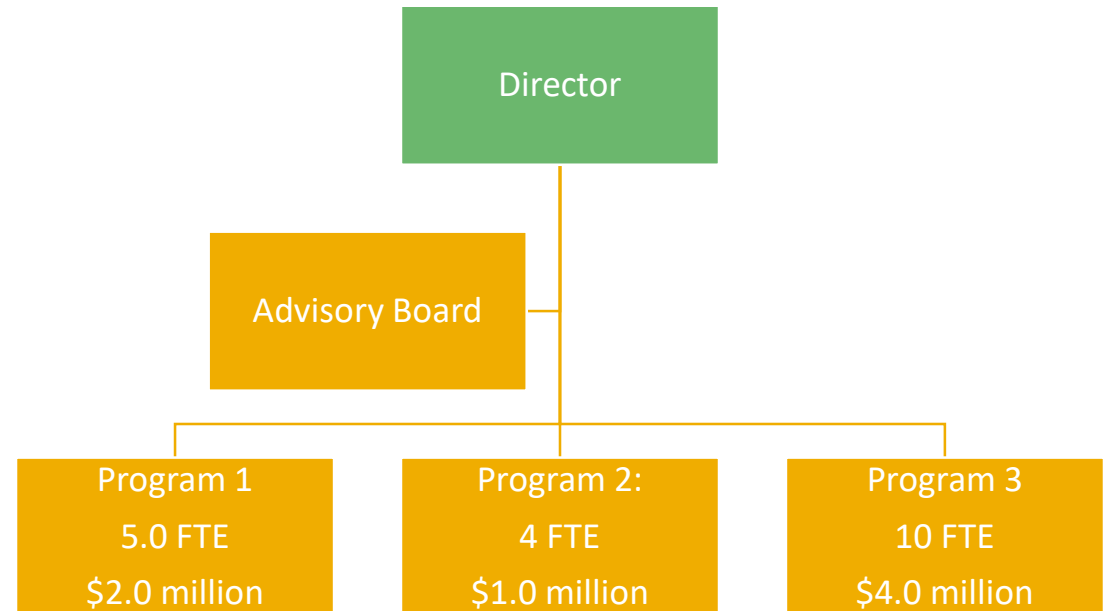
Schedule: Timeline for completing work

- Chair of the subcommittee works with LFD staff member to develop plan to complete work including:
 - Subcommittee training on budget details
 - Hearing from the Agencies
 - Hearing from the public about the budget and operations of the agency
 - Input from the Governor's Budget Office



Profiles: Basics about the Agency

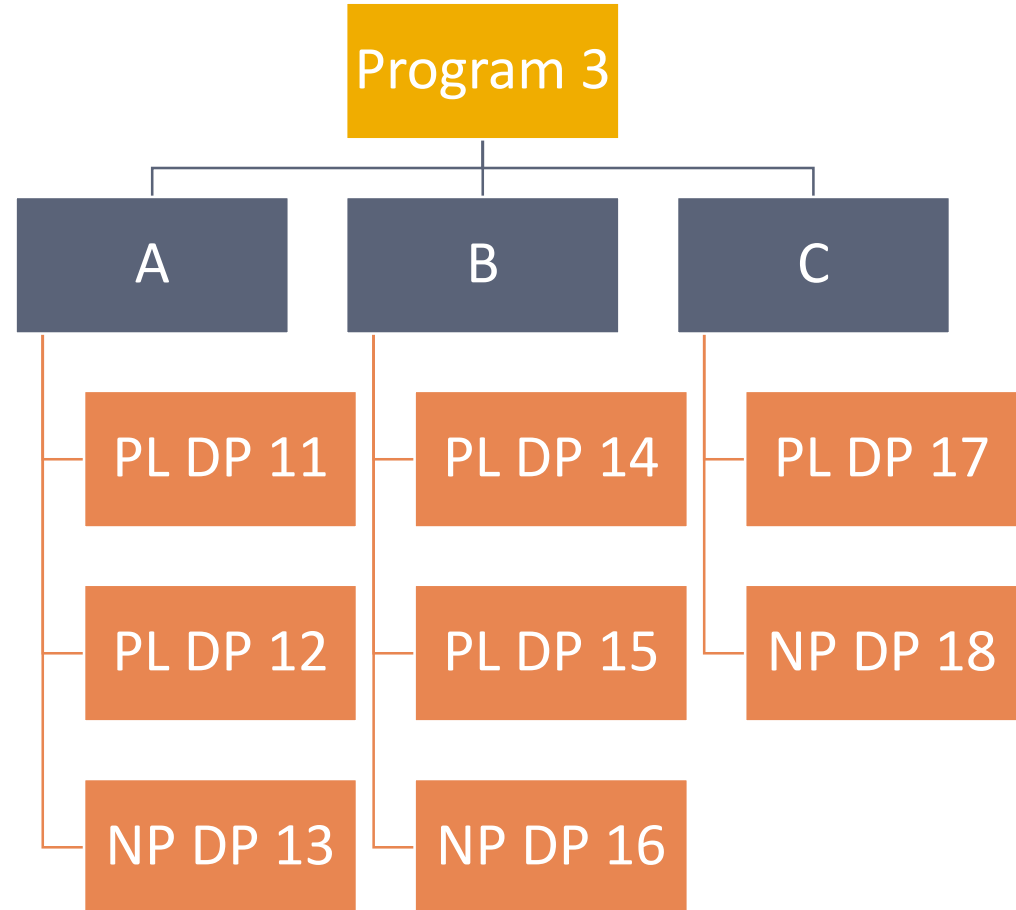
- Organization structure
- Actual expenditures for FY 2018
- Expenditure drivers
- Historical recap of legislation that impacts agency
- Historical expenditures



Profiles

Budget Analysis: Analysis of the details of Governor's Budget

- Budget analysis is subcommittee work book
- Binders contain all necessary information for subcommittee members to make recommendations



Budgeting Rules: (Leg control)

- Appropriation laws and rules exist that control how the Legislature can allow or require certain expenditures
- These laws are grounded in the Constitution and supported by law and rule
- Subcommittees have the option to use these rules to implement and control appropriations



Budget Instructions from Legislative Financial Leadership

- ✓ Chairs of the House Appropriations and Senate Finance and Claims provide budget instructions to all subcommittee members
- ✓ Subcommittee Member Action - Vote on the statewide present law application of budget items like inflation factors, fixed costs, and personal services. These are called SWPL DP 1, DP 2 & DP 3

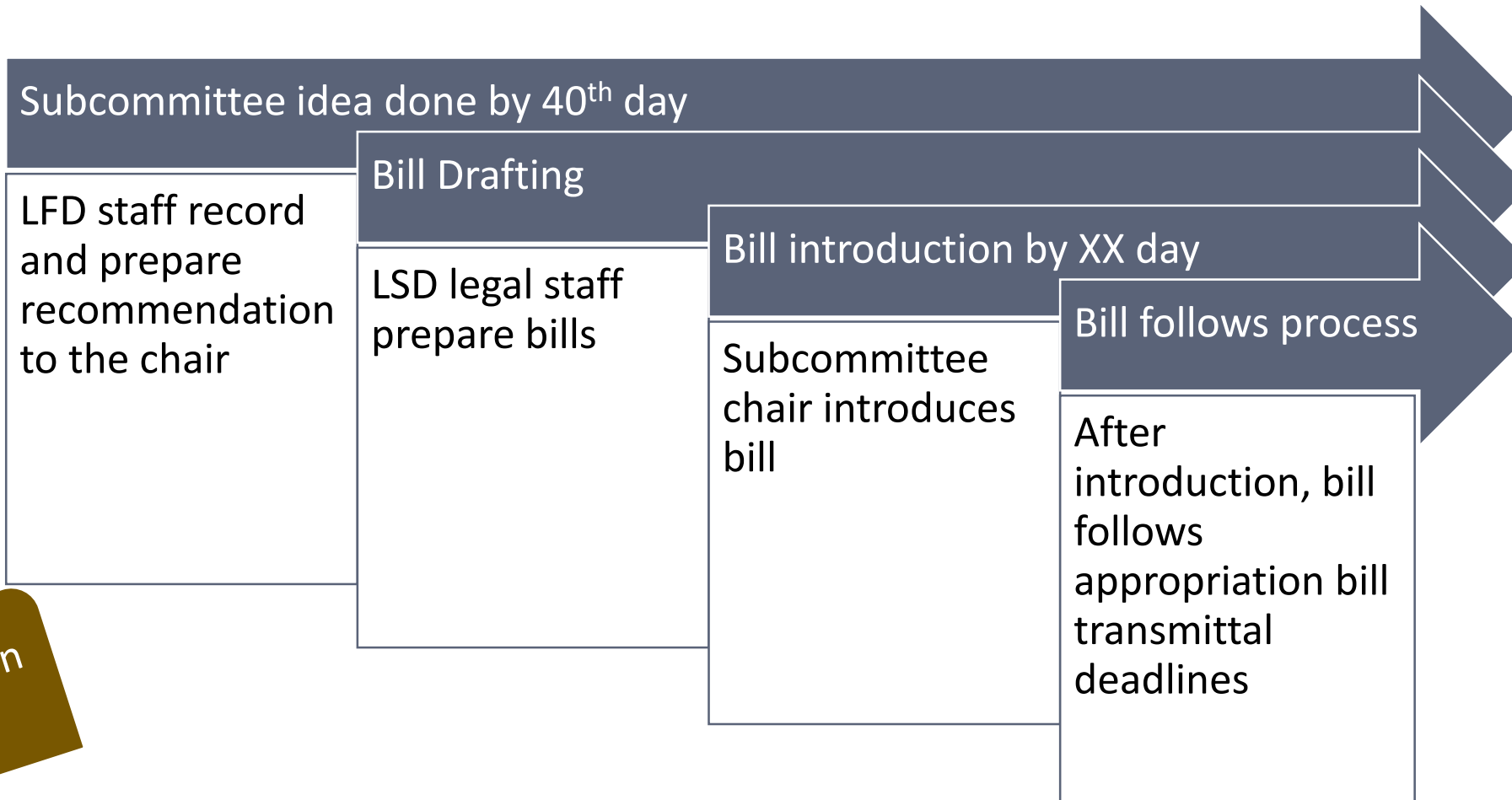
Chair
Instructions

Companion Bills: Changing the law for budget requirements

- Constitution and law do not allow for substantive law to be changed in HB 2
- Process has developed over the years to enable the appropriations committees to change the law while changing the budget
- Process known as companion bills to HB 2
- Companions bills are typically introduced by the subcommittee chairs



Process for Creating Item for Companion Bills



Staff Assistance

- Legislative Fiscal Division analysts ensure that subcommittee members receive **non-partisan** information
- Legislative staff listen and respond to subcommittee member requests by:
 - Explaining the process
 - Making changes as directed
 - Implementing recommendations by the subcommittees
 - Monitoring cumulative impacts of subcommittee recommendations

Staff
Assistance

Staff Assistance: LFD staff here to help



Training, work
session planning,
motions



Staff

Work together

Subcommittee

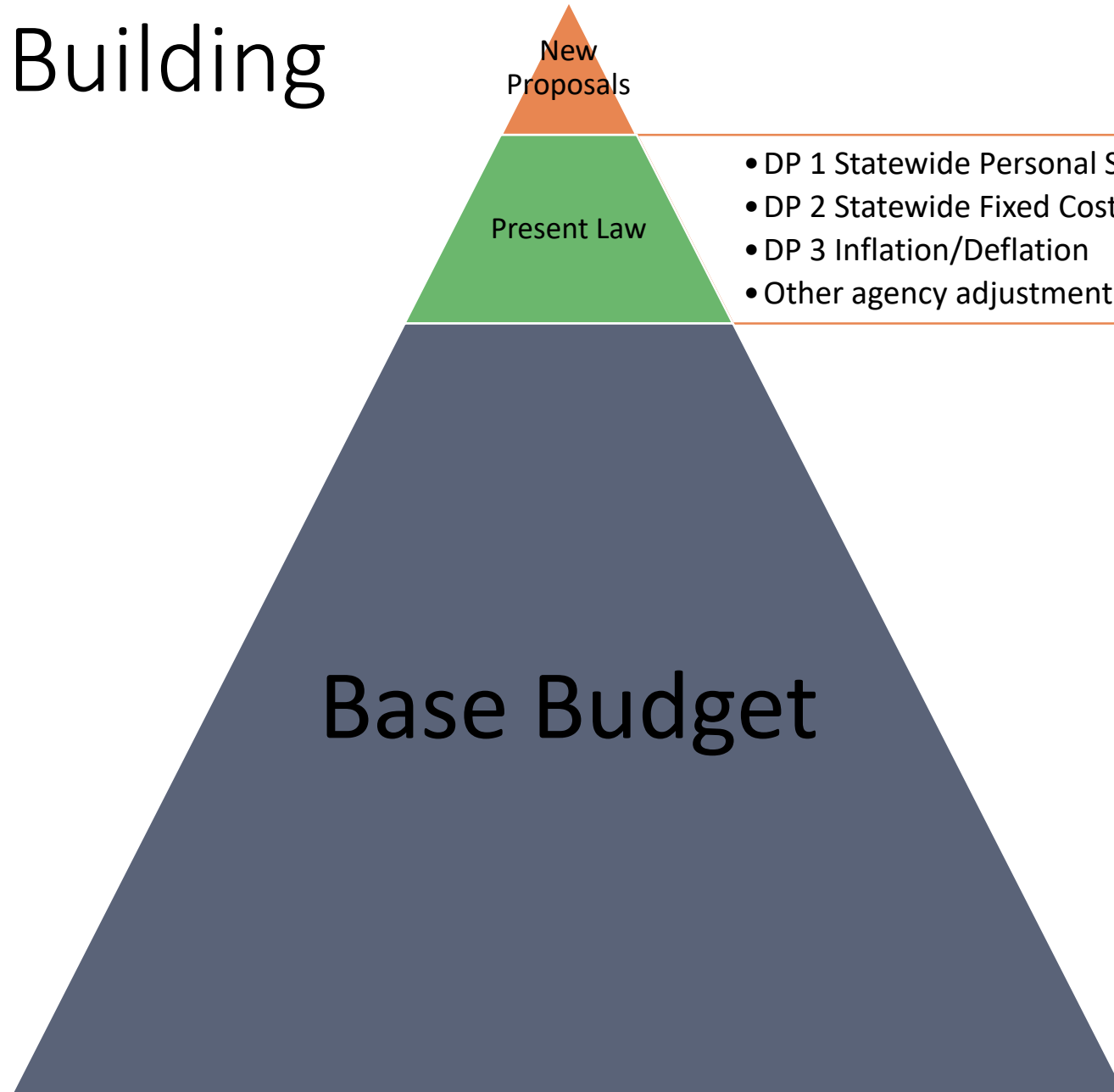
Staff
Assistance

Getting Started

First Week of Subcommittee

- Study Base Budget, adopt budget instruction starting point
- Study statewide present law adjustment decision packages, make recommendations

Budget Building Blocks



- DP 1 Statewide Personal Services
- DP 2 Statewide Fixed Costs
- DP 3 Inflation/Deflation
- Other agency adjustments to meet “present law” requirements

Base Budget = FY 2019 Ongoing Appropriations

(4) (a) "Base budget" means the resources for the operation of state government that are of an ongoing and nonextraordinary nature in the current biennium. The base budget for the state general fund and state special revenue funds may not exceed that level of funding authorized by the previous legislature.

(b) The term does not include:

- (i) funding for water adjudication if the accountability benchmarks contained in 85-2-271 are not met;
- (ii) funding for petroleum storage tank leak prevention if the accountability benchmarks in 75-11-521 are not met.

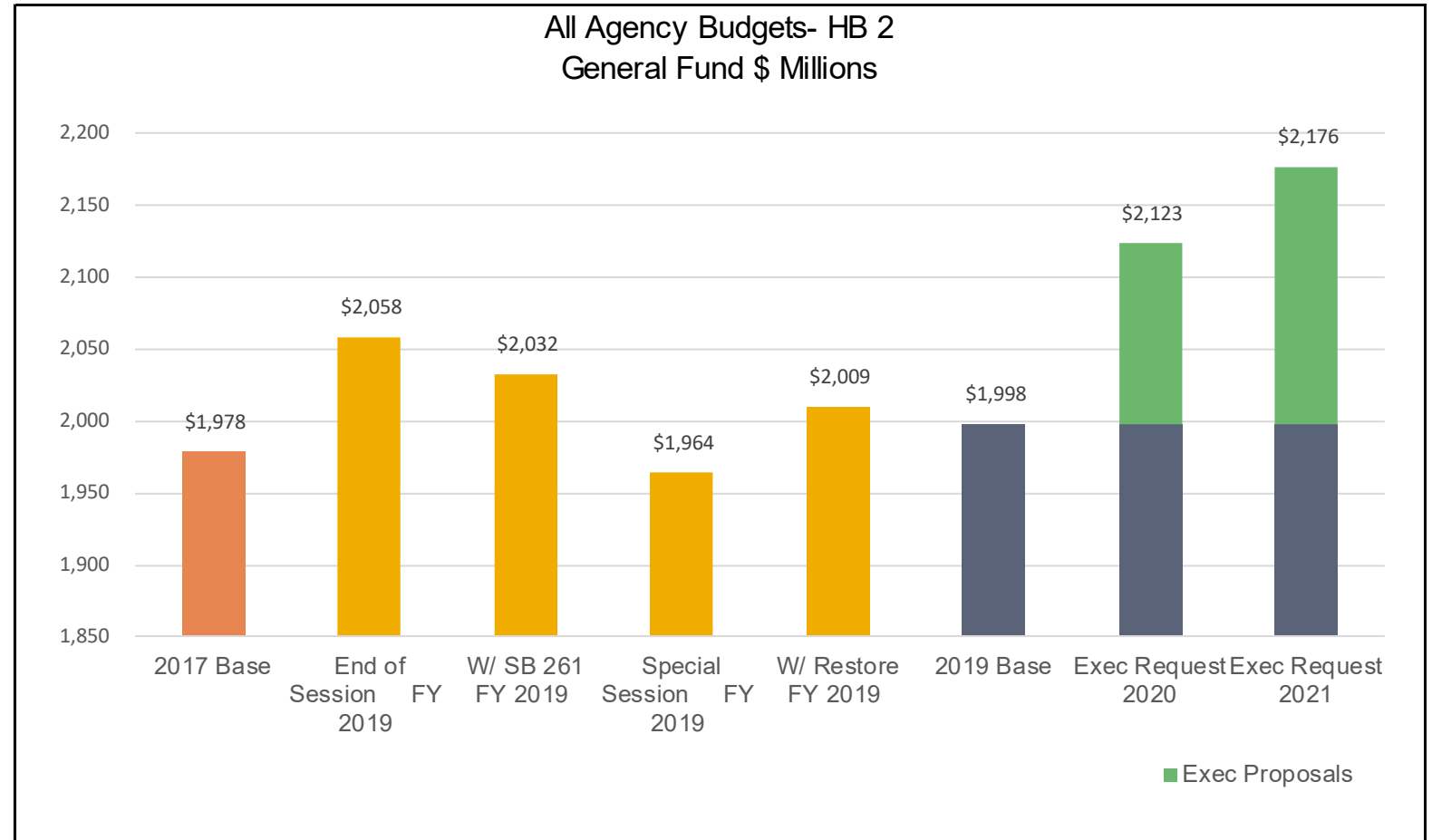


Base
Budget

HB2 2019 Base Budget How We Got There

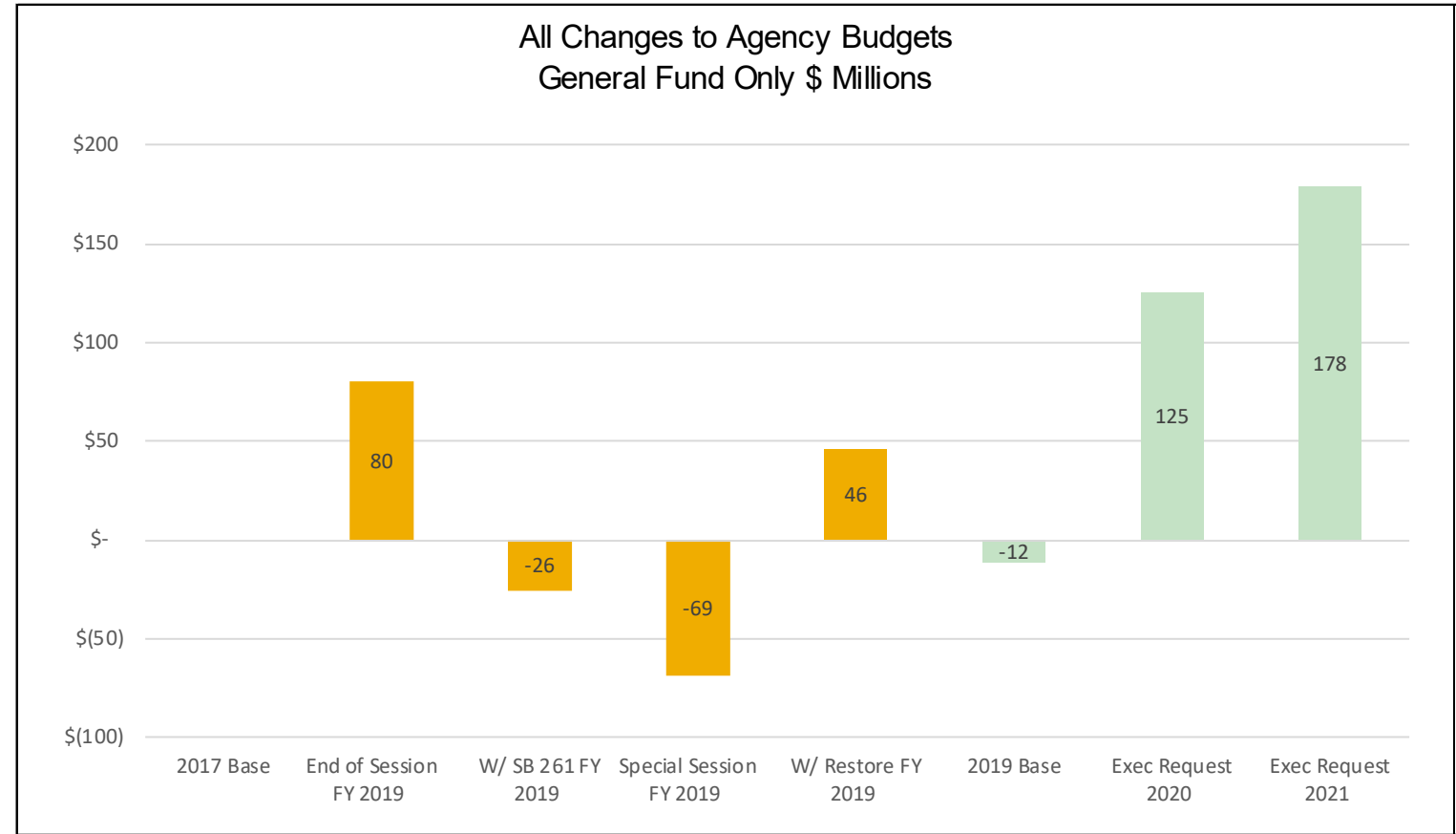
General Fund Only

- 2017 Regular Session budgets adopted
- SB 261 budget reduction provisions triggered when revenues dropped below certain level
- 2017 Special Session budgets adopted
- SB 9 budget restoration provisions triggered when revenues exceeded certain level



HB 2
2019 Base Budget
How We Got There

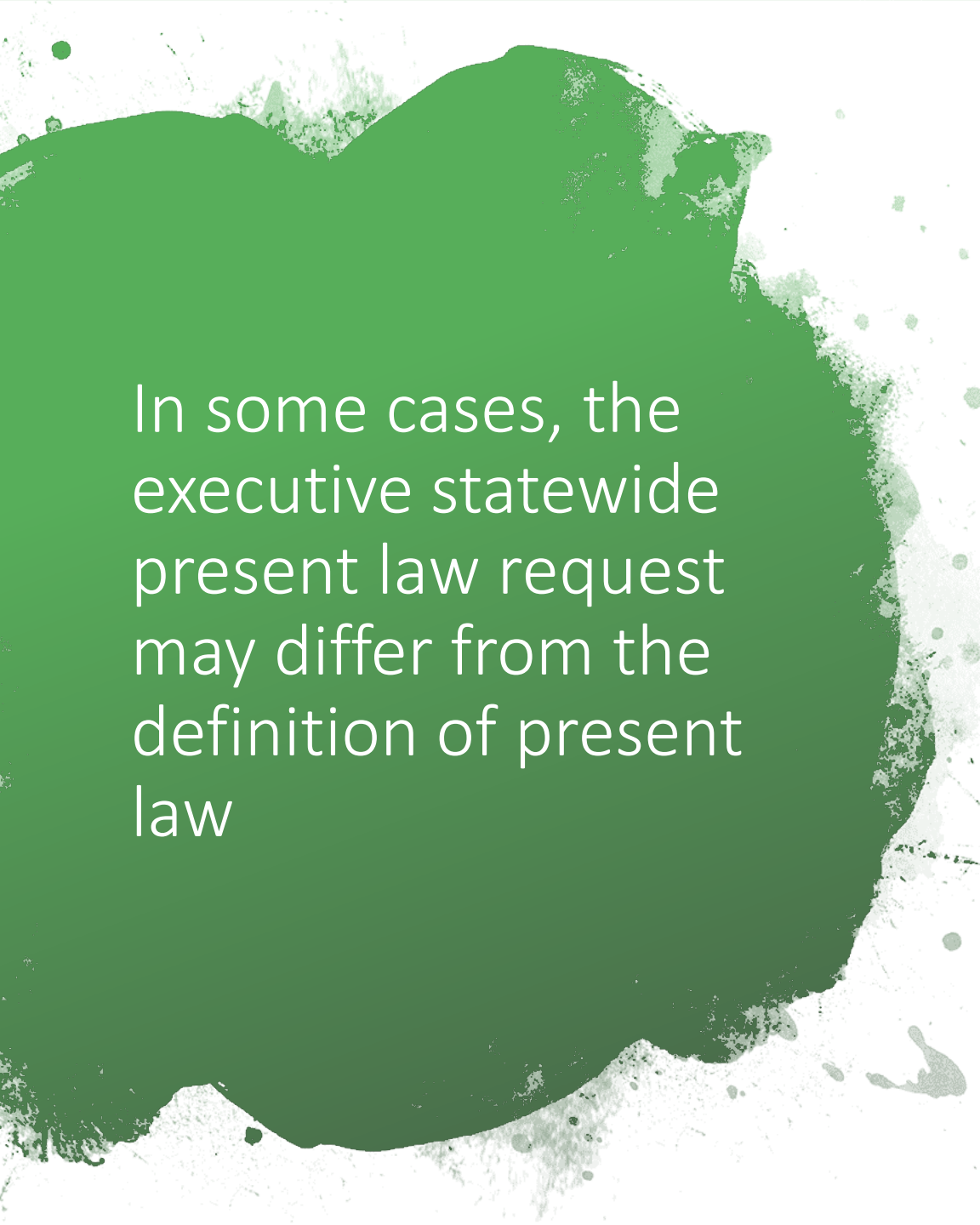
Changes to
General Fund



Present Law

"Present law base" means that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- a. changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
- b. changes in funding requirements resulting from constitutional or statutory schedules or formulas;
- c. inflationary or deflationary adjustments; and
- d. elimination of nonrecurring appropriations.



In some cases, the executive statewide present law request may differ from the definition of present law

(12) "Present law base" means that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- a. changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
- b. changes in funding requirements resulting from constitutional or statutory schedules or formulas;
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- d. elimination of nonrecurring appropriations.

Statewide Present Law Adjustment (SWPL DP 1) Decision Package 1

- Personal Services is defined as the cost for personnel pay and benefits. SWPL DP 1 is the proposed present law adjustment of personal services costs for the 2021 biennium
- Personal services snapshot is an executive budgeting tool used to build state agency budgets. The "snapshot" is comprised of salaries and benefits
- The snapshot is then used to determine additions to the personal services budget. The proposed additions are included in the DP 1 Statewide Present Law Adjustment

How the Executive Calculates SWPL DP 1 Using the Snapshot Budgeting Tool

Cost of Salaries & Benefits of all
FTE*

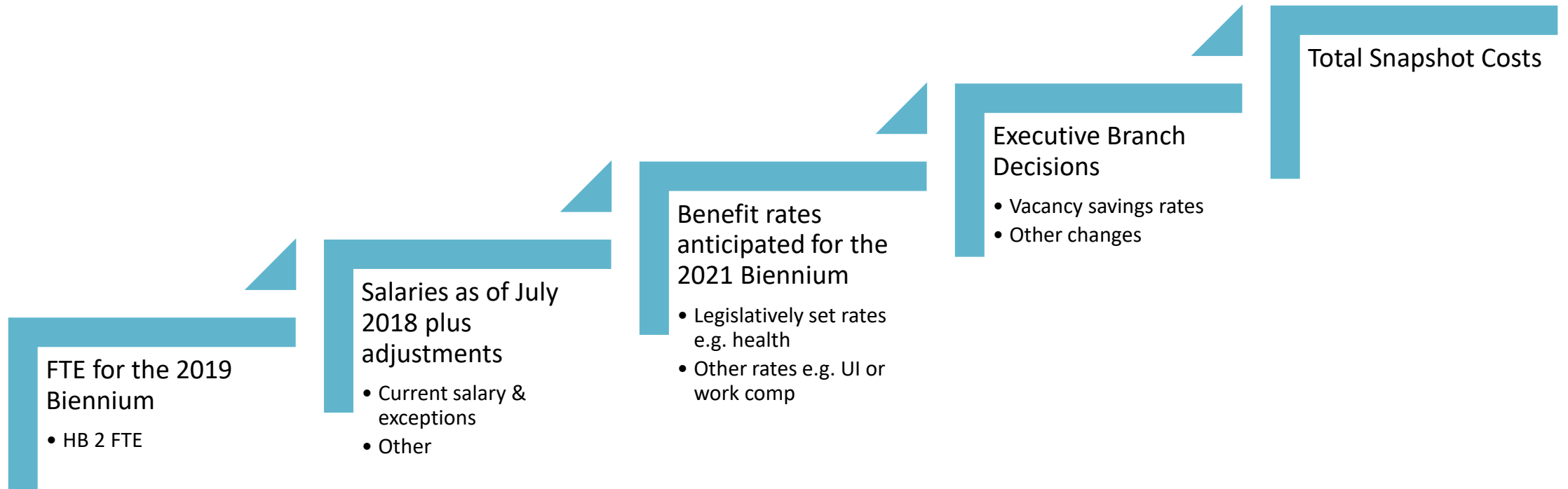
PS Base

=

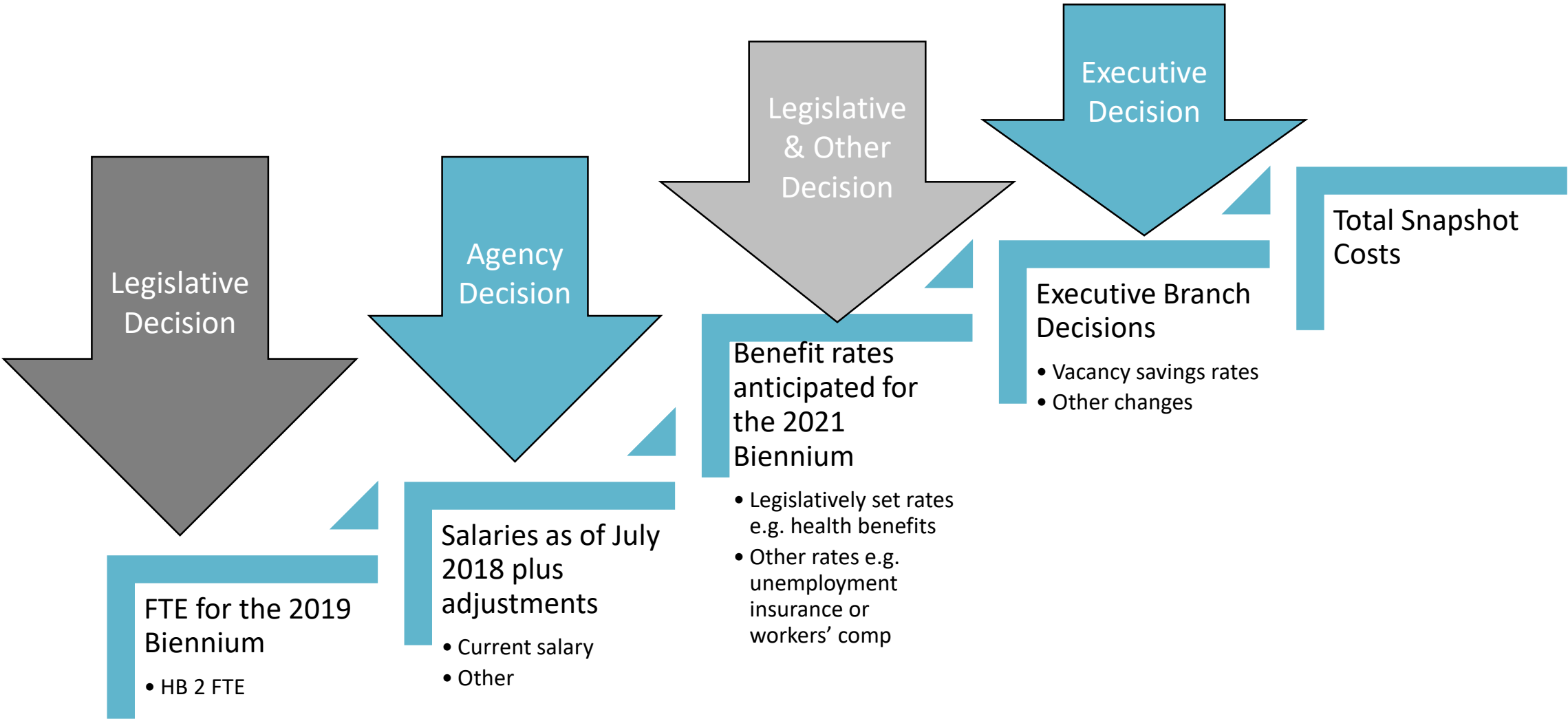
+

SWPL
adjustment

Snapshot Budgeting Tool – What is Included



Snapshot Components – Who Makes the Decisions



SWPL DP 1 – Four Categories

Snapshot Cost of Salaries & Benefits of all
FTE*

PS Base

SWPL adjustment (not to scale)

Formula
Based

Personal
Services
Decisions

Reinstate
Base
Reductions

Budget
Modifications

SWPL DP 1 – Four Categories in Detail

1. Formula Based Changes
 - Rate changes from the 2016 snapshot to the 2018 snapshot (new rates for FICA, etc.)
 - Longevity pay changes in FY 2020 and FY 2021 & annualization for FY 2019
 - Funded pay plan
2. Personal Services Management Decisions
 - Broadband Pay raises given in FY 2017 & FY 2018
 - Reclassification of positions & FTE movement
 - Program Transfers & Reorganizations
 - Other
3. Proposed Reinstatement of Personal Services Base Budget Reductions
 - SB 261 Reductions, including reinstatement of general fund pay plan reduction
 - DP 555 Executive Rebase from 2017 Session
 - DP 50 & 51 Reductions from 2017 Session
 - Other decision packages adopted by the 2017 legislature that impacted PS
 - Vacancy savings change from the 2016 snapshot of 4% to 2018 snapshot of 2%
 - Legislatively imposed vacancy savings in 2017 session from 4% to 6% or 7%
 - Other
4. Modifications to the Personal Services Base Budget
 - Operating plan transfers & House Adjustments
 - SB 9 – how agencies implemented restorations

#1 Category – Formula Based Changes

- Anticipated personal services changes for annualization of costs associated with the pay plan, new rates for unemployment insurance, workers compensation, etc., and employee longevity, etc. Complex formulas were used to develop the calculations. Please ask your LFD analyst to explain
- [Visual Representation of Mathematical Formulas](#)

| Agency Example Personal Services Present Law Request by Program DP 1 - FY 2020 | | | | | |
|---|---------------|-------------------------|------------------------------------|-------------------------|-----------|
| Program | Formula Based | Management Decisions | Proposed Reinstatement of PS | Budget Modifications | DP1 SWPL |
| 01 XXXX | 6,836 | 1,712 | 21,690 | - | 30,238 |
| 03 XXXX | 22,594 | 10,105 | 112,145 | 200,000 | 344,844 |
| 04 XXXX | 7,977 | (6,648) | 33,417 | - | 34,746 |
| 07 XXXX | 7,846 | (4,123) | (74,610) | - | (70,887) |
| 14 XXXX | 40,211 | (1,988) | 120,460 | - | 158,683 |
| 15 XXXX | 19,525 | (5,226) | 94,357 | - | 108,656 |
| 23 XXXX | 19,686 | 0 | 111,557 | - | 131,243 |
| 37 XXXX | 7,664 | 6,167 | 32,084 | - | 45,915 |
| Agency Total | \$132,338 | (\$0) | \$451,100 | \$200,000 | \$783,438 |

- Agencies may have made broadband pay adjustments during the interim. For example, merit raises may have occurred or a training assignment was successfully completed and pay increased
- An example of lower broadband pay adjustments may have occurred when a long-time employee left and a new hire resulted in a lower salary
- LFD analysts will work with agencies to understand the management decisions

#2 Personal Services Management Decisions

#3 Reinstatement of Personal Services Base Budget Reductions

Snapshot Cost of Salaries & Benefits of all
FTE*

PS
Base

Extra
Vacancy
Savings

SWPL Adjustment

PS
Base

SWPL adjustment

#4 Modifications to Personal Services Budgets

Understanding Vacancy Savings

Vacancy savings is used to budget for personal services. It has two different meanings: actual vacancy savings and applied vacancy savings.

- Actual vacancy savings - the difference between actual agency expenses for personal services and the cost to fully fund all the authorized positions for the entire year.
- Applied vacancy savings - a rate imposed on the agencies either by the legislature or the executive. For example the executive proposed a 4% vacancy savings for the 2019 biennium.

For more details on the definitions and how agencies use vacancy savings, please read the [vacancy savings brochure](#).

#4 Modifications to Personal Services Budgets

Slide 1 of Vacancy Savings Example

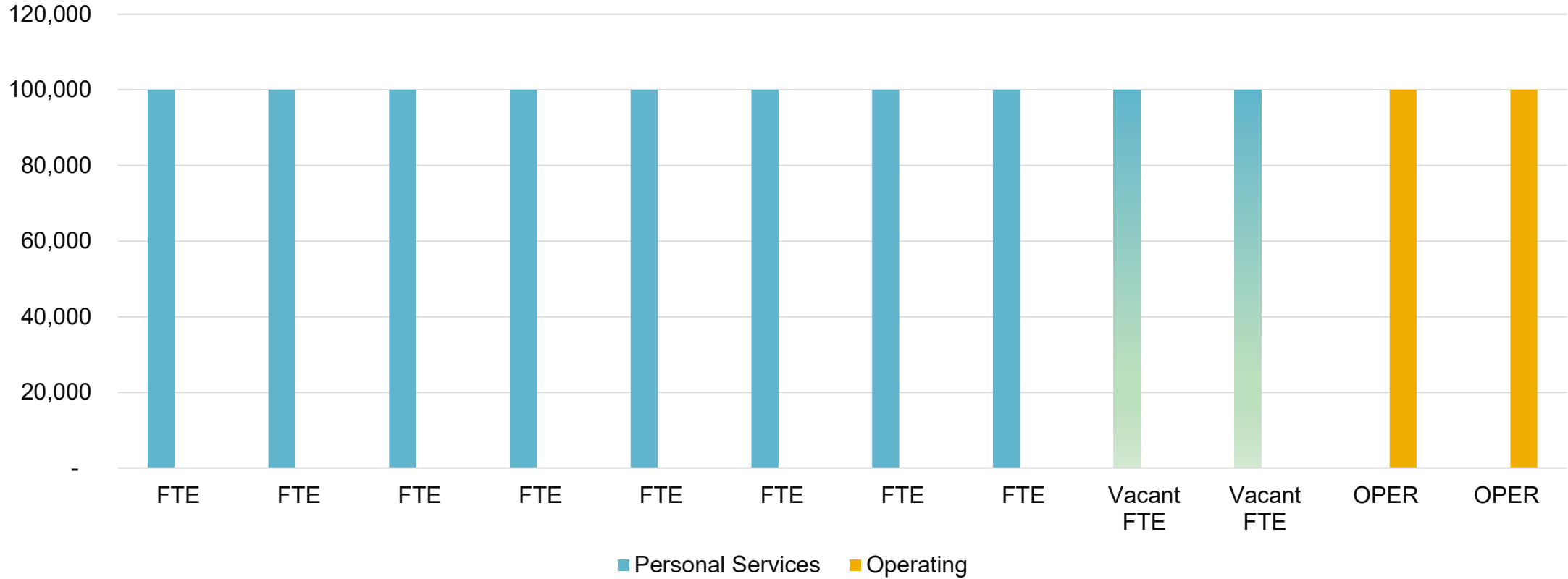
Approved \$1.2 Million in Budget Authority for Personal Services and Operating



#4 Modifications to Personal Services Budgets

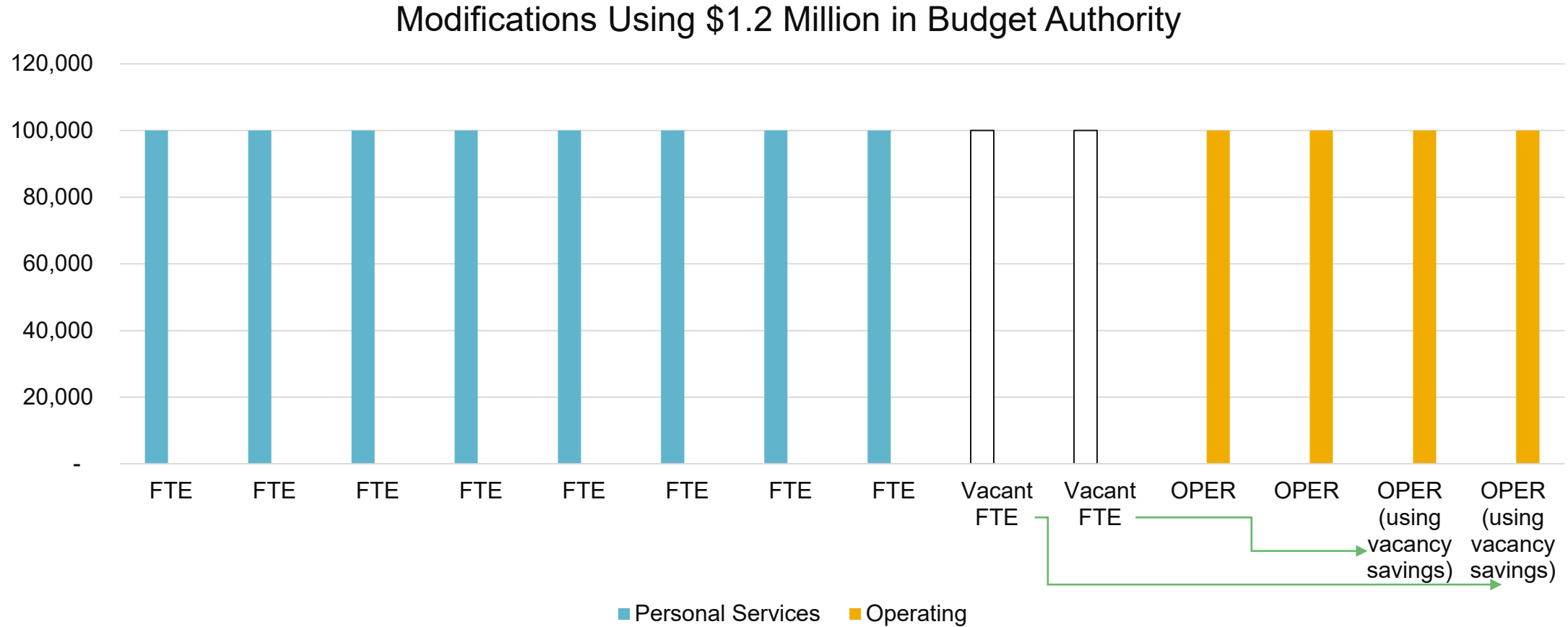
Slide 2 of Example

Vacancy Savings with \$1.2 Million in Budget Authority



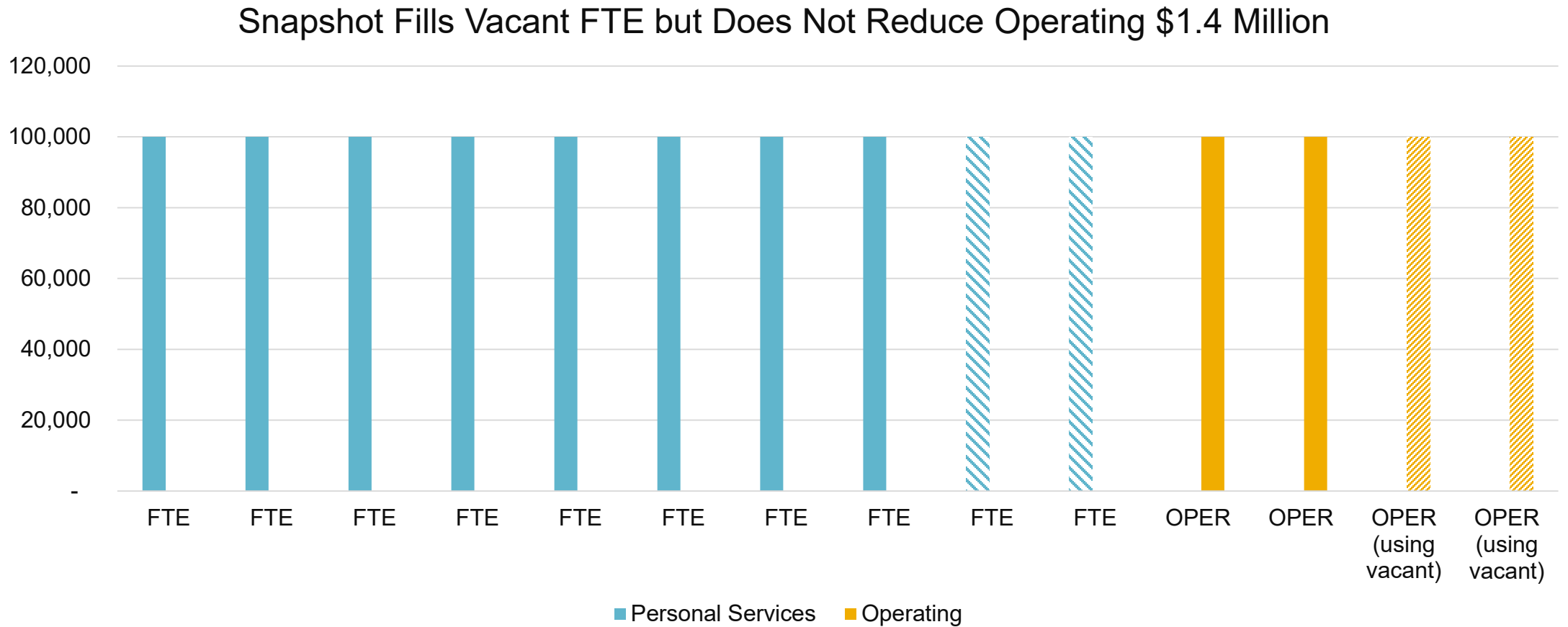
#4 Modifications to Personal Services Budgets

Slide 3 of Example

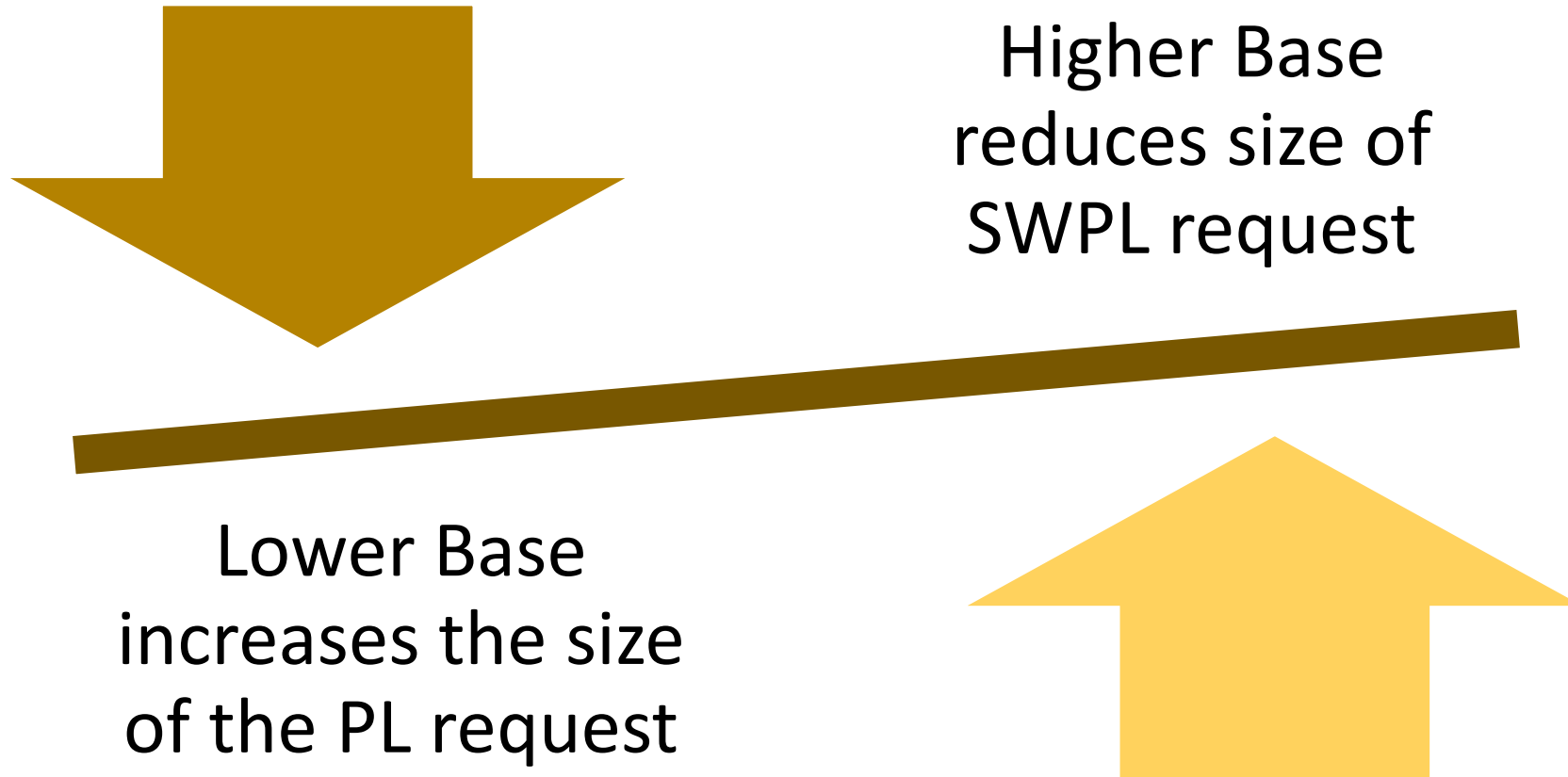


#4 Modifications to Personal Services Budgets

Slide 4 of Example



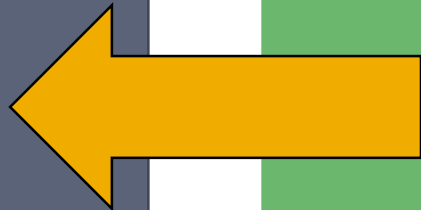
Changes to the Base Impact the Size of the SWPL DP 1 Request



When Base is smaller the cost to fill the cost of Snapshot is larger

Snapshot Cost of Salaries & Benefits of all
FTE*

PS Base



SWPL adjustment

When Base is larger the cost to fill the cost of Snapshot is less

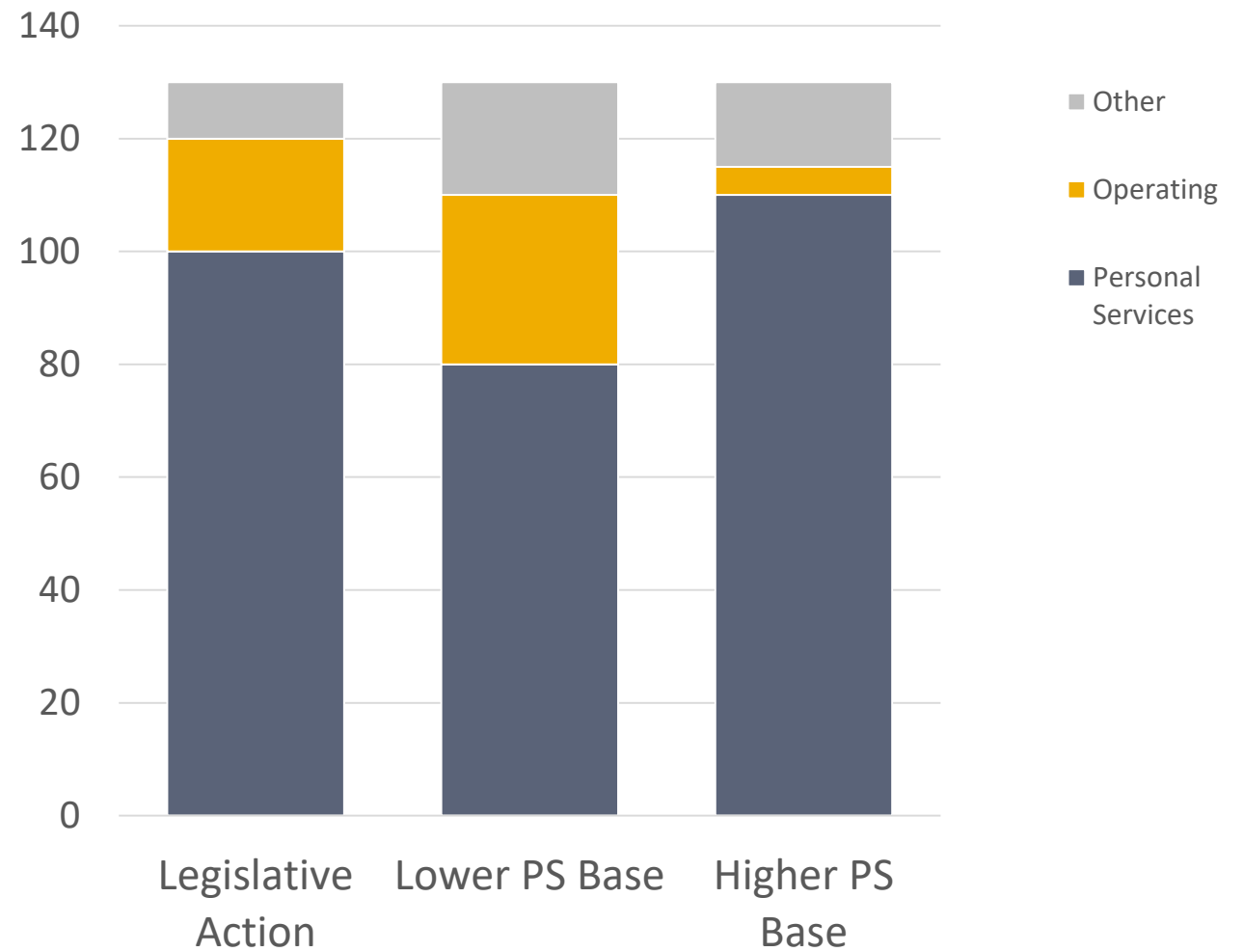
Snapshot Cost of Salaries & Benefits of all
FTE*

PS Base

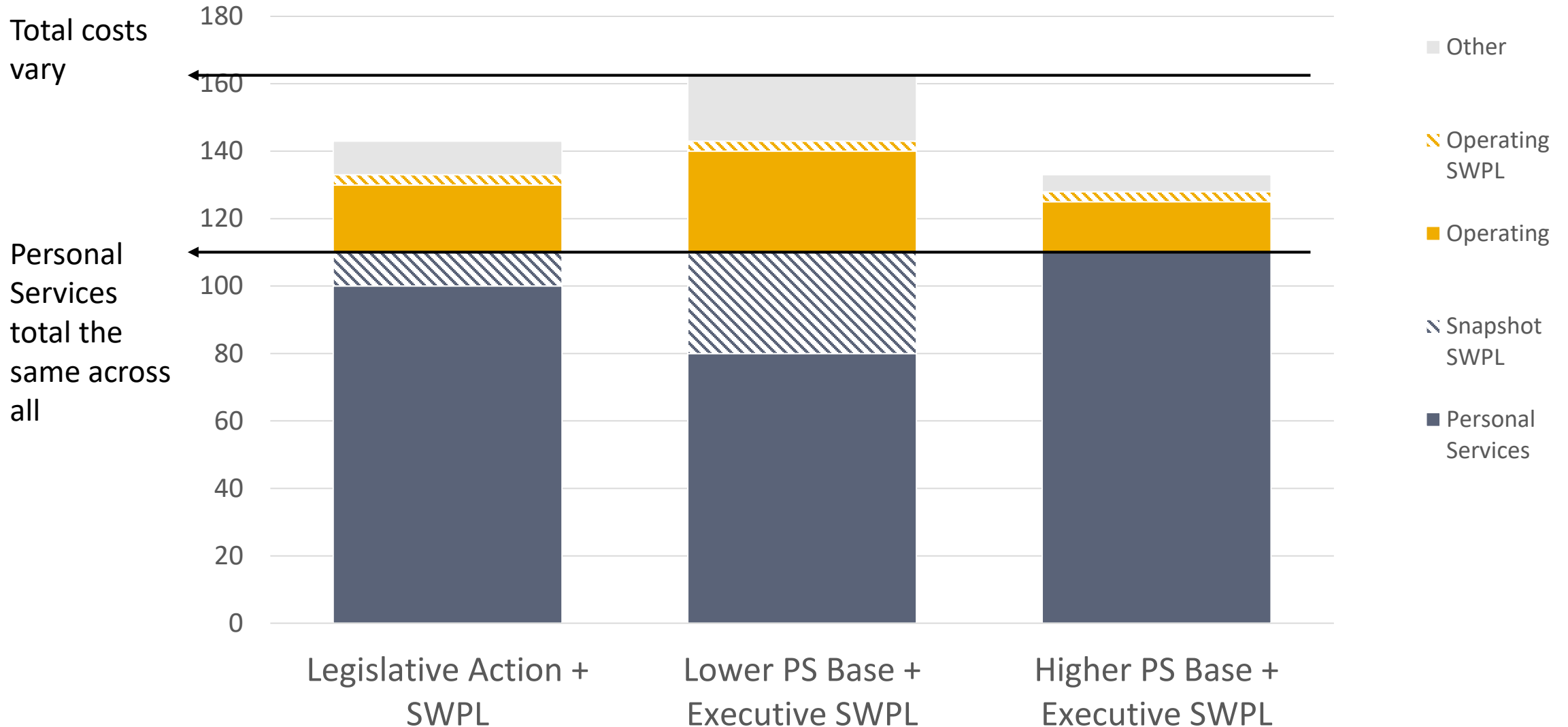


SWPL
adjustment

If the total Base Budget is the same, why does LFD analyze it?



Depending on the size of the personal services base budget, the SWPL DP 1 request is larger or smaller



Let's walk through personal services tables in the subcommittee binders

Budget instructions from the Chairs of HAC and SFC instruct subcommittee members on sections A & C to study each component of DP 2 and make recommendations

SWPL DP 2 – Fixed Costs

Facilities Management

Human Resource Information Systems

Insurance

Legal Costs

Messenger Services

Motor Pool Rates

Print and Mail Services

Records Management

Rent on State Owned Buildings

State Accounting

State IT Services

Statewide Cost Allocation Plans

Warrant Writer

Workers' Compensation

Budget instructions from the Chairs of HAC and SFC instruct subcommittee members on section A to study each component of DP 3 and make recommendations

SWPL DP 3 - Inflation/Deflation

Gasoline

Food

Meat and Miscellaneous Items

Postage

Leased Vehicles/Motor Pool

Electricity

Natural Gas

Laboratory Gas

Propane

Library Books

New Proposals

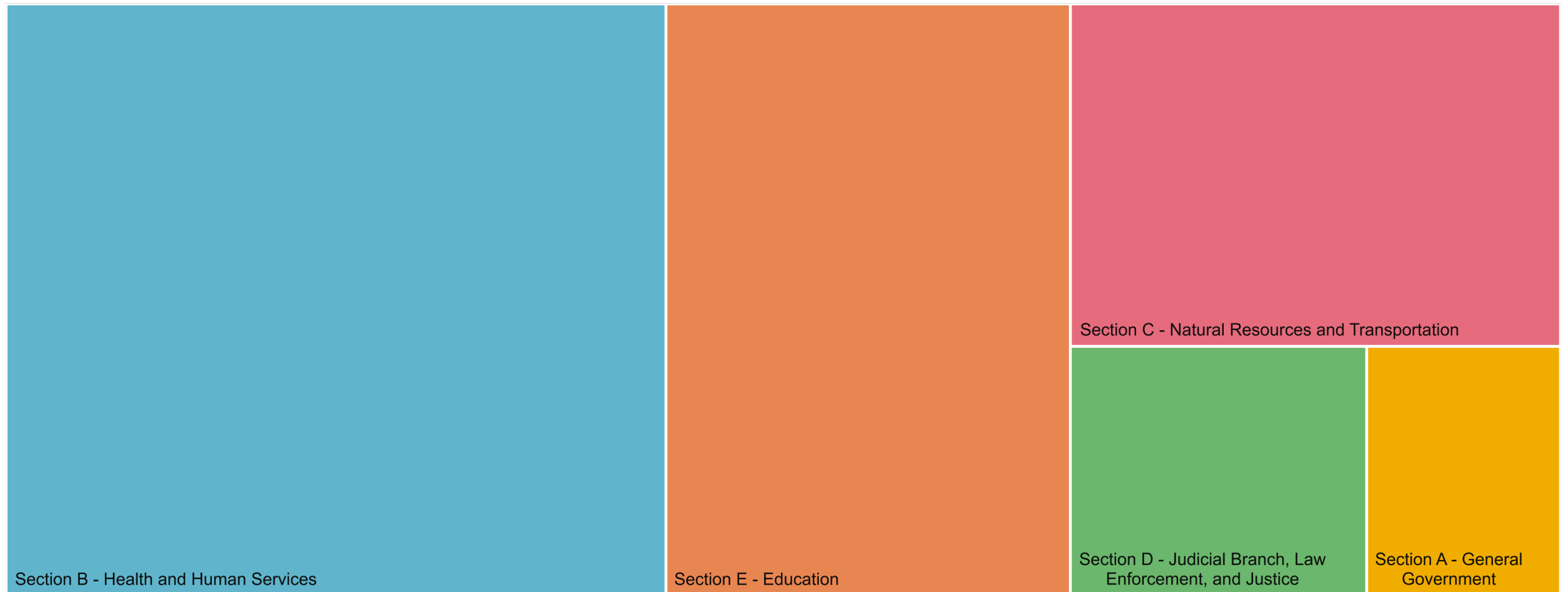
- **New proposals** are defined in statute as “requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.” Any proposal that is not based upon the existence of constitutional or statutory requirements is a new proposal.
- In most agencies, major changes are included in new proposals. However, in other agencies present law adjustments are often the heart of changes in budget and policy issues, such as Corrections, Transportation, and Public Health and Human Services.

Subcommittees Work Until About Day 40

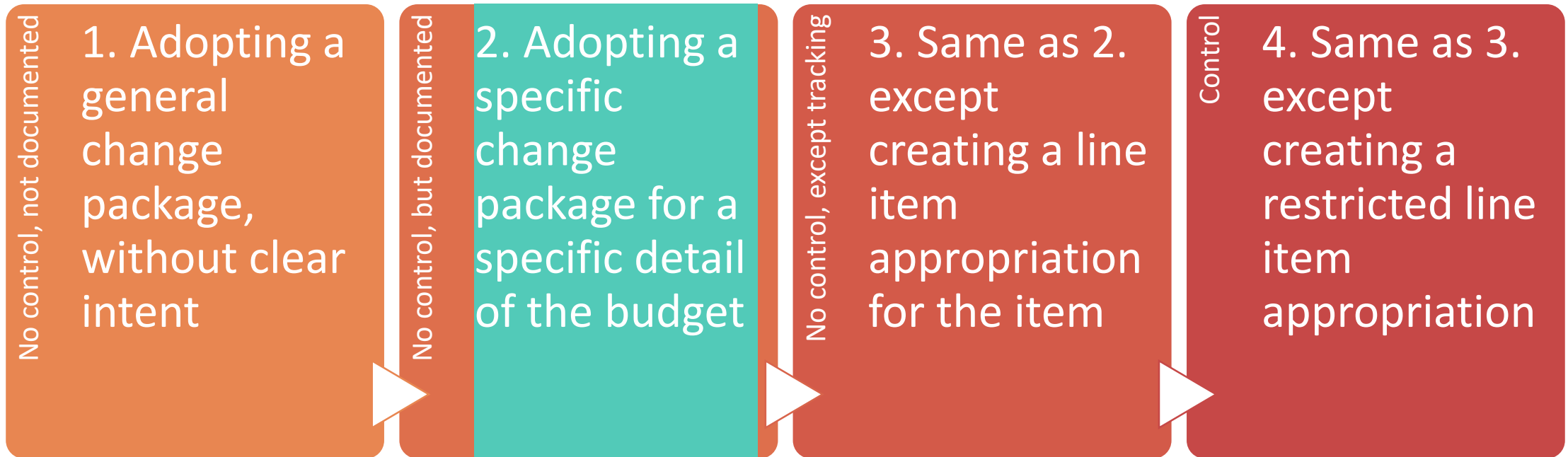
- Study
- Discuss
- Debate
- Decide
- Make Recommendations

Building HB 2 Agency Budgets

HB 2 Sections of Government



Subcommittees Make Recommendations By:



1. No control, no documentation

No control, not documented

1. Adopt a
general change
package,
without clear
intent

- The subcommittee may wish not to record funding details
- The details may not be available and the legislature may have a general agreement with the executive for a general need for more funding without precise intent.

2. No control, but documented

No control, but documented

2. Adopt a specific change package for a specific detail of the budget

- The legislature may want a specific budget item in the budget, but may choose to allow the executive the flexibility to spend it in that location or in another as the executive believes is the best outcomes overall

3. No control, except tracking

No control, except tracking

3. Same as 2.
except create a
line item
appropriation
for the item

- At times, the legislature may wish to not only be specific about the intent of an appropriation and want tracking if the Executive chooses to spend differently.
- Due to overriding statute, this action does not prevent movement of these appropriations to other legal purposes within the agency.
- This is called a line item appropriation

4. Legislative Appropriation Control

Control
4. Same as 3.
except create
a restricted
line item
appropriation

- At times, the Legislature may wish to not only be specific about the intent of an appropriation, but to restrict spending to only that purpose
- Due to overriding statute, unless the Legislature restricts the appropriation few limits exist
- This is called a restricted line item appropriation

Subcommittee work is done

- Subcommittee chairs explain the subcommittees' recommendations for HB 2 to House Appropriations Committee
- The House Appropriations Committee hears specific appeals from agencies concerning subcommittee action, compares subcommittee recommendations to projected revenues, and considers amendments to subcommittee recommendations from committee members.
- Typically House Appropriations Committee substitutes its HB 2 for the executive proposed HB 2 and moves the bill to the full House for debate. This process commences shortly after the 45th day and generally takes 3 to 5 days.

Appendix

- Next few slides deep dive into HB 2 accounting and funding details
- Learn about how the executive makes modifications to the budget when legislators are out of session
- Learn about an expenditure level known as 1st level expenditures and legislative intent
- Learn how legislators may place restrictions on HB 2 appropriations
- Remember the budget must be balanced and this is challenging

HB 2 Appropriation

Fund-
Account

Agency
Program

1st Level
Expenditure
Account

Restriction

Executive Fund-Account Modifications

Executive Allowed

- Fund type a grouping of individual fund-accounts
- Fund type: General Fund, State Special, Federal Special

Executive Not Allowed

- Changes between fund type unless specifically allowed by law

Agency or Program Modifications

Executive Allowed

- Transfer between programs within an agency
- Limited by MCA 17-7-139
- Significant transfers presented to the Legislative Finance Committee
- Reviewed by the Legislative Fiscal Division
- Transfers to another agency must maintain purpose of appropriation

Executive Not Allowed

- Transfers between agencies that do not maintain original purpose

1st Level Expenditure Account Modifications

Executive Allowed

- Transfer between types of expenditures
- Limited by MCA 17-7-138
- Significant transfers presented to the Legislative Finance Committee
- Reviewed by the Legislative Fiscal Division

Executive Not Allowed

- All allowed unless specific restriction disallows

Restriction Appropriation Modifications

Executive Allowed

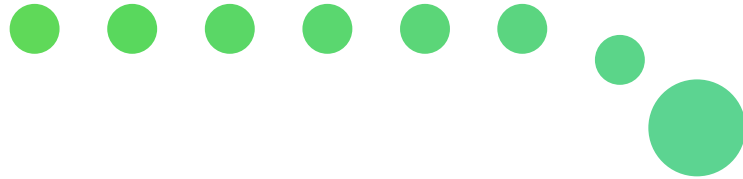
- Only modifications are included in the original appropriation restriction
- Could transfer to another agency if original restrictions remain

Executive Not Allowed

- All unless specifically granted

Appropriation Line Item Control Options

Condition for Use



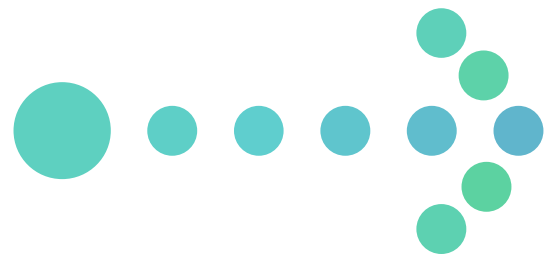
Restrict to Purpose



One Time

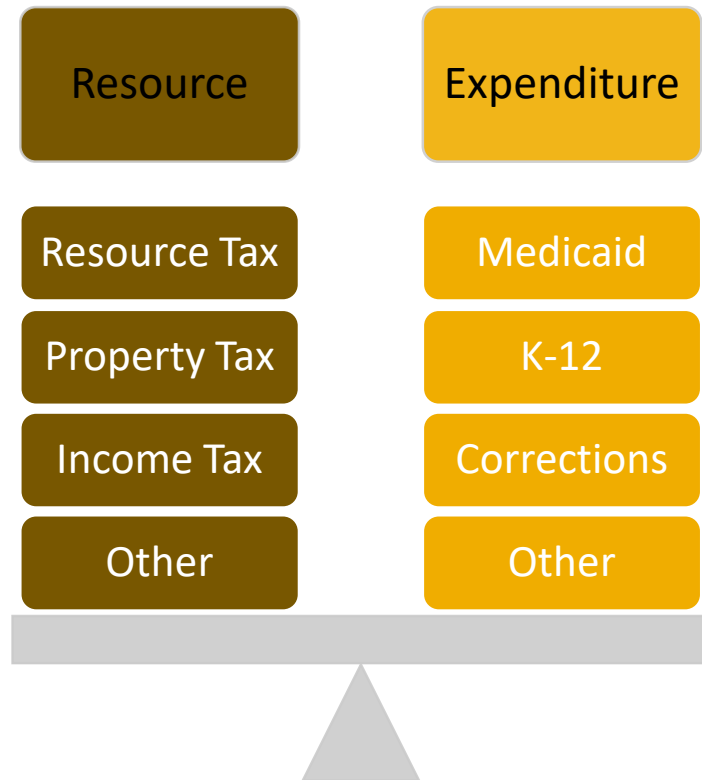


Biennial



Balancing the Budget

Governor's Budget will be Balanced

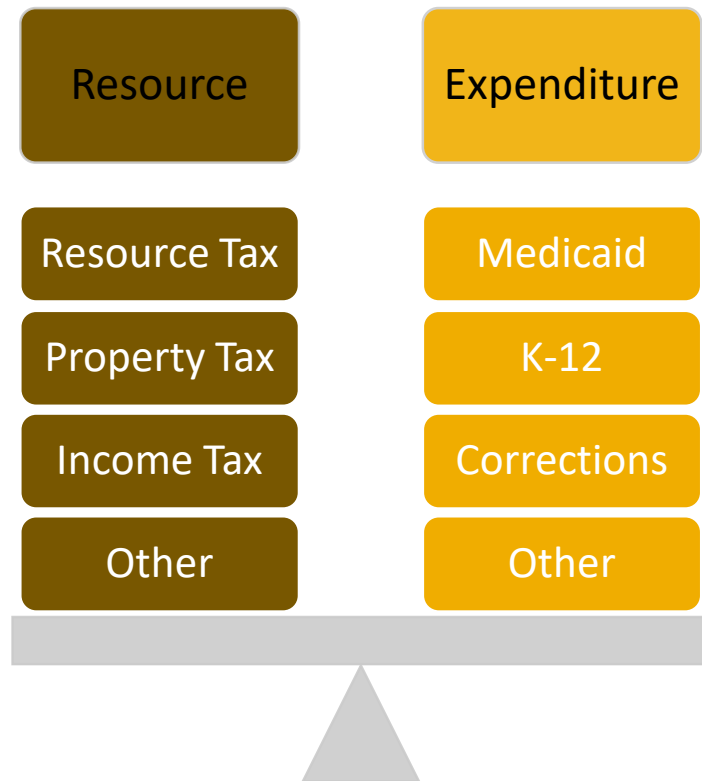


Legislative Budget must also be Balanced

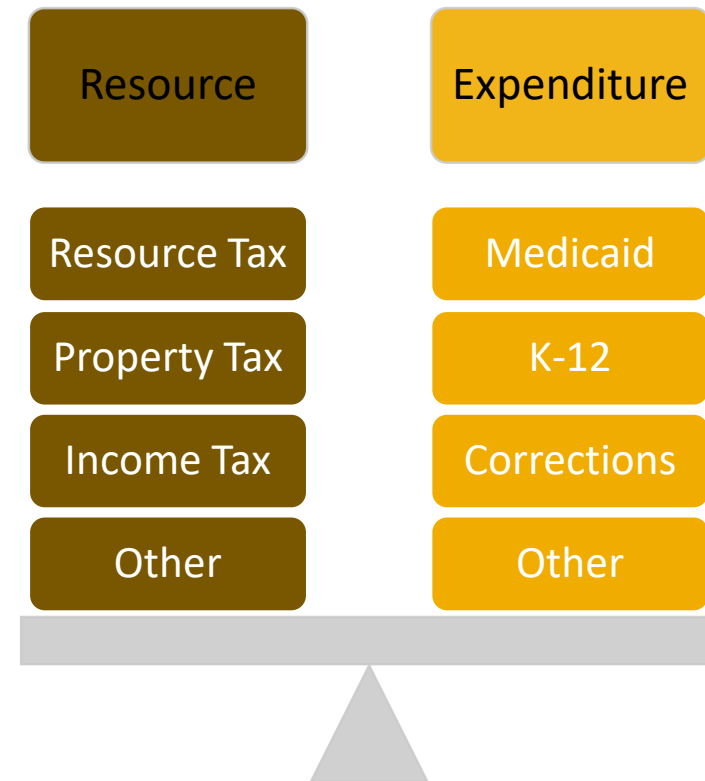
- In order to add expenditures, new resources must be found or new priorities set from the Governor's Budget
- This is a challenge

Balancing the General Fund Budget

Governor's Budget will be Balanced



Legislative Budget must be Balanced



Tools to Balance the Budget

