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

HAC  SFC
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

- **House Action:**
  - 45th day to the 67th day
  - Senate Finance and Claims

- **Senate:**
  - 67th day to the 80th day
  - Senate Floor debate

- **Final Action:**
  - After the 80th day
  - Governor’s Action
  - Final HB 2
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

A: General Government
- Governor’s Office
- Legislative Branch
- Dept. of Administration
- Dept. of Revenue
- Other

B: Health & Human Services
- Dept. of Health & Human Services
- Medicaid
- Children’s Health Insurance
- Child Protection Services
- Child Support

C: Natural Resources
- Fish, Wildlife & Parks
- Dept. of Natural Resources
- Dept. of Environmental Quality
- Dept. of Agriculture
- Other

D: Public Safety
- Dept. of Corrections
- Dept. of Justice
- Judicial Branch
- Office of Public Defender
- Other

E: Education
- K-12 and the Office of Public Instruction
- Higher Education
- Board of Public Education
- State Library
- Other

F: Long Range Planning
- Treasure State Endowment Program
- Other grant programs
- State Building program
- Local infrastructure
- Other
HB 2 Process: Subcommittees

Introduction: Governor’s HB 2

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

House Action: 45th day to the 67th day

House Floor debate

Senate Appropriations Committee

Section Subcommittees

Senate: 67th day to the 80th day

Senate Floor debate

Senate Finance and Claims

Conference Committee

Final Action: After the 80th day

Governor’s Action

Final HB 2
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
  o Line item appropriations
  o Restrict appropriations
Subcommittees look at HB 2 Funding

- Subcommittee members study funding and recommend appropriations accordingly

2021 Biennium Executive Budget by Funding Type

- General Fund, $4,300, 42%
- Federal Special Revenue, $4,401, 42%
- State Special Revenue, $1,618, 16%
- Proprietary, $26, 0%

Total Funds - HB 2 Only
Total = $10,344 Million
Tools for Subcommittees

- Profiles
- Budget Analysis
- Budgeting Rules
- Chair Instructions
- Companion Bills
- Schedules
- Staff Assistance
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

Program 1
- 5.0 FTE
- $2.0 million

Program 2:
- 4 FTE
- $1.0 million

Program 3
- 10 FTE
- $4.0 million
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
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

Subcommittee idea done by 40th day

LFD staff record and prepare recommendation to the chair

Bill Drafting

LSD legal staff prepare bills

Bill introduction by XX day

Subcommittee chair introduces bill

Bill follows process

After introduction, bill follows appropriation bill transmittal deadlines

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:
  o Explaining the process
  o Making changes as directed
  o Implementing recommendations by the subcommittees
  o Monitoring cumulative impacts of subcommittee recommendations
Staff Assistance: LFD staff here to help

Millions of details and calculations

Training, work session planning, motions

Decisions

Staff

Work together

Subcommittee
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

New Proposals

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

Present Law

Base Budget
(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.
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**

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**All Agency Budgets- HB 2**
General Fund $ Millions
HB 2
2019 Base Budget
How We Got There

Changes to
General Fund

All Changes to Agency Budgets
General Fund Only $ Millions

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"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;

c. inflationary or deflationary adjustments; and

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

- **FTE for the 2019 Biennium**
  - HB 2 FTE

- **Salaries as of July 2018 plus adjustments**
  - Current salary & exceptions
  - Other

- **Benefit rates anticipated for the 2021 Biennium**
  - Legislatively set rates e.g. health
  - Other rates e.g. UI or work comp

- **Executive Branch Decisions**
  - Vacancy savings rates
  - Other changes

- **Total Snapshot Costs**
Snapshot Components – Who Makes the Decisions

FTE for the 2019 Biennium
- HB 2 FTE

Salaries as of July 2018 plus adjustments
- Current salary
- Other

Benefit rates anticipated for the 2021 Biennium
- Legislatively set rates e.g. health benefits
- Other rates e.g. unemployment insurance or workers’ comp

Executive Branch Decisions
- Vacancy savings rates
- Other changes

Executive Decision

Legislative & Other Decision

Agency Decision

Legislative Decision

Total Snapshot Costs

Legislative Decision

Agency Decision

Legislative & Other Decision

Executive Decision

Total Snapshot Costs
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
• 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.

<table>
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<tr>
<th>Program</th>
<th>Formula Based</th>
<th>Management Decisions</th>
<th>Reinstatement of PS</th>
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Agency Example Personal Services Present Law Request by Program

DP 1 - FY 2020
#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
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

- FTE
- Vacant FTE
- OPER

[Bar chart showing FTE, Vacant FTE, and OPER with color-coded Personal Services and Operating categories.]
#4 Modifications to Personal Services Budgets
Slide 3 of Example

Modifications Using $1.2 Million in Budget Authority

- FTE FTE FTE FTE FTE FTE FTE FTE Vacant FTE Vacant OPER OPER OPER OPER (using vacancy savings) OPER (using vacancy savings)

- Personal Services
- Operating
#4 Modifications to Personal Services Budgets

Slide 4 of Example

Snapshot Fills Vacant FTE but Does Not Reduce Operating $1.4 Million
Changes to the Base Impact the Size of the SWPL DP 1 Request

Higher Base reduces size of SWPL request

Lower Base increases the size of the PL 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 \rightarrow 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.
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.
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

Section B - Health and Human Services
Section E - Education
Section C - Natural Resources and Transportation
Section D - Judicial Branch, Law Enforcement, and Justice
Section A - General Government
Subcommittees Make Recommendations By:

1. Adopting a general change package, without clear intent
2. Adopting a specific change package for a specific detail of the budget
3. Same as 2. except creating a line item appropriation for the item
4. Same as 3. except creating a restricted line item appropriation
1. No control, no documentation

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

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

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

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
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<th>Agency Program</th>
<th>1st Level Expenditure Account</th>
<th>Restriction</th>
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**HB 2 Appropriation**
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
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

- Resource
- Resource Tax
- Property Tax
- Income Tax
- Other

Expenditure
- Medicaid
- K-12
- Corrections
- Other

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
- Resource
  - Resource Tax
  - Property Tax
  - Income Tax
  - Other
- Expenditure
  - Medicaid
  - K-12
  - Corrections
  - Other

Legislative Budget must be Balanced
- Resource
  - Resource Tax
  - Property Tax
  - Income Tax
  - Other
- Expenditure
  - Medicaid
  - K-12
  - Corrections
  - Other
Tools to Balance the Budget

Analysis of Governor’s recommended budget

Agency & other input

Legislative Action

Revenue updates

Status Sheet