

HOUSE FINANCE COMMITTEE
February 10, 2016
1:32 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Les Gara
Representative Lynn Gattis
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

Representative Bryce Edgmon
Representative David Guttenberg

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Lacey Sanders, Fiscal Analyst, Legislative Finance Division; Pete Ecklund, Staff, Representative Mark Neuman; Representative Louise Stutes; Representative Liz Vasquez; Representative Wes Keller; Representative Cathy Tilton; Representative Dan Ortiz; Representative Gabrielle LeDoux; Representative Shelley Hughes.

SUMMARY

^OPERATING BUDGET AND SUBCOMMITTEE PROCESS 101 OVERVIEW

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Co-Chair Neuman discussed the meeting agenda. He explained that the meeting would focus on the basics of the operating

budget and subcommittee process. He explained that the goal was to help people better understand the budget process.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced the PowerPoint Presentation: "Budget 101 Training" dated February 10, 2016 (copy on file). He announced that the meeting would focus on basic budget information and was not a discussion of the fiscal situation. He addressed the goal of the presentation on slide 2:

Goal of This Presentation:

Provide legislators and staff with basic budget information. This is not a discussion of the fiscal situation. It is a discussion of the budget - actually only the appropriation side of the operating budget.

- Appropriation Structure - How the legislature can control spending through appropriation (or budget) structure
- Fund Groups - What they are & how they indicate the level of legislative discretion
- Understanding the Fiscal Summary
- Subcommittee Process
- Resources helpful in analyzing and preparing subcommittee budgets

Mr. Teal moved to slide 3: "Appropriation (Or Budget) Structure."

What is an appropriation?

- An appropriation is legislative authorization to spend funds. An appropriation has five requirements:
 1. Purpose
 2. Funding Source
 3. Amount
 4. Location
 5. Time Frame

What is appropriation (or budget) structure?

- When many people speak about appropriations, they are referring to the appropriation structure in the numbers section of an appropriations bill.
 - Appropriations appear in bold
 - Allocations are indented and appear in non-bold type

- Why is budget structure important?
 - The legislature controls where funding can be spent through the budget structure.
 - Funding cannot be transferred between the various allocations within an appropriation.

[The slide contained a sample page from a numbers section of an operating budget bill.]

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LACEY SANDERS, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, continued to address slide 3. She pointed to the right hand portion of the slide that provided an example from a page of the appropriation bill. She exemplified a Department of Education and Early Development (DEED) appropriation to illustrate the point that money cannot be transferred between the various allocations within an appropriation, which provided the legislature control over where the funding was spent.

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, continued to address slide 3. He emphasized that money could be moved between allocations, but not across appropriations.

Mr. Teal elaborated that the legislature could cut a program or specific expenditure within an allocation and discovered that the agency was still offering the program or "doing what the legislature thought it had cut." Agencies could simply move funding within an allocation. The only way for the legislature to control expenditures was to develop a separate appropriation for an item it wanted to cut. The legislature could not make an agency spend money with an appropriation, but could halt specific spending using the correct appropriation structure.

Mr. Ecklund detailed that in most agencies many appropriations and many allocations were contained within its budget. The exception was the University of Alaska

structure that contained one appropriation and many allocations.

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Ms. Sanders moved to slide 4:

Fund Groups & Legislative Discretion:

The following four fund groups indicate the level of legislative discretion over the use of the funding:

1. Unrestricted General Funds (UGF) – No statutory designations or restrictions on these funds. Deficits refer only to UGF. Deficits cannot occur in other fund groups.
2. Designated General Funds (DGF) – Although the Constitution prohibits the dedication of funds (with a few exceptions); the legislature has statutorily designated funds in this group for a specific purpose.
3. Other Funds – The legislature has limited discretion (includes dedicated and duplicated funding).
4. Federal Funds – Funding received from the federal government. The legislature has limited discretion over the use of this funding.

Co-Chair Neuman asked Ms. Sanders to provide examples for each fund group.

Ms. Sanders delineated that the most common UGF Fund Code was 1004 and another category of UGF was "general fund match." She noted that the Power Cost Equalization Endowment Fund (PCE) was an example of designated general funds. Other designated codes were for receipts that were collected such as for motor vehicles. The third category was other funds and very few existed. She exemplified the Fish and Game fund that was constitutionally dedicated and carried federal restrictions and requirements and statutory designated program receipts that were exclusively used for a specific purpose.

Representative Wilson asked about the Higher Education Fund and noted that the funds were being utilized for different purposes other than performance scholarships. Ms. Sanders answered that while statutory guidelines were in effect for a designated fund the legislature had the "discretion" to reject the stated purpose and reappropriate the funds. She expounded that the Higher Education Fund was a designated fund and last year the legislature reappropriated the excess for other educational purposes.

Mr. Ecklund remarked that the legislature chose to use the higher education money for other elements in K-12 education, but it could have been used for any other purpose.

Representative Wilson asked whether the PCE funding could be used for any Alaska Energy Authority (AEA) projects. Ms. Sanders answered in the affirmative.

Mr. Ecklund specified that the funds were dedicated and not designated.

Mr. Teal clarified that both PCE and Higher Education Fund monies could be utilized to operate the Alaska Marine Highway System (AMHS). The legislature had the authority over all designated funds.

Representative Gattis requested more information about the funds and identify "each pot of money" and how it could be spent.

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Ms. Sanders addressed the fourth category on slide 4 "Federal Funds". Is there a cut and paste? Or more info?

Mr. Ecklund emphasized that the reason the budget process focused on UGF was that the difference between annual UGF revenue and annual UGF expenditure made up the fiscal gap.

Ms. Sanders addressed slide 5 titled "Fiscal Summary." The slide included a fiscal summary document that contained the four fund categories. She noted that the summary contained the four fund groups for FY 16 and compared it to the FY 17 governor's proposal. She noted the far right column depicted the changes in UGF between fiscal years. She elaborated that reading down the page it was divided into

four categories. The top was "revenue" and the next was "appropriations" that was broken down into "operating appropriation" which was divided into "agency operations" and "statewide items" and the third category was "capital appropriations."

Mr. Ecklund summarized that the fiscal summary was an income and expenses statement and a deficit and surplus statement with details in between.

Ms. Sanders relayed that the Legislative Finance Division (LFD) published a fiscal summary twice a year. She briefly highlighted slide 6: "Fiscal Summary (Continued)" that contained fund transfers, Permanent Fund information, and totals. She addressed slide 7:

Short Fiscal Summary

- Focus is on UGF Only
- Status Quo Removes the Governor's Proposed Legislation
 - New Revenue Sources
 - Pension Obligation Bonds
 - Oil Tax Credits
- Status Quo Dividends are not UGF

[The slide contained an example of a short fiscal summary document on the right side of the slide]

Ms. Sanders explained that short fiscal summary contained the same information as the fiscal summary but narrowed the focus to UGF.

Mr. Ecklund elaborated on the importance of understanding the short fiscal summary. There were items in the language section of the governor's proposed operating budget that required enabling legislation. Sometimes the House Finance Committee drafted a status quo operating budget committee substitute (CS) and made adjustments accordingly.

Ms. Sanders turned to slide 8: "Fiscal Summary: FY 17 Governor's Request: Agency Operating Budgets, Statewide Items and Capital Budget (Formula and Non-Formula) (UGF Only)." She detailed that the graph represented the capital and operating expenditures in the fiscal summary. The colored bars reflected the categories of capital and operating expenditures. The light blue bars represented

non-formula totals, the red bar depicted debt service, the yellow bar portrayed capital expenditures, the green bars referenced statewide assistance retirement formula, and the dark blue bars represented formula spending.

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Mr. Ecklund pointed out that the subcommittees looked at the non-formula budget and in most instances the formula expenditures required statutory change. Subcommittees were not authorized to change statute, therefore only focused on non-formula items.

Co-Chair Neuman interjected that last fiscal year the budget totaled \$5.2 billion. He delineated that \$1.2 billion was spent on statewide services that included \$500 million in oil and gas tax credits, \$268 million in retirement, and \$228 million in debt service. The other \$4 billion was split roughly into \$2 billion each for formula items: education and Medicaid and the remainder were spent on non-formula items which he referred to as "day to day government" spending.

Ms. Sanders addressed slide 9 titled "Agency Operations." The chart depicted agency operations expenditures of UGF only, adjusted for inflation over the last twelve years. She noted that most departments reverted to 2006 and 2007 levels with few, but understandable exceptions. She pointed out that the Department of Corrections (DOC) was at a 2011 level due to prison population and costs rising over time. The Department of Military and Veterans Affairs (DMVA) experienced a technical change. She explained that funds for the Military Youth Academy had previously been funded through DEED, but was now funded through DMVA, which was a significant change for the department. The Department of Public Safety's (DPS) and the Department of Revenue (DOR) budgets were higher than 2007 levels. She summarized that the chart was a comparison to the FY 2017 governor's budget.

Co-Chair Neuman asked for an explanation of department expenditures. He referred to the total figures as "snapshots in time." He noted the difficulty in evaluating agency growth due to funding moving between departments and differing management.

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Ms. Sanders answered that when a change was made to a categorized fund, for instance "other funds" changed to DGF, the LFD system had the ability to go back in time and applied the change historically to all years. She provided the example of the Alaska Aerospace Corporation that was located in the Department of Commerce, Community and Economic Development (DCCED) budget but had been moved to the DMVA budget. When the Alaska Aerospace Corporation was moved the historical budget information moved to DMVA with it.

Mr. Ecklund clarified that the LFD system included look back graphs that provided an "apples to apples comparison."

Ms. Sanders moved to slide 10: "Agency Look-Back Graphs." The graphs provided a further "drill down" of detailed budget information.

Mr. Ecklund noted that LFD began developing the graphs with the co-chairs approximately 6 years earlier. He explained that the intent was to provide a "tool used by the department" to communicate to the legislature the reason for any growth that occurred and the budget history of the department. His intention was to have agency staff provide a historical narrative along with the graphed data.

Mr. Ecklund addressed slide 11:

Subcommittee Process:

- Mission/Core Services/Results
- 10 year Look-Back
- 10-Year Plan Look-Forward
- Audit Check
- Status of current year Changes
- Evaluate Increments/Decrements

Mr. Ecklund explained that roughly 5 or 6 years earlier there had been complaints that members were not provided enough information for the subcommittee process. As a result, some veteran budget staffers and LFD devised a way to provide better information and standardize the process. Abundant information was available but the need was to present it in a concise "more user friendly" manner. The goal was to provide the most useful relevant information that could be understood in a timely manner. He noted that

the focus of the information was the mission of the departments, which included core services, results based budgeting, and results based accountability. The information allowed evaluation of every program, function and, service of government. The Co-Chair instructed members and staff to make all of the items deemed necessary as efficient as possible. He restated that the agencies' administrative services director, commissioner, or division director should know the budget history of the agency and explain the data provided on the 10-year look back graphs. In addition to the 10-year look back graphs, LFD provided additional data and highlights of significant budget changes over the years for each department on their website. He addressed the statutorily mandated executive branch's 10-year Plan for each department that provided a look forward for 10 years. FY 17 was the first year the plans were provided.

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Mr. Ecklund referred to the audit check that the subcommittees were requested to carry out. The subcommittees held hearings on any audits that reported problems or suggested corrective action and directed a plan of action. He continued that by the time the subcommittee reviewed the steps in the subcommittee process the members possessed enough information to adequately evaluate the budget increments and decrements. He concluded that the standardized subcommittee process alerted the executive branch as well as the committee members "what to expect."

Co-Chair Neuman interjected that the effort was not only for the members but also for the staff. The process enabled the staff to be well informed and answer the public's questions. The goal was to provide accurate information. His staff was meeting with other member's staff to ensure the process and information was understood.

Mr. Ecklund noted that the subcommittee binder information list had been included in the meeting packet titled "Subcommittee Binders - Minimum information to be included" (copy on file). The Co-Chairs office provided subcommittee binders for members and staff. He emphasized that the purpose of disseminating budget information was to assist members in making "informed" budgetary decisions. Representative Wilson asked whether after programmatic decisions were made members should look into the detail

budget books for specifies regarding employee data and determine whether two or three deputy commissioners or 10 economists were necessary in the Department of Labor and Workforce Development or employees in other departments. She also mentioned evaluating federal matching funds versus general funds for programs and employee salaries. Mr. Ecklund answered that it was up to the subcommittee chairs to explore any other areas or delve deeper into budgetary areas with additional information. The subcommittees were provided with basic and necessary information.

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Ms. Sanders moved to slide 12:

Budget Resources:

The following slides provide information on:

- Budget resources available to legislators and the public
- The types of information you can extract from these resources

Ms. Sanders turned to slide 13:

Alaska Legislative Budget Handbook - The Swiss Army Knife (SAK):

This publication is designed to be a step-by-step guide to assist new legislators and staff in developing agencies' budgets. Some of the information included in the SAK is:

- LFD analyst contact information
- Tips for running effective subcommittee meetings
- Budget analysis questions
- Budget closeout procedures
- Conference Committee process
- Fund code and fund group information
- Appropriation law
- Glossary of budget terms
- Other Budget resources

Co-Chair Neuman asked whether the SAKs were available at the LIOs (Legislative Information Offices) throughout the state. Mr. Ecklund replied that the booklets were available on the LFD website but probably not available at LIOs. Co-Chair Neuman noted that individuals could contact their legislators for a paper copy.

Mr. Ecklund encouraged legislators to refer to the publication. He considered it the best resource for providing a basic understanding of the budget process.

Ms. Sanders turned to slide 14:

Legislative Fiscal Analyst's Overview of the Governor's Request (or the Overview):

This is typically Legislative Finance's 1st publication in the budget process. It includes:

- A Fiscal Summary
- A summary analysis of the Governor's December 15th operating and capital budget requests, including revenue measures and bills like the Permanent Fund Protection Act
- Discussion of each agency's top issues as identified by Legislative Finance analysts
- Analysis of the language sections in each appropriation bill

This publication is typically available on the first day of session.

Ms. Sanders spoke to on slide 14 and reported that the summary was also available on the LFD website.

Co-Chair Neuman asked about the division's process when determining what specific or significant issues were highlighted in the overview.

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Mr. Teal replied that significant issues were often identified because of costs. For instance, if a department was requesting an item with a high expenditure for that particular agency it indicated a policy change and LFD would highlight the issue. He added that issues like pension obligation bonds or anything that was a potential

policy change was examined via the overview. He reminded the committee that the document was an overview of the governor's proposed budget and any analysis provided by LFD was not an endorsement. He described the document as a "broad overview." He noted that the policy changes were highlighted in the language section, which typically comprised one quarter of the overview and were not topics covered in subcommittee.

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Co-Chair Neuman stated that the book helped members understand the budgets of the subcommittees that members were not participating in.

Ms. Sanders moved to slide 15:

Subcommittee Books:

How to read a Subcommittee Book

- Column Definitions
- Blue pages contain Legislative Fiscal Analyst's Overview of the Agency's budget request
- Goldenrod reports (contain summary reports)
 - Agency Summary
 - Agency Summary (General Funds & UGF Only)
 - Agency Totals
- White pages (contain detail reports by allocation)
 - Allocation Totals
 - Transaction Change Detail
- Wordage Report
- Transaction Type Definitions

Ms. Sanders indicated that LFD compiled a subcommittee book for each department that consolidated the budget information in the governor's request. She turned to Slide 16: "Subcommittee Books (Continued)." She delineated that the slide included two sample pages from a subcommittee book. The chart on the page titled "Multi Year Allocation Summary - Operating Budget - FY 2017 Governor Structure" contained figures under columns. The first column outlined the most recently closed fiscal year actual, which was FY 15 and reported what was actually spent. The next column

was the "FY 16 conference committee" (CC) and listed the budgets as approved by the conference committee. She elaborated that the next column was FY 16 authorized and reported the CC budget adjusted for vetoes, and included appropriated fiscal notes and unallocated reductions. She turned to the next two columns titled "Management Plans" that contained authorized levels of expenditures beginning in FY 15 and FY 16 including position adjustments and departmental transfers within appropriations. She qualified that due to the significant reductions over the previous two years both fiscal years were included. She moved to the next column titled "FY 17 Adjusted Base" that reflected the "starting point" for the fiscal year. Adjustments included one-time items, contractual salary adjustments, and temporary increments (INCT) such as a short-term project. The following column was the FY 17 Governor Request that included the adjusted base plus the Governor's requests for changes in programs or fund sources.

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Mr. Ecklund interjected that the subcommittee process started with the FY 17 adjusted base figures. He noted that comparisons often refer back to the Management Plan.

Representative Gara asked about comparing the budgets. He clarified that the budget was built from the adjusted base and management plan figures were used as a comparison. The adjusted base numbers did not include any one-time items. He asked for concurrence. Mr. Ecklund agreed with his statements.

Mr. Teal added that LFD was often asked what information was a "better comparison" and he asserted that a correct answer was not possible. However, using the adjusted base facilitated a consistent start for the subcommittee process.

Representative Gara referred to salary contracts. He asked which column included salary contract information. Mr. Teal answered that the salary adjustments were included in the adjusted base column so that they do not appear as governors increments and were already included in the budget.

Ms. Sanders spoke to the transaction-type definitions included in the back of the subcommittee books. She

furthered that the front of the book contained the agency overview section on blue pages. In addition, agency summaries were included on goldenrod pages that included reports such as UGF only data. The white pages included the columns she spoke to.

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Mr. Teal added that the reports included were standardized. He offered that members should all feel free to request any type of customized report. The transactions typically contained notes and could be made available by request. He stated that if anyone desired a deeper understanding of a particular request the notes could be provided with the transactions.

Mr. Ecklund mentioned that each subcommittee maintained a link to the different presentations and documents that were presented during subcommittee meetings on the BASIS website.

Ms. Sanders turned to slide 17: "Guide to OMB Budget Reports" that depicted the one page summary prepared by the Office of Management and Budget (OMB) and was a guide of how the budget process flows, that included terminology, and the items contained in the budget. She noted that there was a terminology difference between LFD and OMB. She explained that LFD referred to the budget in terms of the department, appropriation, and allocation and OMB used department, results delivery unit, and component correspondingly.

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Ms. Sanders advanced to slide 18:

Legislative Finance Division's Website
(<http://www.legfin.akleg.gov/>)"

In addition to the standard operating, capital, and supplemental reports, the following information can be found on the LFD website:

- LFD analyst contact information
 - Operating Budget Reports
 - Current reports

- Appropriation bills that are still in Committees (that haven't yet been posted on BASIS)
- Historical Reports
- Budget Amendment Forms
- Capital Budget Reports
 - Current Reports
 - "Custom" historical capital budget reports:
 - Summary reports (by HD, Agency, or Statewide)
 - Project detail reports by House District or Agency
 - Export to Excel of all projects
 - Project Search
 - Appropriation bills that are still in Committees (that haven't yet been posted on BASIS)
 - Budget Amendment Forms
 - CAPSIS
- Supplemental Budget Reports
- Fiscal Note System
- LB&A's RPLs (Revised Program-Legislative)
- LFD Publications - Fiscal Summaries, Yearly Publications, Informational Papers & Other
- Analysis Tools - Look-back Graphs, Highlights, Transaction Detail, Increment Status
- Links - To other websites such as Office of Management & Budget (OMB)

Representative Gara assumed that adjusted base included salary adjustments. He wondered about the usefulness of the adjusted base data when only some of the contracts were negotiated and some were still under discussions. Mr. Teal replied that the information was "consistent." He explained that all of the ratified salary adjustments were already included in the budget. Some of the bargaining agreements were not yet negotiated and subsequent to negotiation were provided to the legislature. The legislature then provided the contract numbers for the budget which were plugged in by LFD. Language existed in the budget bill that referred to all of the contracts whether all were ratified or not that stated if the contract was not ratified the money would be removed from the budget. The funding was not a

subcommittee topic and was included in the budget when ratified. He characterized it as a "statewide' decisions.

Mr. Ecklund remarked that the legislature made the decision whether to fund a ratified contract called "Monetary Terms," and noted that the process was not an automatic. He alerted the committee that 86 percent of the state's workforce had contracts currently in negotiations.

Co-Chair Neuman asked whether the legislature had any authority in negotiating the contracts. Mr. Ecklund answered in the negative.

Mr. Teal expounded that the monetary terms of a contract were a statewide decision that was made by the legislature. He clarified that if the legislature included the funding in the budget, the action represented approval and if the monetary terms were not included the action was viewed as disapproval and the contracts were sent back to the unions for further negotiation.

Vice-Chair Saddler asked whether contracts could be partially funded. Mr. Ecklund responded in the negative and emphasized that the entire contract was approved or not.

Representative Gattis asked how step increases fit in with contract negotiations and how the increases were accounted for in the budget. Mr. Ecklund answered that the steps were bargained for with covered employees and were absorbed.

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Mr. Teal expounded that step increases were not funded for executive branch agencies. Theoretically, agencies absorbed the increases. He provided the example that when one person resigned it was possible to save 10 steps when a brand new staffer was hired. He remarked that some agencies would say that it worked for big departments, but not for small ones especially where employee retention was high. He added that all agencies absorbed step increases except the University. The University step increases were a contractual obligation and typically requested a budget increment.

Ms. Sanders continued to address slide 18. The screen showed an image of the LFD website [not included in the presentation]. She pointed to a matrix of reports on the

website [this was not in the presentation]. She described the types of reports available on the website.

Mr. Teal emphasized that the reports were constantly updated on the website. Every step of the budget process gave a new batch of reports.

Ms. Sanders relayed that LFD provided comparisons that included reports showing exactly what was accepted or denied. The division reviewed all of the Revised Program-Legislative (RPLs). She explained that RPLs were approved by the Legislative Budget and Audit Committee (LBA) when for example; an agency received additional federal grant money but lacked the authorization to accept them. She noted that LBA could not increase general funds. She pointed to budget history graphs available on the website and to the fiscal note system. She continued that along the top of the main page drop down menus provided links to the available information. She described the different analysis tools listed on the slide. She concluded that a vast amount of budget information was available on the LFD website.

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Ms. Sanders continued to highlight the LFD website. She turned to slide 19:

Office of Management & Budget's Website
(<http://omb.alaska.gov/>):

In addition to standard budget reports, other information on OMB's website includes:

- Personal Services Reports
- Performance Measures
- 10 Year Plans
- Comprehensive Annual Financial Reports (CAFR)
- Budget Terminology
- Capital Appropriation Status Reports
- Fee Reports
- Personal Services Transfer Reports
- Revenue Forecast
- Guide to OMB Budget Reports

Ms. Sanders moved to slide 20:

Governor's Detail Budget Books

These books are published by each agency and include detailed information on agencies' budgets.

- Performance Measures
- Organization Charts
- Personal Services Detail (pcns, location, cost of salary & benefits, vacancy factors, and the amount of UGF budgeted for each position)
- Line Item Detail
- Revenue Detail
- Interagency Services

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Ms. Sanders indicated that the governor's Detail Budget Books were referred to as "Black Books." She addressed slide 21: "Personal Services Expenditure Detail: Department of Commerce, Community and Economic Development." The slide contained the sample of a Personal Services Expenditure Detail page. She explained that the department included the information for each position including the total salary and every single position for an entire year. The total cost for the year before applying any vacancy factor was \$6.8 million. She referred to a white paper titled "Positions, Vacancy, And Legislative Control" included in the packets (copy on file). She related that included in the legislature's appropriation authority it had the power to fund at whatever level desired. The executive branch had the authority over positions. The governor's office ultimately established positions. Each agency was assigned a vacancy factor through OMB. She exemplified that on the sample page for DCCED the vacancy factor was 8.45 percent or \$572 thousand. The department was underfunded and had to either keep positions vacant or meet the unfunded amount through attrition and turnover.

Ms. Sanders stated that departments had to maintain the vacancies throughout the year or leave positions vacant for a long period of time to meet the short funding.

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Representative Wilson wondered why the vacancy factor method was used versus just including a blanket

appropriation for personnel costs. Ms. Sanders answered that in a small agency personnel costs were more stable and known and the vacancy factor was low or zero. However, in a large agency, a reasonable vacancy rate needed to be determined.

Ms. Sanders clarified that the zeros shown on slide 21 actually denoted deleted positions.

Representative Wilson asked how a legislator could determine whether a position was vacant. Mr. Teal replied that the slide did not show what position was vacant and what was filled. The detail page reported the costs if every position was filled. The figure of \$6.7 million (total pre-vacancy number on the slide) was the total of all positions. The department received \$6.2 million and had to hold roughly 6 positions open all of the time. He restated Representative Wilson's question that asked why the positions were simply not deleted. He detailed that over the years the legislature demonstrated much interest in position counts but had no control over the positions. Therefore, OMB became highly sensitive to the number of positions departments maintained and made it difficult to create new positions. The agencies responded by attempting to hold on to the positions because it was easier to use a vacant PCN (position control number) than it was to establish a new one. He emphasized that the legislature did not control the number of positions agencies maintained; it only controlled the funding.

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Representative Gattis asked whether there was a way to freeze step increases. Mr. Teal believed steps were bargained. He observed that if a step wasn't approved an employee could dispute it. He recounted that the legislature was not funding the steps. An agency could report a position at a K step but the job could be vacant or may be hired as an A step. It was hard to say what an agency would present to the legislature - they all did it differently. The vacancy factor was "backed into" and "fairly meaningless."

Co-Chair Thompson believed it was the legislature's responsibility to question a vacancy that was held open for two to three years.

Mr. Teal agreed. However, on the other hand, if one of the vacant positions was eliminated it would reduce the number of positions and the vacancy factor and leave the appropriated amount "exactly where it was." He stated that the action would be "chasing smoke." The position was not filled; the money was not being spent, because the money was not being paid.

Mr. Ecklund added that vacancy was an important thing to look at because departments used the funding for other things. He reiterated that "at a high level the legislature did not control PCNs and they were a creature of the executive branch." The legislature had tried to eliminate a PCN in the past and it did not happen.

Mr. Teal emphasized that the scrutiny the legislature gave to positions helped everyone stay honest. He discussed an available report of actuals that revealed actual personal services money. He voiced that "theoretically," the legislature wanted the agency to turn in a budget request showing exactly where it would spend its money. He declared that the situation made it difficult to determine whether a budget request was real.

Ms. Sanders offered slide 22:

Personal Services:

Informational Paper 16-3 Positions, Vacancy Factors and Legislative Control - includes information regarding:

- Governor's authority to create and appoint positions within the Executive Branch
- Legislative control over positions
- Funding positions authorized by the legislature
- Transfers to and from the Personal Services line
- Vacancy factor

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Mr. Ecklund noted that the informational paper listed on slide 22 provided much more information.

Co-Chair Thompson urged subcommittee members to ask agencies for truthful reporting.

Mr. Ecklund read from a note that the legislature never fully funded position costs and that vacancy factors were always used.

Representative Gara indicated that initially he had a difficult time grasping the concept of vacancy factors. He offered that departments justify the vacancy factor under the premise that it allowed the agency to operate optimally without costing the state extra money and provided flexibility in hiring. He asked whether his statement was correct.

Mr. Teal answered that he was partially correct. He clarified that the PCN what was important. He explained that PCNs could be reclassified from one position to another.

Mr. Ecklund interjected that the situation was complicated situation. He stated that the issue was cloudier than it was clear. He relayed that Pat Pitney, Director, Office of Management and Budget, Office of the Governor had testified that between December 2014 and December 2015 the state had 600 fewer employees not including the university. He thought that the correct figures were difficult to determine.

Co-Chair Neuman added that the subcommittees needed to focus on the issue.

Representative Munoz returned to an earlier question about step increases. She asked whether the increases were renegotiated with each contract. Ms. Sanders answered that step or merit increases were generally granted every one or two years; the increases were not renegotiated. She explained that the unions negotiated base salary and were not scrutinizing the step increases. The increases were part of the bargaining contract, but the negotiation focused on the base increase. Representative Munoz understood, but she referred to a comment made by Mr. Teal that step increases were subject to the contract. Ms. Sanders restated that the increases were part of the contract.

Mr. Ecklund added that the contracts would be collectively bargained with the units through the Department of Administration (DOA). The department outlined or "put on the table" the items up for negotiation. He reminded the

committee that the legislature only had an up or down vote on the end product.

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Co-Chair Neuman relayed that he would invite DOA to the committee to discuss how it negotiated contracts.

Co-Chair Thompson shared that the lower range employees at range 5 to range 11 were dependent on step increase for living expenses. He suggested that the higher range employees were not as dependent on step increases but cautioned that the very low range state employees did not earn much.

Mr. Ecklund recounted that the step increases were not specifically funded as an increment in the budget and were expected to be absorbed by the agency through attrition or turnover.

Representative Munoz asked whether exempt employees were eligible for step increases. Mr. Teal replied in the affirmative. He noted the one exception of commissioners who were hired at an "E" step and did not receive step increases. He added that all other employees from a deputy commissioner on were eligible.

Mr. Ecklund related that a "fire hose" of budget information was available. He attempted to provide the information in a more "user friendly" manner. He offered to answer future questions along with LFD.

Co-Chair Neuman noted that each of the subcommittees had a LFD analyst assigned to assist them. He recommended reviewing the presentation with the analyst.

Co-Chair Thompson reviewed the schedule for the following day.

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ADJOURNMENT

[3:19:57 PM](#)

The meeting was adjourned at 3:19 p.m.