

## BASE BUDGET AMOUNTS FOR DEVELOPING THE 2017-19 BIENNIUM BUDGET

### OVERVIEW

The Legislative Assembly identifies a base budget amount for each agency when developing the state's biennial budget. Based on Budget Section action, the base budget amount is calculated by subtracting one-time funding items from an agency's prior biennium total appropriation amount. The Office of Management and Budget has reported that it will use this method of calculating base budget levels when preparing executive budget bills for introduction to the 2017 Legislative Assembly. The Legislative Council also plans to use this method for Budget Status reporting purposes during the 2017 session. Under current practice, allotments do not affect an agency's base budget amounts because original legislative appropriations are used to calculate the base level.

### EFFECT OF BUDGET ALLOTMENTS ON BASE BUDGET LEVELS

In February 2016 the Governor, under North Dakota Century Code Section 54-44.1-12, ordered an allotment to reduce general fund appropriations by 4.05 percent for each executive branch agency. Unless otherwise directed by the Budget Section, the Legislative Council will calculate base level appropriations for the 2017-19 biennium using the 2015-17 biennium original general fund appropriations. A suggestion has been made that 2017-19 biennium base level amounts be calculated using 2015-17 biennium general fund appropriations amounts adjusted for budget allotments (post-budget allotment amounts). From the perspective of the Legislative Assembly, the schedule below identifies potential positive and negative effects of using post-budget allotment amounts as the base level when developing the 2017-19 biennium budget:

| Positive Effects of Using Post-Allotment Amounts   | Negative Effects of Using Post-Allotment Amounts   |
|--|--|
| <ol style="list-style-type: none"> <li>1. Amounts more accurately reflect actual agency appropriation authority for the 2015-17 biennium.</li> <li>2. It would not appear that the Legislative Assembly is reducing these amounts again if it chooses to continue the reductions in the 2017-19 biennium.</li> </ol> | <ol style="list-style-type: none"> <li>1. Adjusted amounts would reflect agency priorities, not legislative priorities.</li> <li>2. Base level amounts do not include one-time items; however, agencies may choose to allot ongoing or one-time funding, or a combination of both, which will result in inconsistencies. One agency may allot a majority of ongoing funding while another may allot a majority of one-time funding.</li> <li>3. The Office of Management and Budget required agencies to allot by line item; however, within each line item, agencies have flexibility to adjust areas of reductions throughout the biennium. An agency will make its initial reductions by program, but may later adjust the reductions based on actual expenditures.</li> <li>4. If another allotment is ordered by the Governor prior to the legislative session, the amounts may change again.</li> <li>5. Sufficient detail may not be available to verify specific program amounts that comprise an agency's revised base budget. Information presented to the Legislative Assembly regarding reductions made in allotments will be based only on what an agency reports, not what the Legislative Assembly may have approved during the 2015 session.</li> <li>6. Agencies could not make reductions to items that were spent at the beginning of a biennium. An agency may have allotted different items if the reductions would have been made at the beginning of the biennium.</li> </ol> |

### EXAMPLES

The Office of Management and Budget allowed each agency to determine which items to allot, including whether to allot ongoing or one-time funding. As a result, some agencies allotted mostly one-time items while other agencies allotted mostly ongoing funding. When calculating an agency's base budget level, one-time funding items are automatically removed. Therefore, if post-allotment amounts are used for base budget calculations, only ongoing funding allotments are removed from an agency's original base budget.

Attached as an [appendix](#) are the following examples of agency base budget calculations after allotments:

- Department of Corrections and Rehabilitation - The department was required to allot \$8,504,067 of general fund appropriations. Of the total allotment, the department allotted \$7,333,923 of ongoing funding and \$1,170,144 of one-time funding items. As a result, using a post-allotment amount for base budgeting purposes would result in a base budget reduction of \$7,333,923, or 3.45 percent of the department's original base budget.
- Parks and Recreation Department - The department was required to allot \$1,348,416 of general fund appropriations. Of the total allotment, the department allotted \$90,416 of ongoing funding and \$1,258,000 of one-time funding items. As a result, using a post-allotment amount for base budgeting purposes would result in a base budget reduction of \$90,416, or 0.27 percent of the department's original base budget.

### OPTIONS/ACTION REQUIRED

The following are potential alternatives for calculating the 2017-19 biennium base budget:

| Option   | Description  | Action Required                           |
|--|--|---|
| 1. Use current practice of calculating base levels   | Base budget amounts for the 2017-19 biennium would be calculated using 2015-17 biennium original general fund appropriations less one-time items.  | No action required.                       |
| 2. Use post-allotment amounts  | Base budget amounts for the 2017-19 biennium would be calculated using 2015-17 biennium post-allotment amounts. (See concerns noted above.)  | Budget Section action would be necessary. |
| 3. Use ongoing appropriations reduced by 4.05 percent  | The base budget amounts for each agency would be calculated using 2015-17 biennium <u>ongoing</u> general fund appropriations less 4.05 percent. Agencies would need to reduce their <u>ongoing</u> appropriations by 4.05 percent which would provide consistency among agencies. Agencies would need to identify line items and programs to be reduced. However, this would still not address the issue of agencies choosing budget priorities rather than the Legislative Assembly. | Budget Section action would be necessary. |
| 4. Use current practice of calculating base levels and include a post-allotment comparison in appropriation bills    | Base budget amounts would be determined using the current method, but a section would be added in each agency appropriation bill providing a comparison to the post-allotment amount in total for each agency for information purposes only.   | Budget Section action would be necessary. |
| 5. Use current practice of calculating base levels and provide for additional reporting comparisons in Budget Status | Base budget amounts for each agency would be determined using the current method, but an additional report would be created in Budget Status to compare 2017-19 biennium appropriation amounts to 2015-17 biennium appropriations amounts reduced for allotments.  | No action required.                       |

ATTACH:1