

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - 1st SPECIAL SESSION**

JOINT COMMITTEES - APPROPRIATIONS-FINANCE & CLAIMS

Call to Order: By Senator Jergeson, Chairman, on January 2,
1992, at 9 a.m.

ROLL CALL

Members Present:

Francis Bardanouve, Chairman (D)
Ray Peck, Vice-Chairman (D)
Dorothy Bradley (D)
John Cobb (R)
Dorothy Cody (D)
Mary Ellen Connelly (D)
Ed Grady (R)
Larry Grinde (R)
John Johnson (D)
Mike Kadas (D)
Berv Kimberley (D)
Wm. "Red" Menahan (D)
Jerry Nisbet (D)
Mary Lou Peterson (R)
Joe Quilici (D)
Chuck Swysgood (R)
Bob Thoft (R)
Tom Zook (R)

Senators:

Greg Jergeson (D)
Tom Beck (R)
Esther Bengtson (D)
Don Bianchi (D)
Gerry Devlin (R)
Harry Fritz (D)
Swede Hammond (R)
Ethel Harding (R)
Bob Hockett (D)
Tom Keating (R)
Dennis Nathe (R)
Lawrence Stimatz (D)
Larry Tveit (R)
Eleanor Vaughn (D)
Bill Yellowtail (D)
Eve Franklin (D)

Members Excused:

Judy Jacobson (D)

Members Absent:

Mignon Waterman (D)
Gary Aklestad (R)

Staff Present: Terry Cohea, Legislative Fiscal Analyst
Steve Yeakel, Budget Director, Gov. Office
Sylvia Kinsey, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: Senator Jergeson said in the absence of Chair Judy Jacobson he would chair the meeting.

Mr. Yeakel presented the Governor's budget. His testimony is attached as **EXHIBIT 1**. He handed out **EXHIBIT 2**, charts showing how funds are distributed, proposed reductions, historical comparison of revenues and spending and comparison of general fund revenues and spending, current law vs. executive proposal and explained them.

Questions from Committee: Chair Jergeson said there are some committee members who would like to concentrate at the beginning of the question period on about three different areas. The first is the impact on education; the second is increased spending and various spending in agencies; and the third is the one time revenues, one time fund transfers and the structural deficit that was discussed in the last portion of the report.

REPRESENTATIVE KADAS asked the questions about education, and the T. V. Clip he intended to run did not come on. He said the clip he had intended to run was the ad that had been on T. V. and was concerned about what was said in the ad and how it matched in the budget, particularly on protection of education. He asked how this statement by the Governor could be reconciled with the veto of the foundation program during the regular session, and that there are more hard dollar cuts in education than in any other part of the budget, in the University budget as well as the Office of Public Instruction (OPI) special education budget.

Mr. Yeakel said the committee had to look at the whole picture, and in particular the history in our secondary and elementary education systems. He said the higher education system will be left with substantial increases over the 1991 biennium in their funding level. There is more funding available in this biennium than there was in the 1991 biennium. In K through 12, looking at the combined actions that have been taken by the administration, the desire to stay away from suggesting decreases in funding from the school equalization account, and the funding they will provide to make sure the short fall in that account is addressed. He suggested looking at the narrow size of the reductions they are making he said he could only ask for alternatives.

REPRESENTATIVE KADAS said he was trying to match up the chart where the largest cut goes to the University System and the

Governor's ad where he says "I will protect education funding". Mr. Yeakel said on one chart it shows the highest increase still remains for the University System. Given the high increases given over the last two biennia they are preserving substantial increases for higher education.

REPRESENTATIVE KADAS said speaking specifically on higher education, included in the general fund increase for post secondary education there is a considerable amount of dollars to replace the 6 mill levy as well as dollars to deal with the increased number of students, but you are counting that as increased general fund, and if you had not put that in there would have been cuts over the previous years budgets. You are talking general fund dollars, not increases, Mr. Yeakel said he was willing to sit down with the committee and work through the reams of paper used in reaching decisions on this. The system will maintain an increase in funding over previous biennia through the proposal.

REPRESENTATIVE KADAS said the other quote from the Governor's ad is "and for University students we have a plan to prevent a tuition increase". That plan affects FY '92, and besides the plan there is \$2.1 million in cuts for what was supposed to be a total of \$6.8 million in cuts for the University System in FY '92. In FY '93 the proposal is to double that amount, over \$14 million in cuts. What is the Governor's plan for dealing with tuition in the second year of the biennium? Mr. Yeakel said they had heard from students who were very concerned about the tuition surcharge was that it was being imposed all of a sudden during this fiscal year at a time when decisions and commitments had been made through the end of this academic year. The Governor's proposal is geared to offsetting that one time tuition surcharge that would have caused so much of a problem for students in this current academic year. The plan for FY '93 is to make the reductions they need to make, but the relationship with the Board of Regents (BOR) and the Commissioner's office has shown the decisions made in the past were solid and they are going to defer decisions as to where to make the reductions to the people who know. **REP. KADAS** asked if he generally agreed with the Regents position that of the whole amount to be cut in '92, 2/3 of it should have been increased tuition and 1/3 cuts in the system? Mr. Yeakel said they obviously they didn't agree with that proposal because they proposed the remedy in the liquor store conversion proposal. **REP. KADAS** asked if the basis for that remedy was because they did not want to hit the students without them knowing it, so as we get into FY '93, school year '92 and '93, what kind of tuition increases do you think are appropriate for the system? Mr. Yeakel said this is a serious decision, the BOR has been working on it and will continue to work on it. He felt they would make the best case justification for what level of tuition may or may not be necessary. **REP. KADAS** asked if he felt there ought to be increases for FY '93 and Mr. Yeakel said he was not the one in that position to decide. He said he did not have the information nor the feel for the campuses that the

University presidents have and does not have the feel for the system that the Commissioner has. Those are decisions that the Regents will have to make. **REP. KADAS** made note that he had gone over the Regents head in not making the tuition increases in '92. He said there must be some feel for this since for every dollar that is not increased there will have to be a dollar in cuts and he wanted some sense from the administration as to what they felt that balance should be. He felt the administration had a responsibility to take a position on this, at least to give some guidance to the committee, as does the Legislature, but he felt the action so far was not responsible. **Mr. Yeakel** said he could not give the answer, but in the last Legislative session this administration supported a lump sum appropriation for the University system. That position was based on the fact that the Regents and the Governing body of the system could best make the decisions on how the system should be run.

REPRESENTATIVE KADAS said a year and a half ago the Governor commissioned a study of the University System called the Governor's Commission for the 90's and Beyond, and probably the main recommendation out of that study of 12 people appointed by the Governor was that the University System begin over a 5 year period to catch up with neighboring institutions. This proposed budget will move us in the other direction, and he asked if the administration have any commitment to begin to approach a peer average, or is that something that is so far out of reach that we are not even going to try? **Mr. Yeakel** said he would have to go back to the big picture. If we were not in the situation we are in we wouldn't be asking any of the agencies to make the dramatic changes we are asking of them. Their commitment to Higher Education remains strong, based on the amount of increase we are leaving with them, and all the other activities and programs that we have working with them. It is not a fair statement to say that because we are forced to make reductions, take revenue actions and whatever that our commitment to the University System is in any way decreased. We all have to deal with this problem. **REP. KADAS** asked if he felt the University System played any kind of significant or important role in the development of this state and **Mr. Yeakel** said in instance after instance, whether through development of our science and technology programs or through additional grants received from the federal government that bring to bear the importance of the University System in the local and state wide economy, we have demonstrated that. **REP. KADAS** said at the same time the University System rides on mediocrity and you are ready to push it in that direction? Your big picture only includes the confines of the budget and not raising any additional revenue. **Mr. Yeakel** said it was fair to say they disagree on that conclusion.

CHAIR JERGESON said in respect to tuition increase being contingent on the adoption of a liquor store conversion. He asked **Mr. Yeakel** if he had a chance to review the analysis done by the Legislative Auditor's office of the liquor store conversion proposal. **Mr. Yeakel** said they had a good "once over"

but have had zero working days to review this document but read through it once and was generally familiar with it. **CHAIR JERGESON** said with the time constraints everyone was under he had asked that it be released as soon as he had received it. He said the Legislative Auditor made an analysis that the liquor store conversion proposal will not raise the \$4 million projected by the Administration. If we adopted this proposal and did the liquor store conversion and failed to realize that revenue as projected by the Legislative Auditor's office, where would it leave us in a few months, or down the road? **Mr. Yeakel** said there are several conclusions reached in the Legislative Auditor's report in which they do not agree, felt the questions would be better directed to Director Adams and are confident that the proposal will do what they say it will do.

SENATOR JERGESON said on the basis of an objective analysis by the Legislative Auditor's office, there may be considerable sentiment among the Legislature that it won't do what the Administration says it will do and therefore, the plan may be in some jeopardy of passage through the legislative process. He asked if the administration is closed to alternatives arrived at by the Legislature to the liquor store conversion proposal or will the tuition increases only be abated in the event this proposal is adopted, not some alternative. **Mr. Yeakel** said the Administration is anxious to join the battle over the viability of the bill. They are concerned that not all the information available was considered by the Legislative Auditor's office and there are some other oversights that will show the Administration's proposal in a considerably improved light. The bill is very specific about the direct link between the tuition proposal and sale of the liquor stores.

SENATOR JERGESON said most of us who would anticipate that if we make \$14 million in cuts in the University System the Regents will inevitably adopt some sort of tuition increase. He asked **Mr. Yeakel** to explain how a tuition increase is not a tax on those families who will have to bear the burden. **Mr. Yeakel** said if a tuition increase is considered and levied it will be an increase in cost to those families involved. They feel that tuition is a fee that is paid to receive a service, which in this case is a service of educating and bettering yourself. **SENATOR JERGESON** asked if a user fee is considered akin to gasoline motor fuel taxes as well as other things we pay user fees for and **Mr. Yeakel** said each user fee needs to be evaluated on its own merit.

REPRESENTATIVE PECK asked if the Governor's proposal takes in the enrollment shift change that has occurred and **Mr. Yeakel** said at this point it does not.

REPRESENTATIVE PECK said **Mr. Yeakel** had indicated in his statement that there is a lump sum appropriation. **Mr. Yeakel** said that what he had referred to was the Administration's support for lump sum funding to the Higher Education system in the last session which was not successful.

SENATOR FRITZ said the Montana University System did adopt a tuition surcharge which is in limbo pending what this special session does, but that surcharge amounted to about a 27% tuition increase and even if that is held in obedience, next year, with about a double budget cut envisioned and if you are going to make that up with tuition you are looking at 40% to 50% tuition increase. He could understand raising tuition incrementally to cover the costs of education, but isn't this pretty stiff? **Mr. Yeakel** said he did not think the issue of tuition was within their purview and did not want to get into an agonizing discussion of it here, but would argue that in any proposal that comes up over the next year, we are talking about two semesters as opposed to one and would need to be taken into consideration.

SENATOR JERGESON said the next issue area they would like to go into are the elements of the proposal for increased spending in some agencies and some revenue enhancements, increased revenue projections in some areas. He asked **REPRESENTATIVE PECK** to proceed with the line of questions.

REP. PECK said he wished to ask some questions on public school funding and some of the related comments. **Mr. Yeakel** had indicated there are cuts recommended for the gifted and talented program, secondary vocational education program, special education contingency, HB 999 special education placement funding and state impact aid. **REP. PECK** said he had a little anger at the ad that says we are protecting education when we go down the list and see we are hitting all of those. It is really not a fair and honest approach to this. In terms of the new budget proposal, he asked for the new appropriation total request above House Bill 2? **Mr. Yeakel** said approximately \$37 million. **REP. PECK** said that is taking place in 6 months, and if he extrapolated that over the 2 years he could multiply 4 times 37 and he would be \$130 million above what the Legislature appropriated. He asked if this would be mathematically correct. **Mr. Yeakel** said it wouldn't from the standpoint that they are estimating the cost over a year and actually looking into the second year of the biennium for those costs. He said they were not asking the Legislature to cover costs that are behind us but increased costs that are anticipated. **REP. PECK** suggested that the OBPP became aware of these in 6 months time and in 18 months time may become aware of 4 times that amount. **Mr. Yeakel** said there is no history that would validate that sort of approach, and they would both hope that is not true.

REP. PECK said in that context the Legislature is asking themselves if they came to town to really cut the budget or are we involved in transfers and manipulations and really putting more money into a budget that the Legislature passed in regular session. He asked **Mr. Yeakel** if at any point in time they had considered the increases granted to all agencies and think of a flat rate reduction in all of those increases. **Mr. Yeakel** said they had never approached it that way because they were concerned that in an approach whereby new appropriations would be the ones

first offered in a decision reached either at the budget or the Legislative level that those new appropriations would obviously be the first to go. It would just negate the impact of a lot of agency level input about whether those new appropriations are really the ones that are most important to their programs or if there are others of lower priority that have been traditional or in the base that might be offered first. REP. PECK said then justification and need was an element here but it was not an element when you made recommendations relative to the university system in terms of enrollment. Mr. Yeakel said given the governance system we are dealing with and given the University System, yes.

REPRESENTATIVE PECK said he had some information on accounts receivable and asked if Mr. Yeakel was familiar with it and was told yes. REP. PECK said the report he reviewed from the Department of Administration indicated we have a rising level of delinquent taxes not collected in the neighborhood of \$4 million. He was told by Mr. Yeakel that he was not certain of the number. REP. PECK said he was pretty close, that it was increasing from about \$17 million to \$22 million. There is a suggestion in the budget for 1 1/2 FTE to improve that. He said, in pursuit of the general management things he is trying to get at, if Mr. Yeakel was comfortable with the revenue projections you are making now? Mr. Yeakel said, to the extent to which one can be comfortable with general revenue projections, yes. He was interested in having the full exposition of their numbers and those of Mr. Johnson from the LFA office as well as the work of the Revenue Oversight Committee and a reinvigorated House Resolution 24 to deal with.

REPRESENTATIVE PECK said he was also concerned about what could happen in terms of a supplemental. The other question is that we are here in special session because the court said that the law we had on the books for the Governor to reduce budgets was unconstitutional, yet the call of the Legislature does not include the authority to revise that law. He asked if Mr. Yeakel would like to comment on it. Mr. Yeakel said numerous legislators and legislative leaders commented to the Administration immediately after the ruling that the first item of business for them in whatever context, would be fixing 17-7-140. Almost more than anything else, it was a matter of protocol and the Governor was not certain as to how it would be perceived for the Executive to ask the Legislature to return him that authority. We were understanding from the very first that there were legislative efforts afoot to pull together a bill. Numerous people from the executive branch had compiled and were working on some ideas. They will carefully evaluate what comes out what may come out of this session in terms of legislation on that subject. REP PECK said given your reservation about revenue projections and supplementals which he shared, it seems unusual this was not put in the call. He asked if other legislators other than himself had spoken to him on that point? Mr. Yeakel said numerous legislators did.

REPRESENTATIVE PECK asked about school bonding. Given the Montana economy picture, the National economy picture, the need for school housing capital expenditures, the work making activities that would result from this, why is it not on the call for the special session? **Mr. Yeakel** said the Administration is deeply concerned about the current and anticipated needs of the area of school construction. It was at the Governor's insistence that the Board of Investments began to develop a plan that would help in some ways to address this problem. In further analysis of some of the proposed legislation and some of the ideas proposed to assist the school bonding, we couldn't receive any analysis of those proposals that would indicate a plan that would work without some substantial impacts on the state's bond rating. We need to balance the concerns that some school districts may have now or in the future regarding construction with the overall needs of the state to maintain its general obligation debt. If our state bond rating slips that would mean trouble in more ways than in just school construction.

REPRESENTATIVE PECK said there was a strong difference of opinion on the statement that it would affect the school bond rating, and the school boards he had talked to had all backed away from the BOI proposal, they just don't like it. In Helena there is a bond issue for about \$18 million and there is projections out that if they could get into the bond market they could save \$6 million over the next 20 years. Do you think the Governor would expand the call to cover that? **Mr. Yeakel** said he would propose that **REP. PECK** and anyone he chose meet with **Bob Marks** and people from the budget office and discuss this. We have been open to discussion on this and **Director Marks** has been in attendance at several meetings and we have had several internal discussions on it. It is not an item we are 100% closed, we are just deeply concerned about the state's bond rating. **REP. PECK** said he had spoken to **Mr. Marks** and others and asked them to speak to the Governor and has not seen any movement on it yet. He felt it was a very important item for public schools, for employment, the economy and money savings for the taxpayers and citizens of Montana. He urged **Mr. Yeakel** to speak with the Governor and he would do so himself if there was any indication it would help.

REPRESENTATIVE PECK said he was concerned about the fairness of the cuts. They had spoken of the across the board cuts of the increases and asked if he had analyzed those cuts in fairness to agencies? **Mr. Yeakel** said it is very difficult to provide a quantitative analysis of pain. In balancing what his happening between one agency and another we have to look for a relative threshold. He said their decision making constantly revolved around relative levels of impact that our actions would have. If there are areas we missed or where less pain could be spread throughout the whole system we are willing to hear about them.

REPRESENTATIVE PECK agreed they could not assess levels of pain, but could assess the level of dollars that are cut and when you go up over 80% in the area of education as cuts, you have to

start questioning fairness of the cuts. In the University System we have not taken into account enrollment, apparently not kept in mind the accreditation considerations that were very fundamental in the increases the Legislature gave in the regular session. He said he had a lot of concern in the responses given relative to that particular point. He said he was really concerned about the management aspects of this and whether we are going to weather the storm, and if the Governor doesn't have budget cutting authority restored to him, it would seem to be a very difficult matter.

CHAIRMAN JERGESON said he had a couple of follow up questions and said he was struck when the budget document came out to the members just before Christmas in regard to the category of nonspecific savings and wondered what it meant. It turned out that about \$16 million was in the University System, and apparently you don't have recommendations for the Board of Regents (BOR) as to where they ought to make changes in their budgets to reflect that reduction. **Mr. Yeakel** said the dollar figures that are suggested in the Executive budget recommendations are specific and they are a guideline. They give a relatively clear picture of what across the board reductions would look like in those areas as a starting point for conversations. The success of our proposal has come from agency driven recommendations. Granted the University System is one very unique agency, it is still an agency of state government, and we owe it to our directors, the BOR to make those decisions. **CHAIR JERGESON** said a majority of the present BOR were appointed by this Governor, and he would assume that the Governor as the chief policy making officer of the state of Montana should have some influence over his own appointees and therefore ought to be able to give them some direction or indication of changes they should make in their budget. **Mr. Yeakel** said they have had cooperation and a two way flow of information and they hoped that would continue.

REPRESENTATIVE CODY asked if the Governor really feels that it is responsible to increase spending in HB 2 and to rob all the piggy banks we have and go into the biggest hole this place has ever seen. She asked if this was really responsible to the people of the state? **Mr. Yeakel** said those characterizations are not correct. The biggest hole the state has ever seen has been growing over a decade, and is a problem which we all need to start dealing with. Additional spending is one that needs to be addressed very carefully. By addressing some of these supplemental appropriations now we are merely accelerating our ability to manage in those areas. To say there wouldn't be major supplementals in the '93 session or some that could be anticipated by this time in fiscal biennia in the past would be incorrect. The problems we have, especially escalating human service costs etc., have been with us for quite some time. It is not fair to generalize spending above the approved budget as irresponsible uncontrolled acts of the executive. They have been a part of state government for some time.

REPRESENTATIVE KADAS said in answer to one of the questions you said you had a package of supplementals for fiscal '92 but did not have it worked out for '93. He wanted to clarify what he had for supplementals for '93 that is included in this budget and what can we expect at the next regular session for supplementals if we adopt your proposals for '92 and '93 now? **Mr. Yeakel** said they have supplemental requests they confidently quantify now. Those amounts are included in hard dollar amounts in this budget. They also have an additional \$8.5 million in the overall budget in anticipation of supplementals which may occur. Those are dollar figures which are somewhat firm but not yet quantified. He thought they had done as much of the planning as they could to gauge what supplementals are going to be over the next couple years. **REP. KADAS** asked if he were saying if everything works out the way he thinks it will, there won't be any significant supplemental requests at the beginning of the next regular session. **Mr. Yeakel** said he had too good a knowledge of legislative process in state government to think that is going to happen, but every issue they can tie a number to now, be it fairly hard or somewhat soft, they have done so.

SENATOR JERGESON said there is one other area which is the structural deficit, the one time revenues and one time fund transfers that are digging what is known as the big black hole. He asked **REPRESENTATIVE BARDANOUVE** to address this area of questioning.

REPRESENTATIVE BARDANOUVE said it seems like the LFA report says the reduction of agency budgets is \$26.3 million, and asked if this was correct. **Mr. Yeakel** said they are still making an effort to rationalize what are relatively small differences between our report and the fiscal analyst. He said their numbers are closer to \$38.5 million. **REP. BARDANOUVE** said these are net reductions. **Mr. Yeakel** said they had not addressed the matter of net reductions because it over emphasizes the additional costs which are incurred and minimizes some fairly serious reductions that were made, especially in three human service agencies.

REP. BARDANOUVE said we all realize we have had a revenue shortfall in the oil, interest and income taxes, but assuming the income had come in as we estimated it last April, every dollar had come in at 100% with the ending fund balance of about \$20 million, but if the increase in spending of \$38 million takes place, we would have been here to balance the budget anyway. The expenses are running so far beyond what was appropriated, that is true isn't it? **Mr. Yeakel** said as best they can estimate, it is true. **REP. BARDANOUVE** said this is not anyone's fault, the laws are there, the case loads are there, but have you, or will you recommend any measure to reduce some of this alarming increase by changing some of our laws. **Mr. Yeakel** said the areas where costs are rising are not ones that are easily addressed by state law, nor if they can, there is not the consensus among legislators of both parties and the Administration to recommend changes in those areas. They do have every desire to make sure the cost

containment programs and the management of those programs within the agencies are tightened up, re-evaluated and in every way possible brought in to bear.

REPRESENTATIVE BARDANOUVE said as an example, in the Social and Rehabilitation Services (SRS) budget, on Nov. 15 you told me you would have savings to help balance the budget. It seems we have a heavy over-run. He said he was told the savings would come through management. **Mr. Yeakel** said there was both in SRS, both increased cost in some programs and a sizeable amount of savings in programs where more effective management and other things are combining to reduce costs. The reductions that are being taken at SRS have been taken in a way that will cause the least damage to current services that will be delivered. Because they deliver a lot of services there, any savings gained will have to come from more efficient management.

REPRESENTATIVE BARDANOUVE expressed concern about the one time transfers which will leave us with a big deficit in the next session. He felt that legislators have to be concerned in a manner of non-partisanship in looking down the road at what we are doing to cause problems in '93 and beyond. He felt perhaps we should begin now to solve some of these problems rather than making the hole bigger. **Mr. Yeakel** mentioned that the next budget director of Montana is not necessarily dependent on who wins the fall election. There may be a change in the office no matter who wins. He said they do take the transfers seriously. We have reached rock bottom in terms of easy alternatives and while we haven't tapped every fund, the LFA has done a good job of making a list of those we have and have not tapped. In terms of real policy direction for the state of Montana, the easy choices have evaporated and this issue resolves back to the question of whether we stay in session now and work this out or do we let the process work; do what we need to do now to keep things in a relatively secure position and let a budget be built and a fiscal analysis be done, election campaigns ensue, platforms be built, and get some sort of consensus from the people of Montana as to where the state is headed. He said he did not think it was possible to take the serious action which would involve more traumatic activity toward all these agencies than has even been considered to this point to get us to a resolvable conclusion.

REPRESENTATIVE BARDANOUVE said another concern of his was the transfer of money from the Highway Department. He said his figures show that by '94 the Highway Department will be bankrupt as far as meeting their obligation in the federal contracts in matching money. This transfer of money will only compound that shortfall and bring about the impossibility of meeting their contractual obligations that much sooner. **Mr. Yeakel** said he agreed with this, but would temper it by saying they did a great deal of sensitive research with the Department of Transportation to make sure a number of options are available. The single option, chosen from a range of several, was the least painful in

terms of federal match and creation of a deficit, etc. This is a short time action and is specified as such and is the general fund for one fiscal year only. **REP. BARDANOUVE** asked if **Mr. Yeakel** would have to agree there will have to be a substantial increase in revenue to the Highway Department in '93 to keep them in operation. **Mr. Yeakel** said that is an issue that is one we will have to consider, regardless of that action.

SENATOR KEATING asked **Mr. Yeakel** to put up the chart on revenues and expenditures and asked if the last balance is that for the '91 biennium. **Mr. Yeakel** pointed out the '91 and the '93 biennium on the chart. **SEN. KEATING** said the chart then indicates that the Legislature has exceeded spending general fund revenue in every year except 1986 or '87. **Mr. Yeakel** said yes, in every biennium except the '89 biennium. **SEN. KEATING** asked if that was due to federal tax adjustment? **Mr. Yeakel** said revenues came in above estimates during that period and the best answer they have found is that it was the result of the windfall from federal tax reform. **SEN. KEATING** said the state didn't allow the taxpayers the benefit of the federal tax reform. **Mr. Yeakel** agreed. **SEN. KEATING** asked if that wasn't about \$70 million or \$80 million. **Mr. Yeakel** said to the best of his understanding, yes.

SEN. KEATING referred to the chart and said although revenues have gone up from this biennium to the next and there has been a reduction in expenditures, you project we will still be over spending. **Mr. Yeakel** said that was correct. He said perhaps for the last time under this scenario, we will be spending ending fund balance again. **SEN. KEATING** said we have been going up about 10% according to the chart, per year since 1981 in total expenditures. He said this led to reductions and asked if that is a reduction in the base. **Mr. Yeakel** said no, it is the combined effect of the reductions in general fund spending plus the adjustments we have made for the supplementals. It wouldn't be technically correct to say there was much done with the base with that number.

REPRESENTATIVE BARDANOUVE said they are concerned about the subcommittee operations, how they will begin the hearings as rapidly as possible. He said he would like the Budget office to provide the subcommittees, before we begin the hearings, with the proposal that was made by the agencies on the request of 8% reduction. We would like to have the original suggestions the agencies said they could make. **Mr. Yeakel** said they are not in a readily usable form, and will make every effort to make them available by this afternoon.

SENATOR WEEDING said, granted that there is a \$46 million or greater deficit in the school equalization account by the end of this biennium, that money is currently being made up by transfers from the general fund and in turn, fueled by the highway trust fund. He asked if the Administration had any plan to reduce that amount, or is it willing to let the next Legislature come in with

a \$46 million hole in the school fund to start the session off with. **Mr. Yeakel** said they have included that amount in their proposal. **SEN. WEEDING** asked are we, or are we not, going to have that \$46 million deficit at the end of the biennium? **Mr. Yeakel** said the proposal is to appropriate the money to do that.

SEN. WEEDING asked if there would then be no arrears in the Highway Trust Fund at the end of this biennium. **Mr. Yeakel** said not to the best of his knowledge. He said he understood his concern about the cash flow situation and also the school funding situation and said perhaps they could meet after this meeting and work the problem through. **SEN. WEEDING** said he was concerned that the next Legislature would come in looking at a \$46 million hole in the school equalization account next session.

REPRESENTATIVE MENAHAN said the chart does not show in 1981 the amount of surplus money we had, nor the expenditures and the bonding we went into. He asked if this would come up in the next biennium and **Mr. Yeakel** said this is simply general fund revenues and general fund spending. **REP. MENAHAN** said it should be remembered that after the '81 session, those of us who spent it and who were in control should see how that projected out after 10 years.

CHAIR JERGSON announced a short break to be followed by the LFA budget analysis.

Terry Cohea, Legislative Fiscal Analyst (LFA), gave a report on the budget analysis. (**EXHIBIT 3**) She thanked the OBPP for getting the draft of the Executive budget on Dec. 18 and being available over the Christmas vacation to answer questions. She said they gave them home phone numbers and made it possible to get the analysis to the committees. She spoke from the budget analysis, and went over the overview of the executive budget, summary, pages 1 through 58. (Yellow sheets at beginning of book). She went through the sheets and the charts, reading and explaining as she went through them. She passed out **EXHIBIT 4**, an update on the comparison of Legislative Action and Executive Budget.

REPRESENTATIVE BARDANOUVE said there is an area we have only mentioned which is the transfers and where we will be at the end of this biennium. He understood at the end of the biennium we will borrow some money, and issue more transfers after borrowing the money. He asked if it will be a deficit when we roll those transfers over and not pay them off. He said if we are, we are in violation of federal law and don't have a balanced budget. **Mrs. Cohea** said she had made a report to the Finance Committee earlier this fall showing under the Governor's Executive Order that the general fund would have to borrow to pay off the transfers in '92 just for cash flow, but at the end of '93 they would have insufficient funds to pay off those projected transfers. All of those projections will need to be revised based on the current executive proposal, but it is important to

note that the projected ending fund balance for the biennium is only \$11 million and the school equalization account which is, in a sense, causing the general fund cash flow problems, will need to make a \$60 million payment on July 15 of '93. She said she thought a representative from the Department of Administration could probably speak better to the cash flow under the executive budget.

REPRESENTATIVE BARDANOUVE asked if at any time if there will be a deficit at the end of this biennium that will not be paid off? **Mrs. Cohea** said the executive budget shows that it will maintain a positive ending fund balance in the general fund, and get the school equalization fund to zero so it will be solvent. That is the ending fund balance. As discussed in the cash flow report, you do not receive all that cash by June 30, so she felt it very likely at the end of '93 it would be necessary to borrow until the money came in. At the same period of time, when you are getting these tag end year revenues to pay off your loans, you have this massive loan that has to go out to the school equalization. She said she would assume that is the problem the Department of Administration is grappling with.

REPRESENTATIVE BARDANOUVE in addressing **Mr. Yeakel** said they have been concerned about this heavy pay out in July on the equalization account. Is the Administration proposing any change in that pay off to delay this to move it into a more advantageous period of time? **Mr. Yeakel** said no, not at this time. **REP. BARDANOUVE** suggested perhaps they should because we could alleviate a severe short fall in a time when we have less income if we could level it out over the year. **Mr. Yeakel** said he agreed and they have noted since the inception of the new funding system that the big bang in payments at the beginning of the fiscal year is creating some serious problems and they will work on that and are willing to work with the Legislature on it also. **REP. BARDANOUVE** said some of the local school districts may object since they will not receive any less but it may take longer to receive their money, but he felt in good management of our general funds, we should try to alleviate this heavy pay off.

REPRESENTATIVE PECK asked **Mr. Yeakel** if in his judgement the current call, could the Legislature amend the distribution date in the school equalization account so we don't have that 20% to pay in the first month? **Mr. Yeakel** said he could not make that judgement. He would be willing to make the request to facilitate the information as to whatever they could do. **REP. PECK** asked someone else and was told it was a legal question and perhaps the Legislative Council could look at the question.

REPRESENTATIVE QUILICI said two of the budgets in their subcommittee are the Department of Revenue and the Department of Transportation, and one of the recommendations the Administration has brought forth is the closing down or sale of the liquor stores. There are some on his subcommittee who have a problem with this for various reasons, one of which is the audit that

came from the Legislative Auditor's office. Along with that, the transfer of the Highway Trust Account to general fund, \$4.5 million of it. We had just received approximately \$150 million from the Feds for highway construction in this state and in 1994 we will have some real problems. This is adding to the problems we will have. He asked **Mr. Yeakel** if, in the event the Legislature does authorize the selling of the liquor stores and does not go along with the Administration transferring \$4.5 million in Highway Trust Fund into general fund, if he had any other recommendations to generate that much revenue. **Mr. Yeakel** said he would have to say at this time they didn't. Those recommendations are their very best judgments on the most appropriate places to gain the funding we need to gain to do what is needed. He said they are not intransigent. They are flexible on these matters and certainly there are going to be ideas that are worthy of merit. At this point we have researched the proposal with the Department of Transportation very carefully. **REP. BARDANOUE** established this morning that our ending fund balance is going to be \$4.5 million shorter in those accounts. We were careful to look that we weren't jeopardizing projects that are ongoing now, or in the mill, and that the money was being taken from the safest possible place to take it from. There may be other ideas and we are open to considering those.

REPRESENTATIVE QUILICI said he felt all of them had a real feeling for the students in the University System and are glad to see you are recognizing that problem. He said he thought there was a feeling here that you are taking one entity and hanging a carrot out for the Legislature to sell off the liquor store business and giving it for tuition for higher education. He said he can understand this and wants to do something about taking care of the tuition for the schools. There are marginal students, marginal families that won't be able to put their kids in school if this tuition increase goes through. He said he had some ideas on how to generate some money for that besides closing the liquor stores and hoped they could sit down and talk about it. **Mr. Yeakel** said he felt the Administration's proposal on liquor store conversion is reasonable. It is the continuation of policy that was established as far back as the Judge administration and through the Schwinden administration, and thought they would see a proposal which makes a lot of sense all the way around and provides some very certain and reasonable protection for those who it may impact most seriously. He assured the committee he was most anxious to work with them on it this session.

REPRESENTATIVE COBB said he would like to follow up prior questions on the cash flow problems in the school foundation program. On summary 33 (**EXHIBIT 3**) it said one option would be to equalize the school equalization payments over the year and also to allow the Dept. of State Lands to distribute common school Interest and Income monthly. He asked if a law or statute was needed to change this, or can it be done now. **Someone** answered and said that was an administrative decision within the

agency as to when the I and I money is distributed. **REP. COBB** asked **Mr. Yeakel** if the Administration has made a decision on that question. **Mr. Yeakel** said they have been studying the matter and are not ready to make a final recommendation yet. It was part of the Executive Planning Process for the 1995 biennial budget (EPP) process before this slight diversion. **REP. COBB** asked when the decision would be made and **Mr. Yeakel** said they would bring the committee up to speed on where they are and be willing to work with you to gain whatever resolution they can in the matter.

REPRESENTATIVE KADAS said on pages 15 and 16 of the LFA summary one time revenues and expenditures are listed. Looking at this, some of the numbers are biennial and some are annual. He was looking for the FY'94 how much one time revenue are we not going to have. What kind of a hole are we looking at in '94? **Mrs. Cohea** said essentially, if we assume the expenses remained the same (she explained this was not a good assumption since it would not happen), but if assuming they would remain at exactly the same level for '94-'95, table 14 says you would not have \$61 million in the '95 biennium to fund those costs. In addition, the '91 Legislature had already created about a \$21 million hole. The other things to think about, and it is written up, pay plans always work like this, we will take the '93 pay plan at its full extent and take it into '94-'95 and that also increases costs. All of those things create a hole in '94-'95. You would hope normal revenue growth deals with things like the pay plan doubling up. The point of table 14 is to show that a significant amount of the budget balancers used to fund ongoing operations in the '93 biennium would not be available, these specific ones, in the '95 biennium.

REPRESENTATIVE KADAS asked if he were to ballpark the figure and take \$61.5 of the proposed one time budget cuts, \$11 million from HB 559, \$10.9 million for additional debt services, cut the personal services in half and make that \$11.2 and the human services increase has been and will continue to happen, so make that \$11.8 million. That totals \$106 million, and asked if this was a fairly reasonable way of looking at it, that it will be around \$100 million? **Mrs. Cohea** said that is a difficult question, but the way you have laid it out, those are things that may occur. The other point she would make is that is the general fund shortfall. There are the other issues of the school equalization, but the one thing that struck her as she worked on this document was that her office had projected varying levels of deficit coming into the '91 session and then income tax collections from estimated tax did much better than anticipated, so there was an anticipated surplus. Now estimated tax has gone the other way, and it makes it difficult to project forward, but would not disagree that is a reasonable way of looking at the possible deficit.

REPRESENTATIVE BARDANOUVE said that in the transfer of the money from the accounts of Hazardous Waste, the original money came

from the Resource Indemnity Trust (RIT), did it not? Mr. Yeakel answered yes. REP. BARDANOUVE asked if there was any legal question about transferring that money into the general fund, or is it supposed to be used for a specific purpose in the environmental area. Isn't there some question on this? Mr. Yeakel referred this to Jane Hammond, OBPP, and she said in their review of this with Greg Petesch they have not encountered a legal question regarding this, but they would be happy to pursue it further.

REPRESENTATIVE BARDANOUVE said early on he believed the LFA and the OBPP agreed that it would return about \$28 some million, but now it has been raised to \$34 some million. How did this increase come about? Mr. Yeakel said it is his best understanding that the outcome of that meeting is that if you use House Joint Resolution 24 assumptions, it is reasonable you would come up with the number the fiscal analyst is using in the book. If you look at the more up-to-date analysis the OBPP has done on their revised estimates, you get their figure. Mrs. Cohea said once they got the complete 1990 tape, the agreement among the three offices was approximately \$29.4 million base and then the executive budget office is projecting that there will be growth in estimated tax payments that would bring in the difference between the \$34 million and the \$29.4 million and that is something the Revenue Oversight Committee will address tomorrow.

REP. BARDANOUVE said he was concerned about the "soft" money there which may or may not be available. What causes us to say there will be that much magnitude increase in a short time? Mr. Yeakel said essentially they are back to the point of the length of time that revenue analysis has been done, the future time the revenue analysis has been projected for etc. Mr. Steve Bender, OBPP, said this simply said there is not three years growth in the number we are looking at now. REP. BARDANOUVE asked to visit with him later and Mr. Bender agreed.

REPRESENTATIVE BARDANOUVE asked on page 54, on the fund balances, all at once the arch area jumps up to \$6 million from zero. What brings that about? Mrs. Cohea said that was the bill that split the Arts Protection and Parks accounts in two (House Bill 1008), and for the current biennium no money will go into the trust itself for the Parks. It will be spent and, starting the '95 biennium, it will go back into the trust. So the Arts Trust wouldn't be affected, you split the two, so it received its 1/3 and gets the interest from it.

REPRESENTATIVE MENAHAN referred to page 7 where we have presentations of the cuts in the biennium which will be coming to our subcommittee, human services are being reduced drastically where the correction side is being increased. He said the corrections portion is growing rapidly.

SENATOR KEATING said in Workers Compensation, the old fund is paying out \$7 million to \$10 million a month in benefits, and the

bonding will run out in 1992. He asked if any work had been done in the LFA office in regard to where the money would come from to continue paying off that unfunded liability of \$60 million to \$80 million a year? Mrs. Cohea said no, her committee had a report on a specific workers' compensation case at the last meeting. Since there is a specific select committee looking at this issue, plus the Legislative Auditor staff has worked on it, to make the best use of legislative resources, she has been directed by the committee not to work in that area at this time. SEN KEATING asked if it was safe to assume that the unfunded liability is a state obligation. Mrs. Cohea said, not being a lawyer, it was her understanding and she believed that when they bonded, it was recognized as a state obligation. We could have the Legislative Council research that for you if you wish. SEN. KEATING said his point is, if we run into this in the next biennium and have not made other arrangements to take care of that old fund it would put quite a hole in the general fund budget. Mrs. Cohea said she had contemplated putting this in the book, and then thought it was just too depressing. We have a number of other state funds that are in trouble and while workers' compensation springs to mind, but our Health Insurance Program is spending more than it is taking in. The Department of Administration is taking an aggressive stance to try to control those costs and cut benefits. The state's Tort Liability fund also has a problem.

REPRESENTATIVE BARDANOUVE said in the social service area the medical program has very rapid rising costs. He asked if there is any legal way we could control that to some degree and Mr. Yeakel said the federal mandates do not give us much control. REP. BARDANOUVE asked if this was all federal mandates and Mr. Yeakel said it is a combination.

REPRESENTATIVE THOFT said he would like to show his appreciation for the presentations made by the Budget office and the LFA office. He said we must learn to live within our current revenue. We have been building for a number of years on spending more money than we take in and it has finally caught up to us, and while it is nice to blame other people, the Legislature in general is certainly guilty. He said we knew this would be a tough situation to deal with, and he had watched the budget office work on this for the past 2 or 3 months, and he is sure they have looked under every rock for any possible dollar to bring this into balance without disrupting programs. He said he knew the University System would be a big issue and he remembered the Governor came in with a \$13 million increase at the beginning of this biennium and it got jacked up to nearly \$47 million and that happened, in the most part, through the Appropriations Committee. With the reduction, it is still nearly twice what the Governor recommended. He said he cannot see how, painful as it might be, that the system can't live within those figures. There is virtually no decrease in anyone's budget. It is simply a reduction in increases and he felt that was an appropriate way to approach this problem. He said he hoped when the subcommittees go to work they will remember there is no slack in the ending

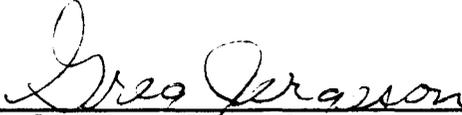
fund balance, nor anywhere else. If they don't cut spending in one area they will come up with the revenue in another place to keep this somewhat in balance.

REPRESENTATIVE MENAHAN reminded the committee that 10 years ago **REP. BARDANOUVE** had given speeches about what was going to happen, and it had now come home to roost.

REPRESENTATIVE GRINDE said he had hoped things might be different in this special session. He had hoped the other legislators, the ones who have not had a chance to review the budgets, and the people out there, realize the problem that not only faces us today, but into the future. We have exhausted the major portion of our piggy banks. He said he had called several Democrats who sit on this committee and pledged the cooperation of the Republican caucus and hoped we would look at anything presented in a bipartisan and fair manner. He said this had not happened today and addressed some of the areas. He said on Higher Education it is true some money will be taken back in the Governor's proposal but they will still be left with a \$13 dollar or 2% increase over their base from the last biennium. On tuition, the Governor set up \$8 million for the Regents to spend for discretionary money. That money perhaps could have been used in this area. It was stated today that there are some major problems in the liquor proposal and, while he agrees, there should be a willingness to sit down and look it over. On elementary and high school education, he said he agreed there are some areas he does not like to see cut that are in the Governor's proposal. He said he would be willing to sit down with **REP. PECK** at any time to try to find the money to fund those areas. He said to fund these programs it would be necessary to cut other areas or lay off people or how would the money be raised if not with the Governor's proposal. He said **REP. BARDANOUVE** probably knew more about this budget than anyone else except possibly some of the staffers and knew the problem had existed since July, had a chance to work on it and did not see any new proposals coming from him.

CHAIR JERGSON requested committee members not be critical of other people. We want to debate the issues, and will do so in the next 2 weeks. **REP. GRINDE** said he was pointing to questions addressed to the budget office, and was asking what proposals they had in lieu of the Governor's proposals. **CHAIR JERGSON** said since this is the function of this committee, the members of the committee could ask questions of **Mr. Yeakel** and **Mrs. Cohea**, and that members should be free to do so. **REP. GRINDE** said the black hole that is being created is not new. He said we have been in and out of this situation for some years and do not want to see it happening. We talk about shifting and transferring funds that create the black hole. He said he, for one, is willing to sit down with anyone in this room and look at the hard money cuts that are going to avoid these black holes into the future. He said he was not tied to the Governor's budget, there are areas he would like to see changed.

The meeting adjourned at 12:20 p.m..



Senator Greg Jergeson, Chair



Sylvia Kinsey, Secretary

GJ/sk

HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE

ROLL CALL

DATE

1/2/92

NAME	PRESENT	ABSENT	EXCUSED
REP. FRANCIS BARDANOUVE, CHAIRMAN	✓		
REP. RAY PECK, VICE-CHAIRMAN	✓		
REP. DOROTHY BRADLEY	✓		
REP. JOHN COBB	✓		
REP. DOROTHY CODY	✓		
REP. MARY ELLEN CONNELLY	✓		
REP. ED GRADY	✓		
REP. LARRY GRINDE	✓		
REP. JOHN JOHNSON	✓		
REP. MIKE KADAS	✓		
REP. BERV KIMBERLEY	✓		
REP. WM. "RED" MENAHAN	✓		
REP. JERRY NISBET	✓		
REP. MARY LOU PETERSON	✓		
REP. JOE QUILICI	✓		
REP. CHUCK SWYSGOOD	✓		
REP. BOB THOFT	✓		
REP. TOM ZOOK	✓		

EXHIBIT 1

DATE 1/2/92

HB 443

and Gov. Budget Book (attached later to Approp. Com. Mtg.)

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING



STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

Presentation
to

Joint Finance and Claims/Appropriations Committee Meeting
Thursday, January 2, 1992

Thank you, Mister Chairman.

State governments across America are facing difficult decisions. Montana government is no exception. We are forced at this point in time to deal with a revenue shortfall, escalating human service costs and a shortage in cashflow, all at once.

The seriousness of the situation leaves no room for any approach other than the statesmanship of a legislature and an executive, working together, to deal directly with the issues at hand. The executive branch of government pledges its commitment to this approach and has transmitted for the legislature's consideration a solid plan which will preserve essential government services, protect the taxpayers from general tax increases and guide the state safely into the 1993 Legislative Session, where major decisions will have to be made about revenue, spending and Montana's priorities.

The decisions which have been made in building this budget have often been extremely difficult to reach. But the process is a zero-sum game. Eliminating a reduction in one program, or adding funding for another, must necessarily reduce funding for other programs or increase the burden on Montana taxpayers. Our goal is to cause the least harm to the least number of Montanans.

Although it is of little consolation, it is interesting to note that the vast majority of states are currently dealing with problems of a very similar, if not a more serious, nature.

In Connecticut, more than 6% of the state's workforce (3,600 of 55,000) has been laid off. Another 12,000 workers will experience some type of furlough next fiscal year, and another 8,000 state jobs are in jeopardy. In California, the executive has proposed a referendum to cut welfare grants by as much as 25%. These states seem far away from Big Sky Country.

In Washington state, the Governor has proposed reducing basic education funding by \$131 million, freezing teacher salaries, raising college tuition and dipping into a state rainy day fund in a dramatic effort to fill an \$890 million gap in the state budget.

In Oregon, the Governor has notified each state agency to prepare budgets for submission to her which contain 25% reductions.

In Wyoming, state agencies have requested emergency funding in excess of available general fund dollars to finish this fiscal year, and the Governor has asked each agency to provide him with a plan to reduce its current budget by 12%.

The stories could go on and on. Most state government oriented publications now devote most of their efforts to detailing revenue shortfalls, deficit reduction measures, the restructuring of delivery systems for essential services and the impacts of further federal mandates throughout the states.

The point, here, is that we are not alone; nor are we among the worst hit states. There are regular indications of improvement in the Montana economy, and state revenues will surely increase, as our budget projections show. But revenues will not increase by the unusual growth rates now required to cover the existing shortfall and the shortfall projected for FY 1993.

In our efforts to resolve the problems before us, our charge is to carefully balance the obligation we have to provide services for Montanans with their ability to pay for them during potentially difficult times in a fragile economy. The Executive Budget recommendation includes no general tax increase, and focuses on appropriation reductions and other actions which avoid, to the greatest extent possible, severe impacts on citizens of the state.

This first chart shows that the major portion, over 85%, of spending from the general fund and school equalization account are directed toward education and human services and corrections. This points to the inescapable conclusion that action to deal with significant revenue and funding shortfalls must involve these programs.

DEFINING THE ISSUES

Here is a nutshell description of the executive proposal. First, action is proposed to address a revenue shortfall of \$78 million. Let me note briefly, for the purpose of this meeting, that the only major revision OBPP has made since our earlier estimate of a \$73 million shortfall is a downward revision in interest income.

Second, action is proposed to address anticipated increases in disbursements of \$37 million. These increases include \$29 million for supplemental appropriations, \$4 million due to reduced estimates of reversions, \$3 million for additional retiree supplements found to be required under SB226 and \$1 million of other miscellaneous adjustments (TRANS, property tax replacements, etc.) and rounding. The recognition of and appropriation for supplementals at this time ensures their consideration in the budget balancing process. This will avoid a potential crisis in

EXHIBIT - 1
DATE 1/2/92
HB 102

the 1993 legislative session if adequate funds are reserved to support them.

The Executive recommendation requests actions totalling \$106 million. A rough categorization would show three types of actions -- budget reductions, fund transfers and switches, and revenue -- each supplying a significant portion of the resources required to resolve the session.

These actions will substantially eliminate the deficit, address the supplemental requests, and leave an ending fund balance of \$11 million. Although this ending fund balance is low compared with many regular session ending fund balances, it is more than twice the size of the executive's recommended ending fund balance during the 1986 special session, which was called for a similar purpose. It is, however, a very lean balance and should be guarded very jealously.

REVIEWING THE PROCESS

While I am most considerate of the Committee's time, I do want to review briefly the process that has brought the administration to this point. Our preparation for this session has been thorough, reasoned and exhaustive, and I feel it is important to emphasize this point as we begin our work together.

After the administration reached a consensus that a general fund shortfall would occur in the 1993 biennium, the OBPP began planning how best to manage the problem. We concluded that the citizens of Montana, in adopting the Constitution, and members of the Legislature, in adopting current law, delegated authority to the Governor to make budget reductions which were required by our current circumstances.

We determined that the best approach was to utilize the professional expertise of our directors, administrators and their staffs to develop agency-level recommendations. Further, we were determined to act in a timely manner in order to prevent significant disruption of existing services, which has occurred in some other states that allowed fiscal management to degenerate to the point of crisis.

At a mid-July Cabinet meeting agency directors were informed there would be a revenue shortfall and requested to begin pre-planning for reductions. On August 5, all state agencies were requested in writing to manage resources carefully because there would be insufficient funds for any significant supplemental appropriations. On August 12, OBPP formally advised all state agencies of the magnitude of the shortfall, which was estimated at approximately 8% of all general fund appropriations contained in

HB2 and all other appropriations bills for the 1993 biennium, excluding the school foundation program, special education and payment of interest and principal on state debt. We requested their assistance, first, in identifying as many potential alternatives to service reductions as possible, and, second, in advising what general fund reductions would be required -- in addition to the alternatives -- to reach an 8% target and what the impact of those reductions would be.

The OBPP analyzed the agency-submitted information, focusing on maintaining existing critical services, recognizing efficiencies where services could be maintained at lower funding levels, and reducing ineffective or inefficient services. OBPP met at least once and frequently numerous times with agency directors and staff to address practical, legal, accounting, service impact and related questions; and conferred with legislative leadership throughout the process.

Agency reductions targeted heavily on travel and equipment where deferral is consistent with accomplishment of continuing priority services. Vacancy savings generated through attrition was preferred to elimination of currently-employed staff.

Of course, Judge Sherlock had a different and prevailing opinion on the constitutionality of the law which was passed by the legislature and used by the Governor to make the original reductions. But it is important to note that few significant changes have been made in the general fund reduction process since that time. Contacts were made with all agencies, and meetings were held with some agencies to determine what, if any, changes would be made in their budget recommendations in the transition from the Governor's reduction process to the recommendations for this special session. The original reduction process provided the foundation for the Executive Budget recommendations submitted to this session.

When the decision to call the legislature into special session was reached, it presented an opportunity to address supplemental needs. It was becoming apparent at that time that some accommodation for a substantial fire season and increasing costs in primary health care, AFDC benefits, corrections and foster care programs would have to be addressed. In addition, a special session would allow consideration by the legislature of additional funding switches, balance transfers and other actions which would aid the general fund while preserving essential services.

Chart 2 shows the percentage of general fund increases from 1991 biennium actual expenditures to the 1993 appropriated levels by four categories of government services. The hershey color indicates the amount of reductions recommended in the Executive Budget. The beige color shows the level of increases which remain after the recommended reductions. The legislative branch will have

EXHIBIT 1
DATE 1/2/92
HB 2

remaining for the 1993 biennium a 7.4% increase, the judicial branch a 12.5% increase, the Montana University System a 13.9% increase, and the remainder of the executive branch will have an 11.1% increase. As a result of the reductions, only two agency budgets (Governor's Office and Highway Traffic Safety) will be below 1991 biennium actual expenditures. All of the other agencies will be making reductions to increases appropriated by the 1991 Legislature.

At the conclusion of our planning, we endeavored to reach an ending fund balance that would leave a reasonable cushion to address further unexpected changes in the state's fiscal condition. All in all, the executive recommendation adheres to a commitment to preserve essential state services, causing no irreparable harm, without increasing the burden on Montana taxpayers. A brief review of the highlights of the executive recommendations will illustrate this fact.

HIGHER EDUCATION

Perhaps the most controversial issue to be debated before this legislature is the level of contribution to be made by the Montana University System in this process. Several key factors have helped to forge the administration's position.

First, the system has received generous increases in funding during the Stephens administration. In the 1989 Session, the system received in excess of \$20 million in increased general fund support. In the 1991 Session, the system was the beneficiary of a 21.5% general fund increase totalling \$47.4 million. The Montana University System received the largest general fund appropriations increase of any portion of state government. Clearly, unlike the majority of other states, our system will still receive a substantial increase in funding even after reductions proposed in the Executive Budget.

Second, it must be noted that the Board of Regents has the authority and considerable capability to mitigate some of these reductions, in much the same way other agencies have utilized increased federal revenue, state special and proprietary accounts. Over the years, the legislature has approved moving millions of dollars from the legislatively-appropriated current unrestricted funds of the university system to "off budget" designated or restricted funds. For example, there is at least \$5 million per biennium of indirect cost recovery for administrative overhead from federal grants and contracts. Through FY 1987, 85% of this revenue was appropriated by the legislature for costs of accounting, utilities, library expenses and administrative overhead. In the 1989 biennium, the legislature allowed each unit to keep 50% of this revenue out of the budget and in FY 1991 the legislature authorized all of this revenue to be used for other purposes.

Laboratory fees and specific course-related fees, which could be classified as relating to instruction costs, also are currently accounted for in "off budget" funds. Likewise, the \$3.35 million of biennial revenue from the seventy-two sections of school trust lands, granted by Section 14 of the federal Enabling Act of 1889 for support of educating our youth, was moved "off budget" by the 1985 Legislature as security for university revenue bond obligations. It is estimated that the funds under the control of the legislature and the Governor (which include general fund, six mill levy revenue, tuition and some other small funds) constitute only about half of the total dollars available to the system.

Third, and despite these assertions that the system is able to make reductions in general fund spending, the Executive Budget includes a recommendation which reduces the previous reduction goal established for the system. The executive proposal to convert the remaining state-owned liquor stores to agency status would spare students the burden of a \$4.673 million tuition surcharge in mid-year, which was to have been an offset to general fund reductions. Failure to pass the liquor store conversion bill will reimpose \$4.673 million in reductions in the university system budget.

Finally, allow me to re-affirm the position of the administration regarding the flexibility issue. While the total dollar goal of actions necessary to reduce general fund spending in the system must remain intact for the Executive Budget to balance, the decisions about where reductions are to occur would best be made by the "directors of the agency," i.e. the Board of Regents. To offer a starting point for legislative deliberations, the recommended budget includes the FY 1992 reductions as adopted by the Board of Regents and the FY 1993 reductions at the university system unit level in proportion to the total general fund appropriated by the legislature. For example, the community colleges received 2.9% of the Montana University System general fund appropriation in FY 1992 and were allocated 7% of the general fund reductions approved by the Board of Regents, so this reduction recommendation is continued in the Executive Budget. For FY 1993, the community colleges are to receive 3.2% of the total system general fund appropriation and the Executive Budget, therefore, apportions 3.2% of the general fund reduction to the community colleges. It is, however, understood that the regents will adopt the final operating budgets for the system.

K - 12 AND OPI FUNDING

Among the largest funds in state government is the school equalization account (SEA), from which payments to local school districts are made. Small percentage reductions in this fund can yield large savings for the general fund. However, the new funding system has not been in place long enough to accurately determine its overall merit. Given this concern, and the commitment of the

EXHIBIT
DATE 1/2/92
HB

executive to education, the executive recommendation excludes any consideration of reductions in SEA payments to local school districts.

In fact, the Executive Budget guarantees funding for local schools through the addition of general fund dollars, as revenues to the school equalization account have come in below estimates, and state law requires the general fund to reimburse the SEA for any shortage. A cash infusion of \$46,034,000 is required to cover the estimated shortfall, and this is recommended to include a \$41,534,000 general fund appropriation and \$4.5 million of timber sale state trust lands revenue.

The Executive Budget does recommend a reduction in appropriations to the Office of Public Instruction. The reductions totalling 1.6% (or \$1,521,250) of the total OPI budget come from the administration program, where substantial increases in FTE and funding were received from the 1991 session, and secondarily from distribution to public schools. From the larger perspective, total spending for OPI and the foundation program will still exceed \$896 million for the biennium. The Executive Budget will leave intact 99.8% of the appropriated funding for elementary schools, high schools, and their administration statewide.

HUMAN SERVICES

The three main human service agencies are holding up admirably under the cross-pressures of reductions in funding increases and of cost increases in several uncontrollable programs due to ever-increasing federal mandates and the fragile economy. The Executive Budget supports the efforts of these agencies to reduce general fund spending wherever possible, and their reasonable requests for additional funding where it appears to be an absolute necessity.

An article from the most recent edition of the NCSL Magazine states, "about one third of this year's federal legislation required states to provide health services. Other mandates dealt with human services, environmental protection, education...In fact, two thirds of the health bills required medicaid expansions." Clearly, even the best state level management cannot curtail federal intrusion into the state's pocket book. The search continues in every state for ways to deal with this seemingly irresistible force.

Subcommittee review of these budgets will reveal thoughtful, creative and compassionate planning which has led to reductions of \$12.8 million in general fund spending and \$8.5 million in revenue actions that do not compromise the critical services currently provided by the state. Likewise, there are recommended increases totalling \$14.2 million for critical health care, foster care, corrections, benefits and related programs.

STATE EMPLOYEES

Despite the seriousness of state fiscal problems, no direct action like those seen in several other states is proposed in this executive budget proposal to impact state employees statewide. Despite the most substantial increase in pay in a decade which was given to state employees last session, no statewide plan is proposed to freeze the pay plan, or to mandate statewide furloughs, layoffs, or reductions in hours. The administration recognizes that state employees' salaries have lagged behind inflation and the regional job market for too many years. When we are expecting more from state workers, it would not be in the state's best interests to pay them less than promised.

Unfortunately, the combination of vacancy savings and across-the-board cuts imposed during the last session and reductions in general fund spending has impacted many agencies to some extent. This combination has hit small, general fund agencies particularly hard. Some agency-level furloughs and position eliminations were required to meet vacancy savings even prior to this special session. For the most part, however, agency personnel actions have been limited to increasing vacancy savings, i.e. holding positions open longer as vacancies occur. It also must be recognized that a disproportionate share of the reductions appear to be in personal services because of the restrictive language in HB2 which prevents moving first level authority down to other expenditure categories.

LOCAL GOVERNMENTS

More than \$70 million in state funds are distributed annually to local governments. In fact, state distributions to counties will increase by more than \$1 million due to increased reimbursements for personal property taxes, and local revenues from the gambling tax and other sources are expected to increase. The executive budget proposes reductions of \$3,622,237 in this distribution. Of that amount, \$2 million is a reduction in the appropriation to the Coal Board, whose ability to grant after the proposed reduction would still exceed the total grants awarded in the last biennium. The remaining "hard" reduction of \$1,622,237 represents approximately 2% of state expenditures to local governments. Every effort was made to limit reductions in this area, but it is essential that the adjustments be shared statewide to some extent.

THE ONGOING IMBALANCE

Only a series of well padded "savings accounts" and a revenue windfall from federal tax reform coupled with income tax surcharges

EXHIBIT. 1

DATE 1/2/92

HB of 2

of varying levels have saved state government from a solid decade of deficit spending. As shown on chart 3, for five of the last seven biennia, general fund spending--shown in pink--has exceeded general fund revenue--shown in grey. And the problem is growing worse.

Some have criticized the administration's special session proposal for failing to provide an immediate remedy to this decade-long structural imbalance. I would contend, frankly, that to do so would be irresponsible under almost any circumstances, notwithstanding the chaos resulting from legislators and other officials scrambling to make major, long-term decisions under the crush of a special legislative session.

If state government has been unable to deal with major reforms in spending and taxing through more than a decade of thoughtfully-crafted, carefully-studied proposals submitted in regular sessions, what would lead anyone to a conclusion that such action could occur in a special session? While one-time solutions are not ordinarily wise choices, rejecting them necessitates the consideration of major tax increases or more painful reductions in budgets and services.

It is wise that we deliberate here with an eye toward this major crossroads for Montana. But what is most reasonable now, during this special session, is to address our short-term needs; to do what is least harmful to the least number of Montanans. Both the executive budget planning process and the electoral process will work between now and January of 1993. Both processes should give all Montanans every opportunity to become educated about the number of and the seriousness of the structural and service delivery issues involved, as well as options available to solve them. I contend strongly that there are no easy solutions left. Restructuring state government will be the challenge facing us in the next regular session.

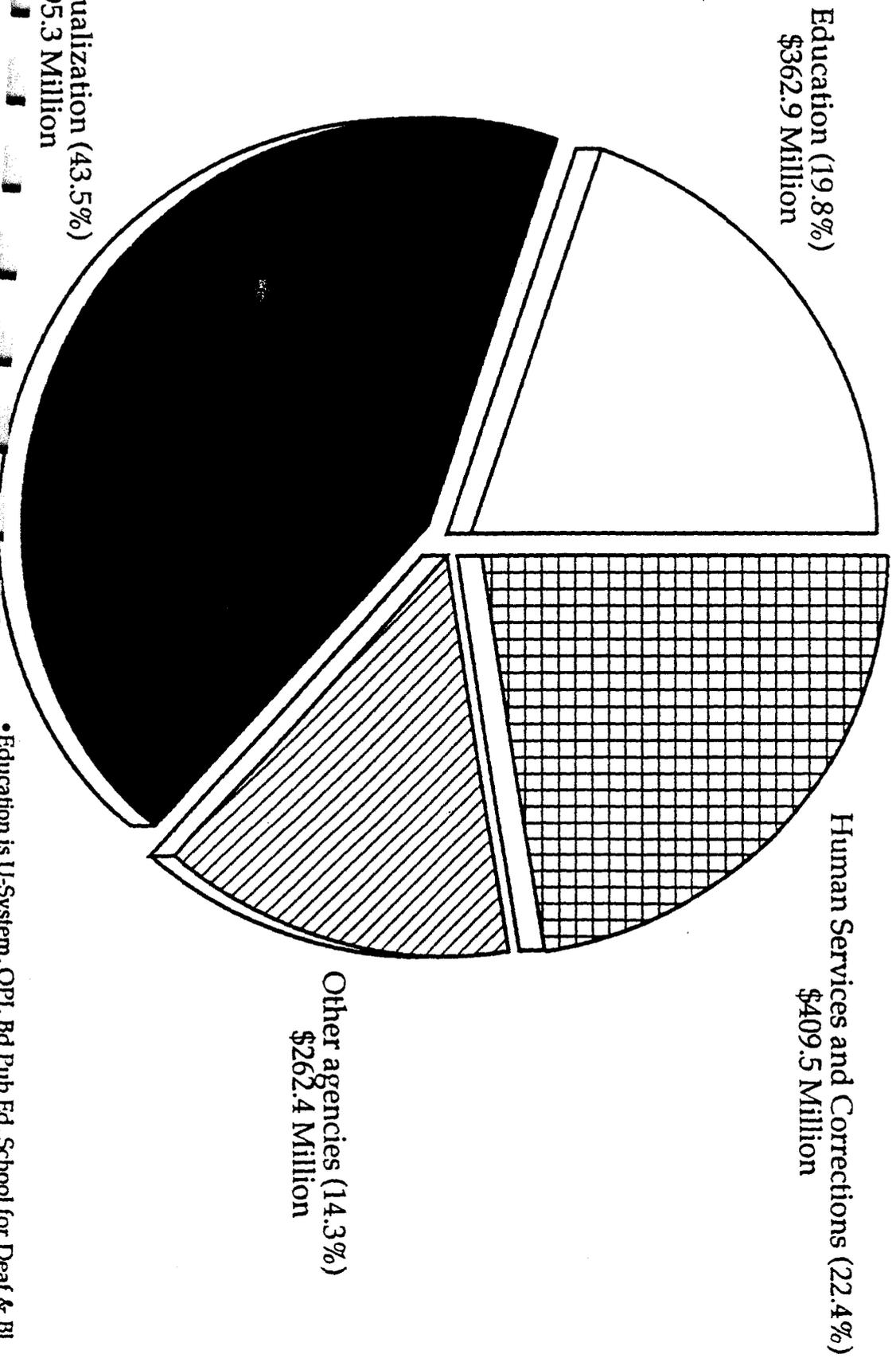
As the last column in this chart shows, the Executive Budget before you now begins to reduce our general fund imbalance. Revenues are increased and spending is decreased. The recommended budget addresses our short-term needs, preserves essential services, protects taxpayers, and at least begins to address our long term environment. I ask for the committee's cooperation in making this a smooth session, and stand ready to do all within my ability to make it one. Thank you, Mister Chairman.

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1/21/92

Total General Fund and School Equalization Appropriations 1993 Biennium

Total \$1830.1 Million

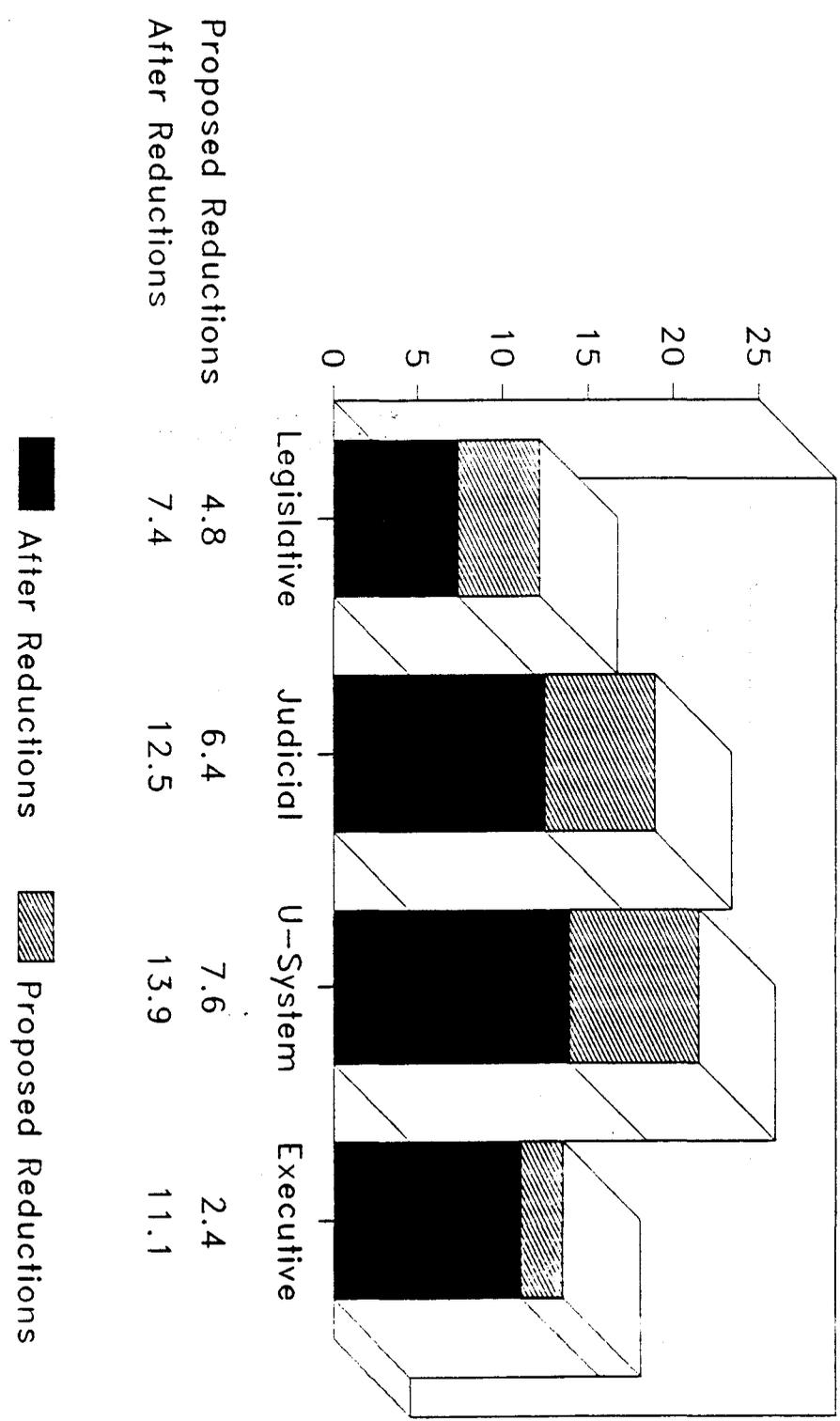
COMMIT 22
DATE 1/21/92
HIB 2



• Education is U-System, OP1, Bd Pub Ed, School for Deaf & BI
• H...h Se... an...pre...is SRS, DFS, DCHS

General Fund Appropriation Increases By Level of Government

Percent Change from 91 Biennium Spending

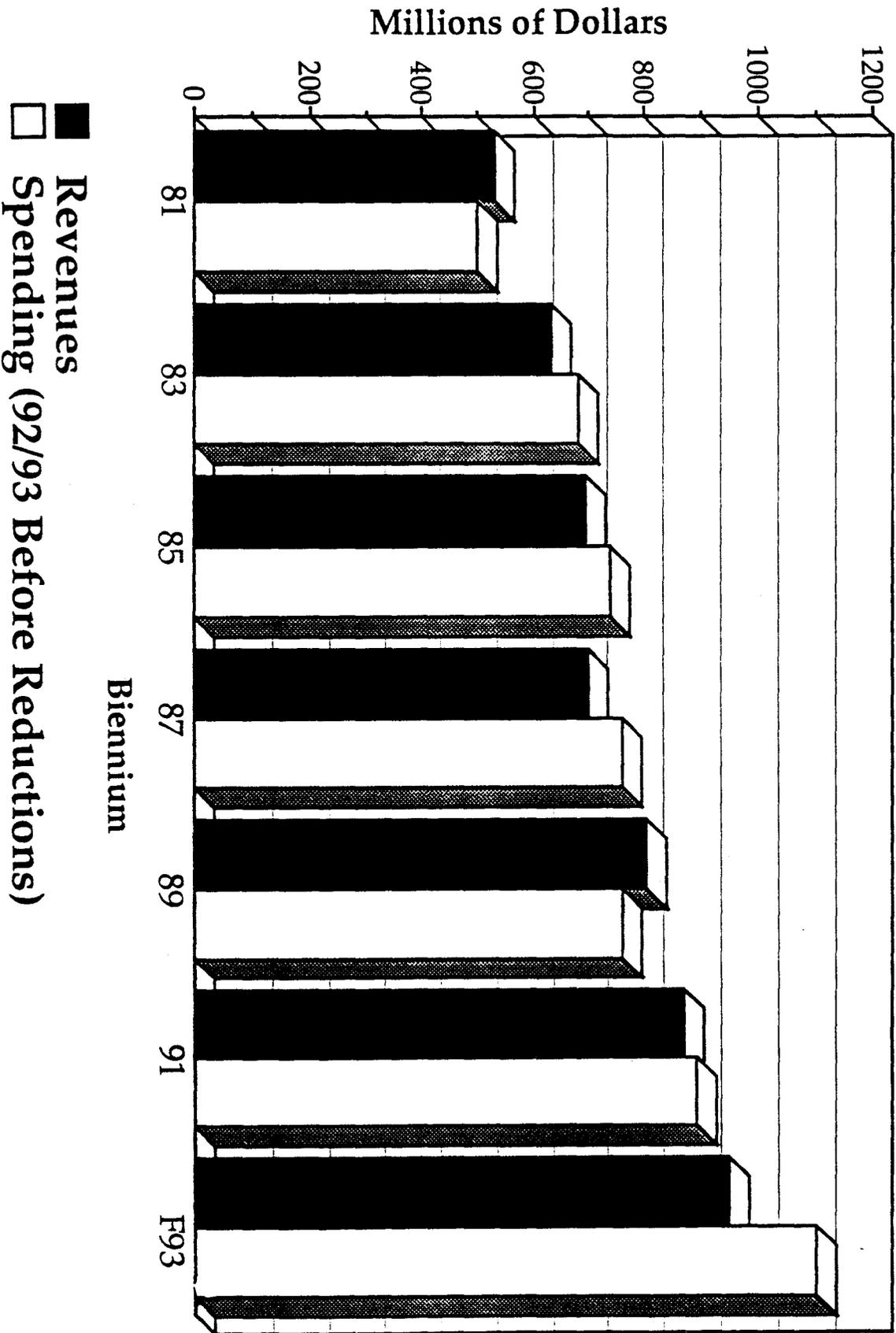


After Reductions



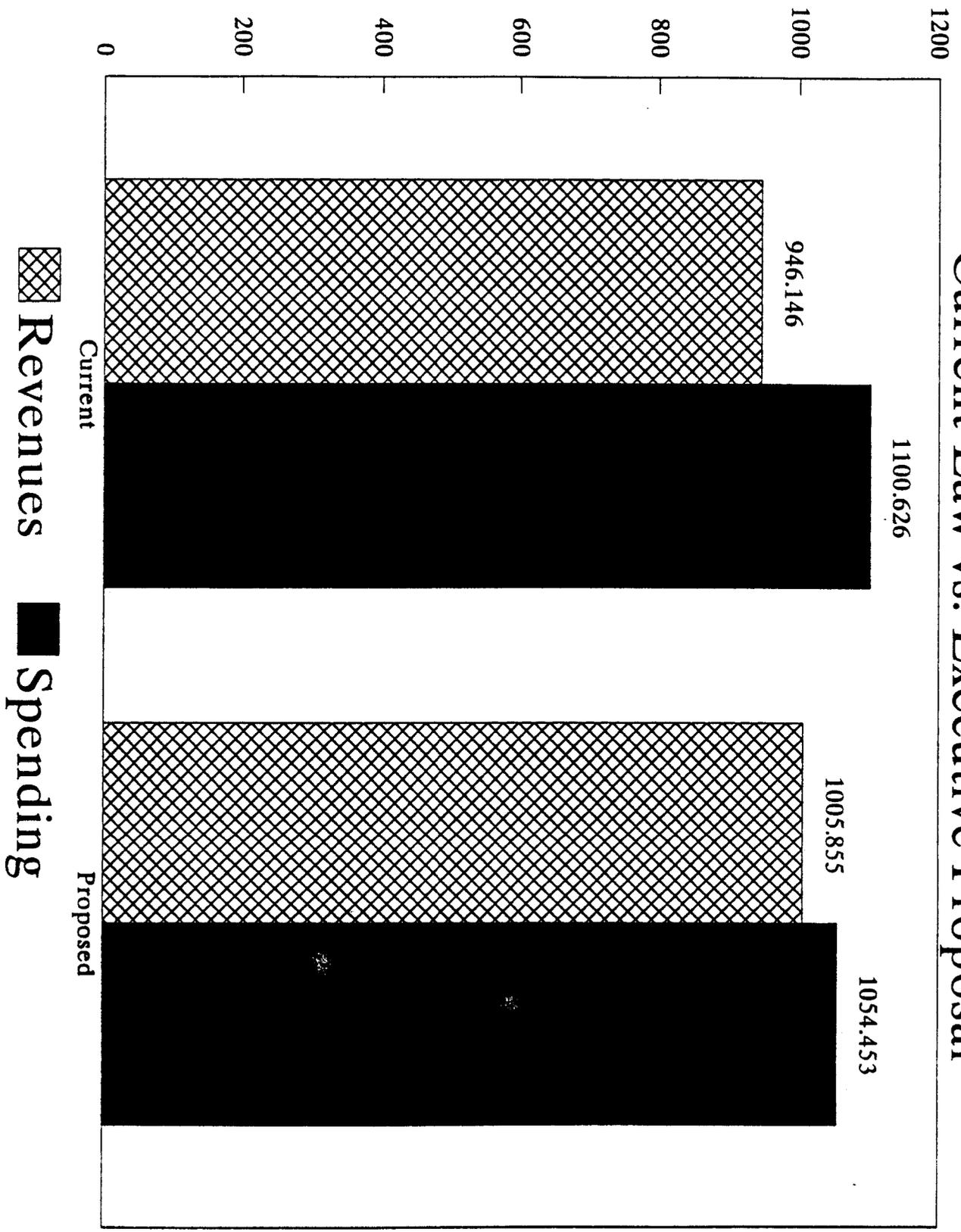
Proposed Reductions

Montana's Structural General Fund Imbalance Historical Comparison of Revenues and Spending



Comparison of General Fund Revenues and Spending Current Law vs. Executive Proposal

Millions of Dollars





STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

January 7, 1992

EXHIBIT 3
DATE 1/2/92

Ed Sub - HB 2

*Also Legislative
Analysis Book
attached to
Hse Approp. Mtg*

TO: House Appropriations Committee
FROM: Teresa Olcott Cohea
Legislative Fiscal Analyst
RE: Subcommittee Review

The subcommittees took the following action on January 6, reducing general fund appropriations by \$1,261,959. As the attached summary shows, the subcommittee recommendations are \$5,606,313 above the Executive Budget.

General Government and Highways-\$95,986

State Auditor

- 1) Budget reduction of \$18,490 in fiscal 1992.

Judiciary

- 1) Budget reduction of \$5,729 in fiscal 1993.

Secretary of State

- 1) Elimination of second year of microfilm budget modification(\$25,000)

Administration

- 1) Reduction in equipment budget, totalling \$24,767.
- 2) Funding switch in the Personnel Division, for a general fund savings of \$13,000.

3) Reduction of HB509 appropriation to implement the pay plan, for a general fund savings of \$9,000

Human Services-\$437,879

Family Services

1) Increased personal services vacancy savings in Management Support by an additional 3 percent, saving \$96,054.

2) Increased personal services vacancy savings in Community Services by an additional 2 percent, saving \$341,825.

Natural Resources and Commerce

Not yet completed.

Institutions and Cultural Education--\$728,094

Corrections and Human Services

1) Elimination of three budget modifications totalling \$214,640.

2) Impose cost of court-ordered evaluations on counties, starting in fiscal 1993, saving \$513,454.

Education

While there was no overall change in budget reduction, the subcommittee reallocated the budget reductions among agencies.

Long Range Planning

While there were some changes in projects funded, there was no change in overall budget reductions.

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Enclosure

LEGISLATIVE FISCAL ANALYST

EXHIBIT 4
 DATE 1/2/92
 HB 2

SUBCOMMITTEE ACTION Over/(Under) EXECUTIVE BUDGET

Subcommittee/Agency	Fiscal 1992 General Fund	Fiscal 1993 General Fund	Biennium General Fund
GENERAL GOVERNMENT & TRANSPORT.			
Legislative Auditor	(\$18,512)	\$57,550	\$39,038
Legislative Fiscal Analyst	0	25,002	25,002
Legislative Council	0	65,164	65,164
Environmental Quality Council	0	0	0
Consumer Counsel	0	0	0
Judiciary	66,429	286,348	352,777
Governor's Office	0	0	0
Secretary of State	0	(25,000)	(25,000)
Commissioner of Political Practices	0	0	0
State Auditor	(18,490)	0	(18,490)
Crime Control Division	0	0	0
Highway Traffic Safety	0	0	0
Justice	0	0	0
Transportation	0	0	0
Revenue	0	0	0
Administration	(91,642)	(5,125)	(96,767)
State Fund	0	0	0
Public Employee's Retire. Board	(9,583)	4,000	(5,583)
Teacher's Retirement Board	0	0	0
Military Affairs	(5,100)	5,100	0
TOTAL	(\$76,898)	\$413,039	\$336,141
HUMAN SERVICES			
Health & Environmental Sciences	\$36,485	\$36,485	\$72,970
Labor & Industry	0	0	0
Social & Rehabilitation Services	562,921	1,904,221	2,467,142
Family Services	875,052	1,529,538	2,404,590
TOTAL	\$1,474,458	\$3,470,244	\$4,944,702
NATURAL RESOURCES AND COMMERCE			
Public Service Regulation	\$0	\$0	\$0
Fish, Wildlife and Parks	0	0	0
State Lands	(800,000)	0	(800,000)
Livestock	0	0	0
Natural Resources & Conservation	10,891	40,908	51,799
Agriculture	0	0	0
Commerce	0	0	0
TOTAL	(\$789,109)	\$40,908	(\$748,201)

<i>INSTITUTIONS AND CULTURAL EDUCATION</i>			
Montana Arts Council	\$0	(\$103,865)	(\$103,865)
Library Commission	0	31,281	31,281
Historical Society	0	0	0
Corrections & Human Services	(683,104)	986,180	303,076
TOTAL	(\$683,104)	\$913,596	\$230,492

<i>EDUCATION</i>			
Board of Public Education	\$0	\$0	\$0
School for the Deaf & Blind	0	0	0
Office of Public Instruction	394,364	195,373	589,737
Commissioner of Higher Education	0	607,504	607,504
Vocational-Technical System	0	17,238	17,238
Six University Units	0	297,719	297,719
Agricultural Experiment Station	0	15,783	15,783
Cooperative Extension Service	0	6,081	6,081
Forestry & Conser. Exp. Station	0	1,475	1,475
Bureau of Mines	0	2,678	2,678
Montana Council of Vocational Ed.	0	0	0
Fire Services Training School	0	478	478
TOTAL	\$394,364	\$1,144,329	\$1,538,693

<i>LONG RANGE PLANNING</i>	(\$695,514)	\$0	(\$695,514)
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TOTAL SUBCOMMITTEE ACTION	(\$375,803)	\$5,982,116	\$5,606,313
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BILL NO.

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<i>Gary Bauer</i>	<i>Montana Council of Tech. Math</i>			
<i>Jim Hamman</i>	<i>OBPP</i>			
<i>Steve Yeckel</i>	<i>JBPP</i>			
<i>Donna K Porter</i>	<i>Montana Disabled Americans Mont</i>			
<i>REP E L McLAFFRÉE</i>	<i>Representative HD 27</i>			
<i>HARLEY WARNER</i>	<i>MONT ASSOC CHURCHES</i>			
<i>GEORGE CENSINI</i>				
<i>Larry Garbonds</i>	<i>Gr Falls Public Schools</i>			
<i>MIKE LAVIN</i>	<i>Atty Gen's</i>			
<i>Mike Robinson</i>	<i>Judicial</i>			
<i>Pat Melby</i>	<i>Rivendell</i>			
<i>" "</i>	<i>School Equity Coalition</i>			

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HOUSE OF REPRESENTATIVES

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ILO Jones - DeLo 12850 Mill Creek Rd. Lolo, MT 59847	OBPP			
Karolyn Stanger 901 Hide Out Helena, MT 59601				
Gloria HELMHANSEN 33 S. LAST CHANCE Gulch - Helena	MT. Cultural Advocacy			
WAYNE BUCHANAN 33 S. LAST CH. GULCH	BOARD of Pub. Ed.			
Julie Robinson 521 S. Sanders	SRS			
Sandy Whitney Capital	LFA			
Roger Lind	LFA			
LOIS STEINBECK	LFA			
T Perrin	LFA			
Step Culver	LFA			
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Dave Wilson	MAC			

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<i>Carleen Payne</i>	<i>Int Arts Council</i>			
<i>John Ostrows</i>	<i>Int Catholic Conf</i>			
<i>Erin O'Leary</i>	<i>NEA</i>			
<i>JUDITH CARLSON</i>	<i>HRDC; BB/s; MT. CH. NASW</i>			
<i>Charles R. Brooks</i>	<i>MT. Ret'n / Assoc</i>			
<i>John Decker</i>	<i>AMRPE</i>			
<i>Richard Miller</i>	<i>MT State Library</i>			

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

INTRODUCED BY *[Signature]* House BILL NO. 2

BY REQUEST OF THE OFFICE OF BUDGET AND PROGRAM PLANNING

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE APPROPRIATIONS FOR THE 1992 BIENNIUM; AMENDING THE GENERAL APPROPRIATIONS ACT OF 1991 AND OTHER ACTS APPROPRIATING MONEY TO VARIOUS STATE AGENCIES FOR THE BIENNIUM ENDING JUNE 30, 1993; AMENDING CHAPTER 815; SECTION 9, CHAPTER 526; SECTION 2, CHAPTER 546; SECTION 1, CHAPTER 556; SECTION 4, CHAPTER 559; SECTION 16, CHAPTER 604; SECTION 6, CHAPTER 634; SECTION 1, CHAPTER 707; SECTION 1, CHAPTER 753; SECTION 12, CHAPTER 765; SECTION 6, CHAPTER 774; SECTION 5, CHAPTER 816; AND SECTION 1, CHAPTER 820, LAWS OF 1991; REPEALING SECTION 7, CHAPTER 725, LAWS OF 1991; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Chapter 815, Laws of 1991, is amended to read:

"Section 1. Short title. [This act] may be cited as "The General Appropriations Act of 1991".

Section 2. Limit on personal services transfer -- exceptions. (1) Funds appropriated for personal services or indicated in legislative intent as having been appropriated for personal services may not be expended under any other category unless the approving authority approves a specific agency request for the 1993 biennium only, which request is justified either on the basis of documented cost savings or as specified in subsection (2) or (3). The approving authority shall submit its analysis of the cost savings to the legislative auditor, with wages and fringe benefits separately documented from other cost savings. The legislative audit committee shall review the approving authority's analysis and report to the 53rd legislature on the savings realized.

(2) If an agency is unable to recruit and hire professional positions funded in the appropriation, funds appropriated for personal services may be used to fund an agreement or contract to provide services that are identical to those services performed by an authorized position. The amount used for the agreement or contract may not be more than the amount authorized for the position less any personal services reduction. The agency director shall certify to the approving authority, as defined in House Bill No. 454, or his designated representative that the agency is unable to fill the position and that the services performed by that position are necessary.

(3) Funds appropriated for personal services may be expended under other categories when specifically authorized by Chapter 815, Laws of 1991, as amended

House BILL NO. 1
Baldane

1 INTRODUCED BY
2 A BILL FOR AN ACT ENTITLED: "AN ACT APPROPRIATING MONEY FOR
3 THE OPERATION OF THE FIRST SPECIAL SESSION OF THE 52ND
4 LEGISLATURE, CONVENING JANUARY 6, 1992, AND FOR OTHER
5 RELATED PURPOSES; AND PROVIDING AN IMMEDIATE EFFECTIVE
6 DATE."
7
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
9
10
11 NEW SECTION. Section 1. Operations appropriations. The
12 following amounts are appropriated from the general fund for
13 fiscal year 1992 for the operation of the first special
14 session of the 52nd legislature, convening January 6, 1992:
15 House of Representatives \$271,556
16 Senate \$146,466
17 Legislative Council \$ 88,108
18 NEW SECTION. Section 2. Legislative fiscal analyst
19 appropriation. The following amount is appropriated from the
20 general fund to the office of the legislative fiscal analyst
21 for fiscal year 1992 for preparation, printing, and
22 distribution of fiscal information relating to the first
23 special session of the 52nd legislature:
24 Legislative Fiscal Analyst \$22,350
25 NEW SECTION. Section 3. Department of administration

1 appropriations. The following amounts are appropriated from
2 the indicated funds to the department of administration for
3 extraordinary custodial and printing costs associated with
4 the first special session of the 52nd legislature:
5 Department of Administration \$ 2,205
6 General fund \$44,000
7 Proprietary fund
8 NEW SECTION. Section 4. Effective date. [This act] is
9 effective on passage and approval.

-End-

