

MINUTES OF THE MEETING OF
HOUSE APPROPRIATIONS SUBCOMMITTEE ON ELECTED OFFICIALS
MONTANA HOUSE OF REPRESENTATIVES

January 26, 1977
8:10 a.m.
Room 428A
State Capitol Building

The meeting was called to order by Chairman Lynch with all members present for an executive session, followed by a hearing on the Department of Administration: Overview, Director's Office, Accounting, Insurance, Investment, and Treasurer's divisions.

Environmental Quality Council: Senator Regan moved to accept the modified Environmental Quality Council budget. Discussion: Sen. Regan suggested that since the administrator is leaving, there may possibly be some savings; however, others felt that the position would be filled right away. Mr. Gosnell reported that the modified budget is \$158,861 for 1978 and \$167,978 for 1979; the budget is less than originally requested. They did not deduct funds from the salaries but in printing and some smaller items. This budget does still allow for more meetings; almost all of the contracted services are taken out. Senator Lockrem questioned the need for a resident analyst.

Senator Lockrem made a substitute motion that the committee accept the modified budget with the reduction in personal services of grades listed as 15-6 (ecologist), 14-6 (economist), and 14-2 (attorney). Discussion: Senator Lockrem indicated difficulty in justifying these. These would be \$49,000 or a 40% reduction in personal services, which would be an overall decrease in the budget of 12%. With the executive director leaving possibly either the ecologist or economist could step in as director also. He felt the E.Q.C. has basically outlived its usefulness. Chairman Lynch expressed opposition to the motion, stating he feels it still has a purpose and this type of action would make it a figure head office only. Senator Nelson also felt it has gone beyond its usefulness; it's a complete duplication of other work. Senator Lockrem felt the Council could use the services of an ecologist, economist and an attorney from other agencies. Roll call vote for substitute motion: Gunderson: no; Lockrem: aye; Nelson: aye; Regan: no; Wood: aye; Lynch: no. Chairman Lynch announced the motion failed on a 3/3 tie; therefore the committee is to act on the motion to accept the modified budget. Discussion: The question was raised that if the committee does not approve the budget, would it go to the full appropriations committee. Chairman Lynch said he would like to bring it to the full committee and the committee members could bring out the discussions and problems they faced with it. Vote: Gunderson: aye; Lockrem: aye; Nelson: no; Regan: no; Wood: abstain; Lynch: aye. The motion carried with a 3/2 vote, and one abstention.

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Legislative Council: Senator Regan moved that the \$7,500 be inserted in the proper place for the Western States Forestry Task Force.

Discussion: This would be line itemed in the budget. The motion carried unanimously.

Military Affairs: No action taken as additional information is still needed.

Secretary of State: Action will be deferred until the committee has been able to meet with the Administrative Code Committee.

State Auditor: Action will be deferred until more information is available on the payroll issue and other meetings have been held regarding this topic.

Department of Highways: Mr. Gosnell distributed a two-page summary sheet for this department and a summary of Earmarked Revenue Accounts. The ERA shows a net fund balance at 1979 of \$4,356,499 under the LFA recommendation and a \$2,658,253 balance under the budget requested by the Highway Department. After the reclassification the LFA budget would bring the Department out with a balance of \$1,587,693 while the Department's budget would leave them with a deficit of \$110,553. He also pointed out three areas for consideration: 1) Revenues are at 8.2% of what they were last year; they estimated it at 4% or 5% and the department may actually have substantially more funds than the LFA used in figuring. 2) Construction account. The department is over matching to a degree of 5% to 8%. He said that with the lower revenue estimate plus over commitment of earmarked funds, the LFA feels comfortable that the department has built in a substantial amount of earmarked funds. Except for the GVW in general operations, he feels it is fairly funded. 3) When construction is up, maintenance is down depending on the weather. There has already been a very light level of maintenance this year. Les Simpkins of the Budget Office commented that the department always uses the maintenance funds.

Mr. Gosnell explained that traditionally there is a fund balance of nine or ten million dollars, which he feels is an untenable position when dealing with union employees. Also consider that the highway patrol was gradually taken out of highway funding. He feels that maintenance should be funded because each year more roads are put down, but the maintenance budget is not increased. Consider that it would not be desirable to raise taxes now and then in 1980 and 1981 have to go back and repeal the tax. Senator Nelson also felt that the more interstate roads constructed, the more maintenance is required; this trend will increase rather than decrease.

The reclassification bill would add a one-quarter cent (1/4 ¢) tax to the present seven and three-quarter cent (7 3/4 ¢) tax. This brings certain secondary roads into the primary classification Mr. Gosnell explained. Senator Lockrem commented that because the tax at the 7 3/4 ¢ level is difficult to administer so many legislators are supporting the tax to raise it to eight cents (8¢).

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Senator Lockrem explained that his bill for a one and one-quarter cent (1 1/4¢) tax would raise \$6,500,000, of which \$500,000 would not be committed.

Mr. Simpkins discussed the PBS for the maintenance division and Chairman Lynch felt that maintenance should receive higher priority than it has been given.

Senator Regan moved that the committee accept the budget recommended by Associate Fiscal Analyst Bill Gosnell right down the line. (This is the budget summary received today.) Discussion: Chairman Lynch summarized the budget saying we are off with their basic need a total of \$2,500,000 in the highway budget. If this motion passes, the committee will not deal with specific areas. Roll call vote: Gunderson: aye; Lockrem: no; Nelson: no; Regan: aye; Wood: no; Lynch: no. The motion did not pass; therefore, the committee will go into specific areas of funding, following the memo recapping budget.

General Operations: Senator Lockrem moved to insert the following into the budget: "Repair G.V.W. scalehouses, Convert G.V.W. scale instruments, Rebuild 3 G.V.W. scale pits, Construct toilets in G.V.W. scalehouses, Overhaul G.V.W. scales" (the amounts are listed on the attached memorandum dated January 24, 1977 subject: 1979 Biennium Budget Request Recapitulation). Discussion: Mr. Simpkins felt there would not be any budget amendments to this budget, possibly transfers but not amendments. Senator Regan asked if there would be a tourist study; and Mr. Simpkins felt that if the committee feels there should not be one and the minutes reflect this sentiment, then the department could not go against that wish. Vote: The motion carried unanimously.

"Tourist Study": This is funded under the General Operations Budget. Senator Regan moved that the Tourist Study not be funded. Discussion: It was felt by Representative Wood that this study could be very worthwhile but that it should be done by an independent group. The need of doing this study at all was questioned by Chairman Lynch since a study was done during the summer of 1975, paid for in 1976 at the cost of \$10,000 or \$11,000, and covered similar material. Mr. Gosnell pointed out that the study mentioned was strictly a summer study, and did not include any travel done during winter months. He wondered what the goal of the study would be; it has never been clearly defined. Senator Lockrem suggested that a functional program audit be performed. It was felt by Representative Wood that the study should breakdown what happens to the funds that are coming into the state by tourists. Vote: The motion carried with five (5) aye votes and one (1) no vote (Gunderson).

"Leg. Auditor authorized \$4,000 per fiscal year on above G.V.W. items": Mr. Gosnell reported that this is already in the budget. No action required.

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"G.V.W. & Planning Research Travel": It was recommended that this be included by Mr. Gosnell. The budget is expanded from the current level, the differences being in inflation rates. Some of the funds would be applied to G.V.W. and some to the research unit. The division is claiming that they are going to do a great deal of travel. Senator Regan moved this not be included. Vote: The motion carried with four (4) aye votes and two (2) no votes (Wood, Nelson).

"G.V.W. & Planning Research Overtime": Mr. Gosnell recommended that if the committee decides to put Termination Sick and Annual Leave payments back in that it be made for all the budgets of all the divisions within the Department of Highways, as it has been taken out of all the divisions within this department. He suggested to also consider the maintenance division's request for 100% vacancy savings plus the termination sick and annual leave payments. Senator Lockrem reminded the committee that the division administrator said they are locked into overtime by the contractors. Mr. Simpkins explained that the executive budget was made with the view that all agencies should be treated the same and should not be budgeted for termination pay. Senator Regan moved that the G.V.W. overtime not be approved. Vote: The motion carried with five (5) aye votes and one (1) no vote (Gunderson).

"Termination Sick and Annual Leave": Whatever is decided on this question will be applied to all divisions of the Department of Highways. Senator Regan moved that it not be approved. Discussion: Mr. Gosnell indicated that this whole package would cost about a quarter million dollars a year. If it is put in to their budget, it will be different than all other agencies in the government. It would be giving special preference to the Highway Department. The funding would set a precedence, Senator Regan felt. This is the first time this budget has been dealt with in this kind of depth, due to lack of time and specific information in the past. In response to a question by Mr. Wood, Mr. Gosnell stated he felt the department would have adequate funds to take care of this without hurting their operations, with the exception of the maintenance division, which could have a vacancy savings allotment. Vacancy savings are taken only where there is a history of it within the department. Vote: The motion carried with five (5) aye votes and one (1) no vote (Lynch).

All other General Operations items are already line itemed.

Travel Promotion: Senator Regan moved that the committee accept the Fiscal Analyst's recommendation on the travel promotion. Discussion: The LFA recommends \$634,000 in 1978 and \$637,00 in 1979 while the agency requests \$750,000 for each of these fiscal years. Representative Gunderson wondered if that budget could be defended against other cuts. Senator Regan felt that it could be because the committee heard testimony, made cuts, and it is an honest budget. The higher budget was preferred by Representative Gunderson but he would go with the other one if the committee would fight firm on it. Vote: The motion carried unanimously.

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Construction: "Overtime": Senator Regan moved that the committee put overtime, differential pay and payroll benefits in the budget. The motion carried unanimously.

"Longevity pay": Mr. Gosnell said that it takes five years to get longevity pay, and why pay people coming in new? Senator Regan moved that longevity pay not be included in the budget. Vote: The motion carried unanimously.

Maintenance: "Expenditure 1199 credits": Mr. Simpkins explained that these is for transferring money from one account to another, because different bureaus do work for each other and charge it against their accounts. It should have been under contracting services, however. Mr. Gosnell pointed out that this is a cost accounting system. Representative Wood moved that the committee approve the 1199 credits, to put them back in the budget. Vote: The motion carried unanimously.

"2% Vacancy Savings", "Payroll benefits": Senator Regan moved that these be approved. Vote: The motion carried unanimously.

"Repair and maintenance": The difference is in the inflation rates, it was explained by Mr. Gosnell. Senator Regan moved that this not be approved. Discussion: Chairman Lynch expressed that he is personally in favor of it; and Representative Wood pointed out that last year they didn't have the funds to buy even batteries. Both sides admit it is a guessing game, and we have to decide to go high or low, Chairman Lynch said. Senator Regan asked to withdraw her motion. Representative Gunderson moved that the repair and maintenance be included in the budget. Vote: The motion carried with five (5) aye votes and one (1) no vote (Regan).

Preconstruction: These figures are already in the budget; no action required.

Maintenance: "Reclassification": Action on this cannot be taken until the Fiscal Analyst analyzes the budget after the decisions made above.

Equipment: "General Personal Services": This is to bring the 1199 credits into the budget, which the committee already approved for inclusion. Senator Regan moved it be included. Vote: The motion carried unanimously.

The executive session concluded at 9:20 a.m. and was immediately followed by the hearing for the Department of Administration.

The Director of the Department of Administration, Jack Crosser, described the department as basically a service agency for other governmental agencies; it consists of 12 divisions with 8 attached boards. Most of these programs have very little control over the volume of work that is processed by the program.

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Director's Office: Mr. Doyle Saxby, Deputy Director for the Department of Administration, distributed a budget information sheet (attached). He explained that there is a personnel classification appeal in this office at the present time. If the appeal is sustained, there won't be enough money in the budget if the proposed cut is made. He also explained the national committees which he is involved in, such as the National Council of Government Accountants State Task Force; funding is requested by the agency and the Governor's office to enable his continued participation. Mr. Saxby feels the Governor's budget is more realistic for this Office. In discussing the differences in funding for the operating expenses, Mr. Eaton and Mr. Gosnell explained that the LFA used a 1976 base and the Budget office used the 1977 base. No complaint with returning to their original requested budget, Mr. Saxby stated.

Accounting: Mr. Saxby indicated there is no argument on the FTEs, but he does feel the salary savings cut is quite severe. Terry Cannon, Administrator of the Accounting Division, discussed the SBAS budget. (See attachments for this division) He discussed the impact of the university system coming on to the SBAS, stating that the full impact would be felt in the next biennium. There are savings that they now are aware of that were not apparent at the time the budget was submitted, and the budget has been modified. He feels the budget is tight, but workable. Mr. Gosnell said that there was a \$15,000 increase in the budget in order to allow for the impact of the university system; he maximized the impact. Mr. Ed Eaton of the Budget Office felt there would be no significance in the long run. Mr. Saxby felt that the LFA's recommendation is probably more realistic on this budget.

Investments: There is no change in the FTEs; but the division considers the 5% cut in salary savings to be excessive. This cut would mean they couldn't afford outside advisory services. Jim Howeth, Investment Officer for the Investment Division, reported that they had spent \$16,000 for outside advisors in 1976; they are now in the process of selecting and changing advisors. \$16,000 is not adequate for the amount they will have to pay for outside advisors, who are used for equity portfolios. Equity will be a bigger part of the investment in the next few years, and it requires more effort than fixed income management. They are assuming only a 12% growth rate in the budget, but in the last five years their growth rate has been at 20% a year and the amount of money they manage has almost doubled (to \$650,000). Their earnings are growing at a much faster rate than the amount of money they manage. They are attempting to develop some form of inhouse capability and are presently training a research analyst with plans for adding another one soon. This does not preclude the use of outside investment advisors. He feels that there is a question of the level of performance the division is willing to accept; the degree of efficiency is a question to consider. The division is not able to hire an expert in the field with their current funding, and it takes two years to effectively train a security analyst. Mr. Gosnell felt that if it actually takes two years for this, possibly the 1976 base should not have been used for funding base. Mr. Howeth also explained that the costs of an outside advisor

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will grow as investments grow because their fee is based on the amount of money they are advising on. They are trying to develop an inhouse capability, but that does not preclude the use of outside advisors. They do not feel it would be advisable to bring an outside advisor on to the staff full time. The advisors they use are among the largest in the world in their capacity; they are in close touch to the financial markets of the U.S. The division does not have to follow their advice, but it does provide them with information from the rest of the country.

Mr. Eaton explained that the goal of the Budget office was to set up a revolving fund in the general services; he then had to add in \$2 a square foot for cleaning and other services, which raised the amount originally requested. This will be seen throughout the entire department.

Mr. Gosnell asked about the way interest is invested and referred back to departments, referring to a question brought up during a hearing of the Department of Highways. Mr. Howeth explained that they invest mainly for those who have statutory authority to invest. Some agencies were doing their investing but did not have the authority to do so. The Investment Division declared that they would remain neutral and invest only those that they could by law invest, and that it would be up to the agencies to get the authority to do investing. Certain earnings, according to statutory law, go to the general funds.

Insurance and Legal: Mr. Saxby, after distributing a budget information sheet, said the main savings in this budget is the reduction of one legal counselor, and insurance coverage on tort liability. Mike Young, Administrator of the Insurance and Legal Division, reported that the division has not been providing legal services for attached two agencies. There is a law firm in Helena that is on retainer of \$10,000 that does some of the work. He elaborated the workload in this area and the need for a legal advisor in many areas. Their request is for about \$14,000 for this position and there is enough work for a full-time attorney. This was not explained to Mr. Gosnell when he was working on the budget, he was under the impression that it required only a few days a month and couldn't justify the position on the information he had. Also a lawyer could not come under earmarked funds.

Treasury: The bill introduced by Representative Kimble that would take this out of the Department of Administration was discussed. Mr. Saxby reported that they concur with the executive budget leaving the FTE in. There are additional expenses they must pick up for insurance (\$5,000 bill due now) and moving expenses. There is also security considerations and expenses that must be made. Vera Freseman, Deputy State Treasurer, reported that workloads in their division increase when investments and other workloads increase. They are and always have been understaffed. They have not been able to conduct internal audits because of this shortage but Mrs. Freseman feels

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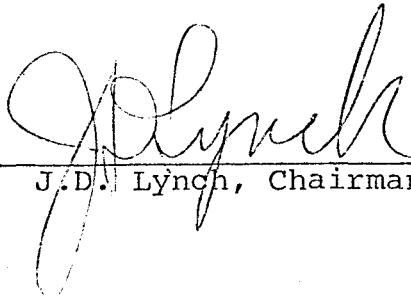
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that they could draw more money from outside banks if collection reports could be audited before they hit SBAS. If they had the personnel to do more internal things, they could make the office more efficient and bring in more money.

Mr. Gosnell commented that it could not be predicted what the outcome of the bill will be. He had to cut the FTE because it isn't legally there. Mr. Eaton asked if there was a recommendation for an increase in FTE to resolve the problems, but Mr. Wayne Kedish, Legislative Auditor, commented that they currently have no recommendation for increased FTEs to solve specific problems. Chairman Lynch commented that he has never seen overstaffing in this division.

The meeting was adjourned at 10:20 a.m.



J.D. Lynch, Chairman

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