

MINUTES OF THE MEETING
OF THE LEGISLATIVE SUB-COMMITTEE ON APPROPRIATIONS FOR EDUCATION

February 14, 1977
8:00 A. M.
Room 132
State Capitol Building
Subject: Auxiliary Plant

The meeting was called to order by Chairman Carroll South. The following members were present:

Sen. Matt Himsl
Rep. Jack Moore
Rep. Oscar Kvaalen
Sen. Larry Fasbender
Rep. Ora Halvorson

Chairman South welcomed the following persons to the meeting:

Fred de Money, President, Montana Tech
Richard C. Bowers, President, U of Montana
George R. Bandy, President, Western Montana College
John Van de Wetering, President, Eastern Montana College
Carl McIntosh, President, Montana State University
Larry Clinton, Northern Montana College
Vic Burt, Montana Tech
Tom Nopper, Montana State University
Dale Tomlinson, U of Montana
Ed Bohaus, U of Montana

Also present in the meeting were Judy Rippingale, Fiscal Analyst, and John Krutar, Fiscal Analyst.

Chairman South called first upon Montana Tech. He referred to a memorandum relating to the Regents' rule. That rule would allow Tech to spend \$85,255 of unexpended plant funds to purchase a computer that they are now leasing under a lease-purchase agreement. The rationale being that the unit will save \$32,000 over a four-year period. The \$85,255 will be paid back over four years period of time and Chairman South asked President Fred de Money to explain to members of committee how that amount would be paid back and from what fund it would be taken.

President de Money said that the computer was not on lease but that it was a purchase agreement. It is basically an academic computer although it does help some with accounting. He asked Vic Burt to explain the financing.

The \$85,255 is a loan out of our plant fund area. It is to be paid out of our restricted operating budget. It will be approximately \$20,000 a year plus interest. The reason it was done this way is because state purchasing doesn't allow an agreement that commits over three or four years and they needed more than one year for the computer contract.

Chairman South asked if there had been legislative authority to purchase the computer?

Mr. Burt answered that there had been no legislative authority to his knowledge--there was Regents' authority.

Chairman South said that by doing this the legislature did not authorize the computer but by using \$85,000 of plant funds which are at your disposal to spend, we have to pay that back over a four-year period. That means that this legislature is obligated through no action of its own to increase your general operating account by \$20,000 a year. This is why we are so concerned about auxiliary funds, plant funds or these other funds that we cannot touch but they can in essence very much affect the appropriations that we make here.

Dr. de Money asked what Chairman South meant by "legislative approval".

Chairman South said that he thought any purchase as large as a computer needs legislative approval. It is going to obligate us to appropriate money and this is essentially what has happened here.

Dr. de Money asked if there were a line above a certain amount where they would need legislative approval for a purchase.

Chairman South said that he thought the units should have legislative approval for any capital equipment that is going to obligate this legislature to appropriate additional funds to pay for the equipment. This legislature is obligated every year to pay back the plant funds.

Mr. Burt said that this was not necessarily true--if the legislature decided not to appropriate the money, the contract could be cancelled.

Chairman South asked if the yearly amount of the contract was in their request for capital equipment and they answered that it was.

Chairman South asked if the legislature did not see fit to appropriate this money, would the amount of \$20,000 be taken out of auxiliary funds and not re-paid. If so, it would make that fund short of needed funds.

Dr. de Money said that they had projected this amount as coming from the legislature. That they were doing their own internal financing and had not thought that they needed legislative approval to do this.

Chairman South said that anytime they were going to need additional legislative appropriation, then they would need legislative approval for the purchase. And that they must ask for approval before they purchase something and not afterward.

Dr. de Money said that he looked upon this as an internal budgeting problem--that given a certain number of dollars they might make their own decisions as to how to spend it.

Rep. Moore stated also that when the legislature is obligated to appropriate additional funds for a purchase then it no longer becomes an internal problem, but that prior approval would be needed.

Chairman South asked Dr. Bowers if U of M had any intention of paying back the amount of money that was expended for the computer out of operating budget.

Dr. Bowers answered that they did not intend to pay back these funds but he said the unrestricted funds that are obligated for the purchase of the computer are identical to the amount that has been paid so there will be no increase.

Chairman South said that there had been some confusion regarding a letter he had sent to the universities regarding re-charges. He said that what he meant by re-charges was, for example, if an employee were paid entirely out of one fund but was working part of the time in another area, then what provision or re-charge would be made to the account that had paid the entire salary. Obviously, the salary should have been shared by all areas in which the employee had been working. Re-charges are involved in areas of the computer, car pools and other places. He said that primarily he was concerned about re-charges as they affect the general operating account and what the legislature budgets for and this would apply to employees when they are working in more than one area. If the budget is ever going to be controlled so that we can be assured that the legislature is not appropriating money to augment the budgets of auxiliary enterprises this should be a very fine line of distinction between what should be paid for out of the operating account and what should be paid for by auxiliary and other funds. With this explanation he called upon the units to explain how they handled the matter of re-charges:

U of M charges the auxiliaries and activities 1.2% of the income flowing through that activity for the use of the clerk, janitor or other employee. Chairman South asked if they actually show the transaction or if they were just abating expenses. Mr. Tomlinson answered that it shows as a charge with a negative balance to be made up by the re-charge. Dr. Bowers said that data is being compiled and will be given to the committee in writing. Chairman South asked about the area of utilities, if there is a central heating plant. They answered that there is a central heating plant. The auxiliaries, particularly the residence halls, pay their utilities separately. The telephone system is central but each department pays its own bill. Janitorial services are charged to the area in which the employee is working.

Montana Tech said that their re-charges are direct charges. All systems are central and auxiliaries are billed on a percentage basis. He said that the auxiliaries also provide services for the unit so it gets to be a trade-off. In such a small school they don't feel that it justifies the cost accounting involved. Most re-charges are involved with the physical plant where they do charge back to the auxiliaries. Also in the area of duplicating, charge backs are made. Chairman South said that the list that he had showed \$25,922 was re-charged to the physical plant. Does this include utilities? Mr. Burt said that the utilities weren't included here--they were a direct charge. Mr. Burt explained this more fully. Chairman South said he assumed that in the budget requests for 1978-79 there would be a minus of \$26,000 and Mr. Burt said that was correct. Chairman South asked if this was normal procedure where someone else would like to come in and see what kind of transactions were being done. He said that he would like to see expenses reflected in the budget and the re-charges come back in as a

reimbursement. Basically, it is not a transaction but rather a decrease in expenditures. As an internal procedure it might be correct, but if someone is on the outside and needs to see the transaction, it is very difficult to examine. This is one of the reasons the legislature wanted the SBAS system--it will aid in examining the transactions of accounts.

Chairman South said that it was very easy to look at transactions conducted by MSU and know what was going on but it was very difficult anywhere else. He said that he would like to see all six units adopting the same system so it would be uniform. Mr. Burt pointed out that to develop a system like MSU had, it would require the work of a larger staff which Tech doesn't have. Chairman South said that the committee was aware of the problems involved. No one from the Board of Regents or Commissioners Office has examined these records--they are more concerned with restricted funds.

Chairman South said that the legislature needs to standardize a form to be used by all units in the matter of re-charges to auxiliaries. He said that in examining some of the accounts of units, they could not understand what the transaction was. There was a need for more accurate information. He said that he thought the committee should consider putting some more language in the appropriation bill regarding funds which have never been looked at before and information be made available before the next budget session. He said that he felt it was critical when money could be transferred between these funds and the transaction could not be traced. He said that there seems to be a lot of money floating around that could be used in areas such as repair and renovation and purchase of computers.

There is a lot of things going on in these other funds that affect the appropriations of the legislature in the coming biennium, he said. One example was the president's home at NMC. There was a request made two years ago to either acquire or build a new home for the president at NMC. That request was turned down by the long-range building committee of the legislature. Two years later the house has been acquired anyway which obligates the state to maintain it because it is state property. It is twice as large as the old home and will cost twice as much to maintain. He said that he thought the committee should be aware of all funds since they have a definite impact on the budget that is being appropriated at this time.

Chairman South said that there had been given to him an agency budget worksheet on auxiliary enterprises for FY 76 and under decreases in the fund balance there is a transfer of \$7599, but in the statement of transfers for the year 1976, there is no such transfer included. Mr. Burt said that what was given to the committee was the financial report prepared by Arthur Anderson, Inc., and it was difficult for them to reconcile SBAS with their figures. He said that they are in the process of collecting data for this report and since it was not available today, he would be available for any questions. Chairman South asked if they could meet after the meeting to go over the financial worksheet.

Tom Nopper said that the U of M is attempting to collect data for the committee and that they see the need for standardized accounting procedure so that everyone will be handling accounts in the same manner.

He said, "We concur with you and we do feel frustrated, also, Mr. Chairman, in attempting to answer your questions." He said that even though they had been able to turn over a tremendous amount of information to the committee, they had not had the time that they needed to complete full reports. Larry Clinton, NMC, also said that they had needed time to get the requested information for the committee.

Chairman South said that he didn't want the unit presidents or staff to think that they were being criticized...it is just very difficult to make sense of all accounting procedures and do the work needed in sixty days to appropriate the budget.

Chairman South called upon Western to report. He said that it was apparent that Western's auxiliary enterprises are not very large but you are generating money in excess of the request of the bond indentures some--at least enough to repair and maintain buildings. There was some discussion here regarding the possibility of raising fees at WMC. Dr. Bandy said that it may be necessary.

Sen. Himsel asked Dr. Bandy if they anticipated a drop in enrollment. He answered that they hoped for an increase as a result of the integration studies at the university. He said that unless they can increase enrollment, he expects that they will run into some difficulty with the budget. Chairman South said that there were no re-charges at Western.

Chairman South asked Dr. Van de Wetering if they had any of the problems at EMC that he had indicated and Dr. Van de Wetering answered that he didn't think that they did. They are charging some of the academic departments for the use of some of the student facilities but all of the re-charges are coming through. Chairman South asked him if he was talking about physical plant re-charges and he said that he was. There were no re-charges on the computer--that will be considered if they get the new computer. Now, forty percent goes into institutional support and sixty percent into academic support. Very little work is done for the auxiliaries. Chairman South asked if they did not tie their computer in with a designated account and Dr. Van de Wetering said that they did not. Chairman South asked if they anticipated having to do this and he answered in the affirmative. Chairman South asked about the administrative salaries. As a president, did he devote any of his time to any auxiliary enterprises or any of these other restricted funds. Dr. Van de Wetering said that it was hard to distinguish between those things which would have an impact upon auxiliaries. He said that there were management problems which arise which relate to auxiliary enterprises. Chairman South asked if the computer was used for state or federal agency work on a contract basis and Dr. Van de Wetering said that they didn't use the computer for this purpose. If they get the new computer, it might be done on a very limited scale.

Chairman South said that MSU had very good information and he asked Tom Nopper to comment on this again for the committee.

Chairman South said that he wondered about the computer being bought at UM by student fees and then the information from the computer going to WMC when they had made no contribution toward the purchase. He indicated that this might not be a fair practice.

Dr. Bowers said that it was almost a 50/50 proposition. He asked why the computer had not been put in a designated account but Dr. Bowers said there was so much opposition to that being done.

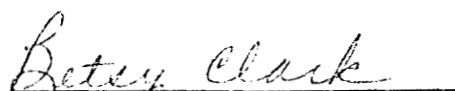
In discussing re-charges with Northern, it was indicated that there were re-charges on motor pool, supplies, postage and duplicating and no physical plant re-charges. Salaries are charged to the building that the person is working in and some split in half on the basis of time. Utilities are charged according to the building and some are allocated on a square foot basis. We charge supplies directly to the area they are working in. At present they don't re-charge the salaries of the people involved. It only involves about three people on our campus. It isn't a significant amount of time and they haven't had the facilities to do this. Chairman South asked what kind of a relationship Northern had with the Vo-Tech program as far as direct charging. Mr. Clinton answered that the Vo-Tech program is part of their instructional program and is no different than any other program.

Chairman South said that he was sure they all agreed that they needed to do some work in this area. We hope, he said, to be able to take care of all the accounting needs at SBAS but if each one of the units needs separate accounting needs there for management, we hope we would be able to take care of that and if it takes more money, we would probably appropriate more specifically for that purpose. Two years from now it would be simpler for everyone involved. He said that it seemed like it would be a good investment if all units have the same accounting procedures.

A tape has been made of this meeting and is on file in the office of the fiscal analyst.

The meeting was adjourned at 9:15 A. M.


CARROLL V. SOUTH, CHAIRMAN


Betsy Clark, Secretary