

MINUTES OF THE MEETING
SUBCOMMITTEE AGENCY 1

March 8, 1977
8:00 A.M.
Room 225
State Capitol Bldg.

WORKERS' COMPENSATION

The meeting was called to order by Chairman Bradley. Roll was taken with all members present except Representative Gunderson.

John LaFaver, the LFA, made a few comments to the committee. He said the agency has requested a review of their budget. They feel it did not receive the attention it should have. After receiving correspondence from them, I asked Curt Nichols to go over the budget and do some further work on it. On the basis of the work that Curt did, and the review, I do not feel the recommendation as it now stands from this subcommittee was unfair to the agency. Taking the inflation factors used for all the other agencies, this agency has been treated somewhat generously. I feel we are not in a position to change our original recommendation, based on additional work done.

Mr. Grossfield made a few comments for the agency. He said the difference in our budgets stems from different bases upon which projections were made. The LFA went back to the FY 76 actual expenditures plus inflation factors to come up with FY 78. The Executive budget was based on FY 77 and inflation factors maintained at current level.

He said in 1973 compulsory coverage for all employers came into effect - from 8,000 to 16,000 employers. We also asked for 25 additional FTE's in 1975-76 and 10 more in FY 76-77. As the need arose, we filled these positions. We have some questions about vacancy savings. Also about operating expenses. Your proposal is 12.1% lower than actual 77 cost. We don't feel we can operate the agency at that level.

Mr. Jim Murphy, assistant administrator, next discussed the 3 major areas of consideration and gave a slide presentation. Three areas for consideration is in personal services, operating expenses and equipment.

He talked first about personal services. Our request was \$738,637, the LFA said \$723,841 for a difference of \$14,796. The Personnel Technician was cut from the budget by the LFA. We need this person because we have no one else to do that work.

He talked about the overtime required and now they have no funds to cover this. He said over the 3 programs, the LFA said they had a vacancy savings of 22.2. Mr. Murphy said in fact, we did not have any. He said 10 positions were unfilled in 76 but are being filled now. He showed on the video screen the vacancy

savings, etc. and said they only had \$3,000 in vacancy savings.

Representative Marks asked about the 10 unfilled positions, were they authorized? Mr. Murphy said yes, in 1976.

Representative Marks then asked when these positions were filled. I see some were not filled until late in September of 1976.

Evidently the positions were not needed before that, correct?

Mr. Murphy said that is right. We only filled the positions when needed.

Representative Marks then asked if they did not expect any vacancy at all? Mr. Murphy responded, sure, we will have turn over but the positions will be filled immediately. Only 7/10 of 1% in turn over vacancy savings.

Senator Story asked if they had applied for any new positions. Mr. Murphy said no, they are not. We can do the job with the staff we now have.

Senator Roberts asked how many unfilled positions they have now. Mr. Murphy said we are holding 8 or 9 until we see a need. 5 in the state fund, 1 in administration, 1 in compliance and 2 in safety and health.

Senator Stephens asked what the personal technician does. Mr. Murphy said they review guidelines, study statistics, transcribe goals, etc.

SAFETY AND HEALTH BUDGET - EQUIPMENT

The original request was \$8695. You said \$5,000 - the LFA said zero. Difference is \$3,695. In this program we have 1 vehicle that needs replaced in FY 78. If we get this vehicle that will leave zero in the budget. In FY 79 we asked for \$23,490. We will need 3 vehicles. We feel it will cost over \$15,000. The committee put all vehicles at \$14,000. That will leave us no money for equipment in FY 79.

In FY 79 - Safety and Health - we asked for \$18,355. The LFA said zero, you gave us \$9,000. Again, we will need 2 vehicles. That will leave zero money in Safety and Health for 2 years.

Representative Marks asked Mr. Murphy about the 8 or 9 unfilled positions you have right now. When are you going to fill them?

Mr. Murphy said we are going after a clerk - underwriter now. We will fill these positions only when we see a need for them. Some of the positions, we may not fill at all.

Representative Marks asked again when they were authorized. Mr. Murphy said he thought in 1975. He said they had 25 authorized for 76 and 10 in 77. About 35 new positions authorized over the biennium. We still have not filled 8 or 9 of them.

Mr. Palmer then passed out a copy of the budget they had prepared.

Mr. Palmer said they had met with Mr. LaFaver on Friday and again on Monday and went over our operating expenses. Essentially what this is is an analysis of expended category to show where we are today in terms of operating expenses. The need for this is to demonstrate our revised request. We find there are some things in here we won't spend this year but we will in the following year.

He said as an example, on page 1, (copy attached), the estimated actual for FY 77 is \$1,002,513. This is what we anticipate spending after reviewing 7 months of actual cost for 77 and 5 months of estimated cost. To get the estimated cost we went through a detailed analysis of every category. He said the whole thing is based on where we are going to be next year. He then gave 2 examples from the budget. He then went over the budget he had presented to the committee and explained what they had done.

In summary, he said our current level expenses (for 1st 7 months and last 5 months), are 12% above the LFA recommendation. In FY 77 under what he is recommending - in FY 78 29% below executive budget. He said the money not spent will revert. The current operating is 27% below the LFA. There are a lot of one time factors. What we agreed to do is lump all these things together, including inflation factor, one time savings, etc., take the estimated actual, consider 15% factors on top of that, add to the estimated actual and come up with a revised request for FY 78. Between FY 76-77 we were looking at a 7.8 increase. In FY77 estimated actual and 78 we would be looking at a 15% increase which would include all these one time costs. In 78-79 we would be looking only at the executive inflationary increase which was in operating expenses. We have taken all the fat out.

He said they have taken out about \$180,000 out of the biennium. The last page shows a summary of the general funds and other appropriate funds. That is the bottom line. I don't know what else we can do.

Representative Marks asked how they came up with this. Mr. Palmer told how he tried different methods and finally came up with 15% for 1 time costs. This is on first 7 months plus 5 months projected. There was some discussion between Representative Marks and Mr. Murphy about this.

Senator Stephens said the LFA has heard all of this before. Would you care to respond.

Mr. LaFaver said first let me go back and tell how we came up with our recommendations for all the agencies. We took actual 76 expenditures and applied inflation factors. The agency has made the case that in FY 76 the expenditures were too small because of the lack of staff. They assured us that during the first 7 months of this year they were fully staffed. We asked for the first 7 months costs, we doubled January and got rid of July to make it more uniform. From using those 77 costs and normal inflation factors used for all other agencies, we still come in with a lower cost figure than the agency does.

Mr. LaFaver said we used FY 76 and the agency was unhappy. We took the first 7 months of 77 and they were unhappy with that.

In terms of vacancy savings, we got the actual vacancy savings in FY 76 and took 1/2 of that rate. We allowed for the case they want for the amount of vacancy savings in 78-79 that they had in 76. The bottom line is when you look at actual expenditures. If we were to do the analysis now, we would probably come in with a lower figure than we did before.

Mr. Palmer then gave a few more examples from the hand out sheet. Representative Marks asked if they had some problem with using January twice and not using July. Mr. Palmer said in some instances it does not work out.

Mr. Murphy added by merely doubling, you not only lose the cost you would have towards the end of the year you lose the cost you haven't incurred at all. Such as the cars we are going to get next month. You can't take 6 months and double it. You have to go category by category, line item by line item.

Representative Marks asked in developing your estimate, did you use the 1st 6 months actual and estimate or back up?

Mr. Palmer said we used 7 months, July through January. Then we estimated what we are going to spend in the last five months.

Senator Stephens told Mr. Palmer, I realize the difficulty on estimating. The LFA takes the first 6 months and doubles it. Using that theory, there was an inordinate expense in the first 6 months. Shouldn't that balance out?

Mr. Palmer said no, it doesn't. In May and June we pay dividends. Insurance was paid in May. Travel was curtailed because of illness, etc.

Senator Stephens said maybe we put too many people on board last session. There seems to be too much specialization. He talked about how he runs his own business with only one other person. There was some discussion on this.

Representative Bradley said in 2 letters you have sent to us and to Mr. LaFaver's office, you objected to the use of any vacancy savings at all - a one time only savings, the actual savings is down around 1%. If you still have 9 positions that are still not filled and maybe won't be filled, I can't see how this calculation can really hurt you.

Mr. Murphy said they were the ones that had to take the risk. We have to be responsible for doing the job. By cutting the budget back we can't do the job. Personnel won't be there. You can line item the money if you want to, then it couldn't be used for anything else.

Representative Marks asked again about the vacancy savings, I have a hard time buying the 1% vacancy savings.

Senator Roberts asked Mr. Murphy what is a realistic turn over figure to you?

Mr. Murphy said in clerical about 3% - in professional hardly any at all.

Representative Marks then asked if when they have a turnover everyone moves up and the vacancy occurs at the lower level? Mr. Murphy said occasionally that is true.

Senator Stephens asked about the building in Miles City and how much a year. Mr. Palmer said \$25,665 is for the amount we pay out for the building in Helena. The Miles City lease was not included in the budget. We are operating the building in Miles City without any increase in our budget because the budget is built the way we have built it.

Mr. Grossfield asked to make a few statements before he left to a hearing he had to attend. He said we asked for additional employees only when the need arose. Our rates are lower than private carriers. We are looking at an increase in enrollment and in claims. We have to have the people to handle the claims. We have to have the personnel in order to operate the agency successfully. He asked the committee to have faith in them.

Representative Bradley asked about the justification for 8 new automobiles. Mr. Murphy said in going from program by program, we are looking at 3 vehicles in 1979. That is the 3 the committee put back in in executive session. One in Insurance for 79. Two in safety and health. We are really talking about 6 vehicles in 79. Three in the administrative program. 2 vehicles in safety and health for replacement.

Representative Bradley asked when you prepared your original milage figures it was almost doubled. Why?

Mr. Murphy said new automobiles are needed to provide vehicles to three new people we have.

At this point, Senator Story had to leave for another meeting, but wanted his vote registered with the LFA.

Representative Marks asked Mr. Murphy if he could put together some across the board figures of the whole agency and come back with actual vacancy savings by position and by dollar. Can you do that?

Mr. Murphy said he would try to get this done.

With this, this portion of the hearing was ended.

Representative Bradley asked the committee to meet Friday morning at 8:00 to wrap this up and also go over the possibility of a compromise. She said Representative Marks and her feel maybe we should put together a budget for the Governor's proposal for Office of Commerce and Small Business.

She said she still did not think it should be wiped out entirely and maybe we should spend a little more time on it.

She said she and Representative Marks could get together and work on this and report to the committee on Friday, if no one objected.

With no further business, the meeting was concluded.

Dorothy Bradley
Dorothy Bradley, Chairman

Nina Kosmas, Sec.