

Chairman Brand called the meeting to order at 9:00 a.m., roll call was taken with Rep. Hayne excused and Rep. Bardanouve late.

HB 135-Sponsored by Rep. Nordtvedt -- Rep. Nordtvedt submitted written testimony, please see Attachment #1; but in addition he had other comments.

I take full responsibility for the calculations in this new formula, and feel myself qualified since I have taught math for 13 years at the university level.

Dr. IRVING DAYTON-Office of the Commissioner of Higher Education -- My office supports this bill, but we do not take a position on the actual calculations. A public policy decision on the assumptions is underlined. (I'm not sure what he is referring to here. ns) I hired Rep. Nordtvedt 13 years ago, and he has an international reputation in his field. I think this will affect very few people. We should make early retirement feasible and accessible to as many people as possible; but the fund should not be subsidized by the new people. Anything we can do to open up administrative flexibility will help because the fund and the faculty are growing old together. I think the individual and the system benefit if people who have lost their interest are allowed to retire without benefit cuts. This also opens up the opportunity for younger teachers. I don't think this will be used by many people but it will be important to the system.

Dr. FRED HENNINGSSEN-University of Montana -- I would like to support this. I'm a long time member of the university system - since 1946, and I have been Chairman of the Local Benefits Committee since 1953, so I think I have some awareness of benefit problems. We have suffered through a year and 1/2 of really traumatic situation due to budget cutbacks. It is shocking to see young people leave the system and I would like to see anything done that would encourage early retirement. This will not be costly and will not affect that many people. I have written some articles encouraging ways and means for present faculty to make way for younger teachers. If we can just get people to move out and make way for younger ones, the system and the people will benefit.

HOWARD REINHARDT-University Teachers' Union, Professor of Mathematical Statistics -- As a mathematician, I would support this bill - since our system has a defined benefit formula. The current discount factor is made on the basis of a set of indefensible assumptions (I'm not sure of that term. ns) There is the matter of the school benefit and the cost. The Teachers' Association and the University of Montana endorse this concept because it gives the school more flexibility in staffing and we see this as a modest way to do this.

Dr. DONALD TAYLOR-Montana State University, Chairman-Local Benefits Committee -- I do feel it is important to the university system for this bill to pass.

THOMAS WESSEL-Montana State University -- I think I'm the only non-mathematician that is speaking. The flexibility that administration and faculty recognize as being needed is addresses in this bill. "Dynamics" means that something new and fresh is pumped in. If we can increase this dynamism it helps. We are not saying that age is a matter of diminishing capability, but this bill provides them with an option. I strongly urge your support.

OPPONENTS

ALTON HENDRICKSON-Teachers' Retirement System Actuarial -- Mr. Nordtvedt sent us a formula and we responded with a 10 page letter. We feel the model set up for his calculations does not reflect TRS.

MATERIAL QUOTED BY HENDRICKSON: for the full text, see Attachment #2

"In calculating his early retirement adjustments, Mr. Nordtvedt has assumed that consideration should be given for projected salary increases to members who elect to terminate early. The Teachers' Retirement System bases its calculations on what the member has actually earned, not what that member may have earned had his or her employment continued. Further, the system takes the position that, if a member wishes to get the benefit of possible salary increases in future years, he or she must continue to be employed as a teacher in Montana.

'In determining the financial requirements of the Teachers' Retirement System, the actuarial valuation has taken into consideration the current early retirement discounts. If Mr. Nordtvedt's proposals are to be implemented in the system through legislation, then an additional contribution will be required each year to finance the increased benefits. It is not possible to provide the larger benefits under the system without incurring additional costs to the system."

We feel that the statement that few people would be affected is untrue. I think the whole point of whether the current deduction is equitable is the issue. I would like to pass out copies of a calculation that our firm has put together. (See Attachment #3) Member A is getting the only standard benefit you could get before the present legislation was enacted. It is only fair that B and C get an adjusted benefit for early retirement. I think this demonstrates that the current reduction formula is very proper, but member B shouldn't get a benefit so much larger than A. Under the proposed legislation, member C is way ahead of the game. I'm not opposed or supporting, we suggest that a fiscal note be attached.

OWEN MORRIS-Teachers' Retirement System Administrator -- The system does not oppose early retirement, our only difference is in the amount of the reduction. I checked with all of the states we know that have early retirement and only one state has a lower reduction. The other states, or the most common reduction, is 1/2%. Some states have a much greater reduction. The reduction required by IRS for pension plans is 6.5%. Based on the actual work in other states we can only assume that the assumptions by our actuarial are valid.

GENEVIEVE ADAIR-National Teachers' Retirement Association, American Association of Retired Persons -- We feel this bill might have a financial hazard to our system. We who are retired wish to protect the fund. The trend today is to extend the working time and if people are allowed to retire early they have to find something else to do. We feel that some professions such as doctors begin to give their best service after 55.

BRAND-We have a letter from TOM RYAN, who was unable to attend, in opposition. See Attachment #4.

NORDTVEDT-The purpose of changing the formula is to try to encourage certain social and educational policy. Regarding the calculational discussions, Mr. Hendrickson quoted the two paragraphs of his letter that I agreed with. The rest of the letter contained misunderstandings. Whether a teacher begins early or late in life determines his benefits. The relation of the money the teacher puts in and therefore the matching funds accrued is very relative. If the fiscal impact shows that required contributions to the fund are very minor, I hope you will give serious consideration to the effects on this legislation.

JOHNSTON-Would this affect grade school and high school teachers too? HENDRICKSON-Yes, approximately 15,000. JOHNSTON-Would the state have to put more money in your fund or the fund will go down? HENDRICKSON-Yes. Retirement at age 50 would be less than 55, but between those ages there's a lesser impact. Between 55 and 50, you don't need a full 6% exemption to keep the fund solvent. 3% is not a sufficient reduction to keep the fund solvent when you look at Member A, and there are no situations that would reverse that condition. McBRIDE-How many people have retired at 55? MORRIS-57 people, or about 1/6%. NORDTVEDT-I suspect and hope that more people would do so with this bill. I would hope it would be substantial enough to have an impact on the system. BARDANOUVE-I we have substantial numbers doing so, and they have an increasingly large benefit factor this will have a wretched impact on the fund. NORDTVEDT-I believe that if you look at teachers after age 60, the fund will be unaffected. The teacher who retires later goes at a higher final salary than those who retire at age 50. BARDANOUVE-In many retirement systems, early retirement has put a heavier and heavier burden on their funds. So you are swimming against a mainstream. BRAND-How much do the teachers pay? MORRIS-6.18% of salary -- 6.182% from the employer, for a total of 12.99%. BRAND-What do you think would be needed to make this sound? HENDRICKSON-We haven't done an actuarial evaluation. If we make some reasonable assumptions, we are saying less than 1%. If we are going to do so, I want someone to tell me how many people take part. BARDANOUVE-In the equation of how many will retire, at 50 especially, with longer life and the qualifications these people have - would it not be possible that many would retire and begin a second career? HENDRICKSON-Absolutely. More people would be encouraged to take advantage of this. Five years of service gives you vested interest in a retirement system. HENNINGSON-Philosophically, this thing makes sense, but the people who will be encouraged to retire will be in the high salary range; for the university system, it will be a saving. BARDANOUVE-The doctor is very right, if you look at one part of the budget this would have a beneficial effect. PORTER-Isn't it true that you lose your best people and end up with the lowest common denominator? DAYTON-I see this to be contrary because what occurs more is that teachers become bored. AZZARA-Would the proponents of the bill have any objections to asking for an actuarial computation? NORDTVEDT-I asked for a fiscal note and would like an analysis of that type to be done. I feel that such research would prove that this bill would allow early retirement at lower salaries. BRAND-You are saying that this bill will have little effect, and so how can you say it affects your flexibility? DAYTON-Because anything helps.

HB 208-Sponsored by Rep. Brand -- This bill allows the prison to sell ranch products on the open market. Larry Zanto is here to explain the bill, so I will turn it over to him.

LARRY ZANTO-Director, Department of Institutions -- This bill also allows the prison to do its own maintenance. There have been serious disagreements at

January 12, 1979

SUB-COMMITTEE MEMBERS IN ATTENDANCE: Rep. Baeth, Chairman
Rep. Magone
Rep. Feda

Also attended by: Stan Zezotarski, Leg. Council Researcher
Larry D'Arcy, Deputy Director, Department of Administration
Dennis Burns, Purchasing/Bidding Bureau, Dept. of Administration
Stan Thurston, Typographical Union

BAETH-So far, we have an amendment changing the 2% on page 1, line 17 to 3% - does that meet with everyone's approval?

THURSTON-Yes, the 3% conforms with present law.

ZEZOTARSKI-The reason for this is that it would be more in line with the intent of the committee in preventing the state from competing with the private sector. More than 3% might have adverse implications as to the state's intent, at 3% it leaves no doubt that the state could do this only when they can do so at the lowest cost in the private sector.

D'ARCY-A Supreme Court decision has placed it at 10%.

THURSTON-Right now, I think the committee should determine how the state arrives at their costs. In yesterday's Tribune, there was an article about a bill coming out covering the costs of state printing. The Governor's Annual Report was printed in-house, and this article claims that the cost was \$.34 per copy -- I don't know how many copies were printed, but the actual cost can't be \$.34. You can't even buy the paper involved for \$.34.

D'ARCY-Our costs are the same as any organization. 1) We don't have a profit factor which can run up to 26% per job. Our costs involve maintenance and supplies and amortization of equipment. We don't have salesmen going around getting business.

FEDA-What percentage of the state goes to the state for their printing?

THURSTON-When the bill first went through 10 years ago, it let the state do its own printing -- they had a really good breakdown on costs and did a full study. Now we are talking cost, and true, what Larry says is just part of it. We arrive at cost on a productivity factor and not everybody is 100% on production. We find that very seldom can you find more than a 75% productivity factor and with the state you have coffee breaks, rest room, waiting for paper plates, etc.; so you very seldom run into a 75% factor. Our figures show that people work about six hours in an eight hour day and by the time you add sick leave and vacation, etc., the state ends up with a smaller working factor than we do. You haven't got your advertising, taxes, etc. to put on top of it. We pay a journeyman \$7.08 an hour and for me to make anything on profit, I have to charge \$20.00 an hour to make anything. The report I mentioned earlier was, I am sure, taken off a computer; someone had to write it, etc., and I don't think that the state has a breakdown as clear as what I have to have. This (Attachment #1) was done by the printing industry of Maryland when they finished a state audit.

FEDA-Do you feel like you are comparing apples and oranges?

D'ARCY-We, in fact, have asked the Council of State Governments to review our operation. This state is one of the few that doesn't have a full blown printing operation and we don't have any desire to do that. States that do still end up bidding out some jobs, as much as \$4 million in jobs, and we are trying to keep up with the times; so I feel fairly confident that our figures are as close as can be. We pay \$6200 a year in salaries to state-employed printers, so that comes to a little over \$3.00 an hour; so I call it 'quick and dirty'. We don't do what I would call 'printing', it is more like 'duplicating'. A private vendor is paying about \$4.00 a square foot in rent, we don't -- as far as equipment, we get it through GSA at a much lower cost -- we don't have sales or advertising. The reason this bill was submitted is that we have been circumventing the law and this allows us to do what we have been doing. If you pass this amendment (reference page 1, line 16 - Following: "printed", Insert: "at the lowest unit cost of printing available") we will need probably 4 more purchasing agents to handle the bids. The time factor -- a bid takes at least 3 weeks and it would slow the bureaucratic process even more. There is a section in the law that says that the Department of Administration shall try to do it's own printing, and this law went in to clarify that.

THURSTON-In the hearing you made the comparison several times of what it would take to do this in the private sector. It is not unusual for a department to call for a cost estimate and I end up giving them a ball park figure - I hope this isn't what you are using as a private sector figure.

BURNS-Cost is the main factor that we are involved in. Turnaround time is another prime factor which has not been addressed. It takes \$28.00 to bid out printing and sometimes that is more than the job itself. If we did have to determine the private sector cost each time, we would still be spending \$28.00 every time we had any printing. Turn-around time -- anything from 2 to 4 weeks for bidding and this seems to me to be a convenience factor of the duplicating office. When you have a small job it makes no sense to take 3 weeks to let a bid for a tiny job. I think turn-around time factors were what got us into printing our bills. It would take more staff to determine this lowest cost thing.

FEDA-How do you determine what state jobs you want to bid on?

THURSTON-We get a list each June. We are not here in opposition of the state's duplicating system. We are worried about something down the road such as the purchase of elaborate equipment. (See Attachment #2)

D'ARCY-It is absolutely ridiculous to have a piece of equipment for the session and then let it sit until the session begins again. If they don't produce at least 250,000 impressions, we shouldn't have the thing. Production is the key work and hopefully we need to use the equipment 70% of the time if we have it.

THURSTON-My objection is that the equipment has been used for expansion. (See Attachment #3) If you put a limit of less than 500 copies on this you would get away from the lowest unit cost thing. (See Attachment #4) That language I just offered (500 copy limit) we could live with.

D'ARCY-We run over 500 every day. I can't give you a breakdown.

THURSTON-It does not stop the state from doing any inter- or intra-departmental -- just when it goes into public distribution.

D'ARCY-I'm just trying to clarify the law. If you want to pass the bill, OK; if not, you are telling us to get out of the printing business. When does something become a public document -- that is a very fuzzy concept.

BURNS-We have addressed this before and have been blown out of the saddle on both ends. The Department of Public Instruction is considered in-house. The Department of Livestock gets a paper monthly that is considered in-house. Who is going to make the determination of lowest cost and it's just as hard to determine what is in-house. Not to disagree with the philosophy, but this determination thing makes it unworkable.

Here, Thurston made a reference to HJR 55 from the '77 session, see Attachment #5.

D'ARCY-I will accept that amendment if you give us some more buyers to get bids from, but consider making the limit 1,000 copies instead of 500.

Assorted extraneous conversation.

D'ARCY-In-state preference -- the legislative auditor in '70 recommended that we do away with in-state preference -- if we are looking at the lowest bidder then we need to take that in-state preference out of there. I'm a native Montanan, and I want to see money go to in-state people; but if you are talking about lowest bid, we would need to look out of state also.

THURSTON-Back in the 40's we sat down with every department head and the university presidents, etc., and we were instructed by the governor to review what was classified as public dissemination and what wasn't. We took the stand that when they are working with the state and we are working together there would be no question where there is internal use -- whereas the Governor's Budget is for public dissemination.

D'ARCY-Due to the section on the public's right to know, that can't be held as true anymore.

BAETH-I feel that right now we are acting as negotiators and I don't see that as proper.

MACONE-I agree.

Burns gave a summary of the bidding procedure at this time and enumerated the various things that go out for bid on an automatic basis.

BURNS-Other than that we do it as the need arises and these are processed daily throughout the year.

D'ARCY-We do have contract holders who could take a case to court and win with what we are doing at the present time.

BURNS-We have been faced with agencies getting estimates for annual reports when they haven't been able to afford the cost and therefore have done it themselves. It puts us in a precarious position.

FEDA-Could this limit of 1000 copies help in this?

BURNS-Then you get back to splitting contracts, which drives the cost up.

FEL-I would like the chance to talk about this a little more and get a better understanding. I see the problem but how do we get the solution?

BAETH-Next week we can get the minutes from this and get back together.

Adjourned: 12:45 p.m.

William Baeth

William Baeth, Chairman

Nita Sierke

Nita Sierke, Secretary