MINUTES OF THE
LEGISLATIVE, JUDICIAL AND ADMINISTRATIVE SUBCOMMITTEE

March 1, 1979
6:30 p.m.
Room 132
State Capitol Building
Tape Data: 8:3-1:0-454
Subject: Work Session

The meeting was called to order by Chairman Menahan at 6:30 p.m. All members were present except Senator Lockrem who was excused. Fiscal Analyst JanDee May and Ed Eaton from the Office of Budget and Program Planning were also present.

The meeting was a work session for making decisions on the Department of Revenue program budgets.

DEPARTMENT OF REVENUE
Audit and Accounting

The FA recommended two positions be cut out on the basis that one of the positions should have been deleted instead of transferred. The position was previously a Liquor Division clerk and has been transferred. The FA maintained this allows the agency to increase their program without legislative consideration.

Mr. Eaton contended that the agency is operating quite legitimately in using the program transfer concept wherein the agency had an overall legislative appropriation and can transfer from one program to another within that appropriation if they do not exceed the total FTE. Mr. Eaton maintained that the agency has not exceeded legislative intent. The position is filled and if deleted the person would have to be terminated.

A motion was made by Representative Hand that the committee recommend the FA budget on the Audit Program. The FA recommendation is 2 FTE lower than the Budget Office.

During discussion of the motion, the point was raised by the FA that the second position deleted was a bad debt collection position. The FA recommended cutting this position due to the fact that the agency pays collection agencies and if they are to continue this practice, they should then not include money for a staff position to cover the same function. It was estimated that collecting efforts gross the state an additional revenue of $30,000 to $40,000. The collection nets the state about $15,000 after payout.

The Executive maintains the agency must still use collection agencies because in-house efforts sometimes fail and the Revenue Department generally is returning any dollars put into their agency at an increased rate of return. This is a good investment for the Legislature to make.

Since the agency did not detail costs for collection agency work, the FA could not say if it was included under contracted services or not. Mr. Eaton stated the collection agencies take a percentage of the collection, therefore, the agency gets less in net return but there is no actual cost.

Upon Chairman Menahan's suggestions, Representative Hand amended his motion to include and restore the bad debt collector position at $11,000 or about $12,600 with benefits and otherwise approving the FA recommendation.

The motion carried unanimously.

For travel recommendations, the FA recommended approximately $7,000; the Executive recommended $6,657.

Legal Division

The Executive does not have vacancy savings on the funding relief for audit funding relationship. The FA used a 3% vacancy savings and showed an actual vacancy savings of 18.4%. The FA deleted one position. The vacancy savings totalled approximately $4,000. The Executive believes the budget is too tight. Taking away one position and adding vacancy savings on top will prevent filling the position. Mr. Eaton stated this in effect is a double cut.

The Legal Division is working in the Department of Liquor, Property Tax, Director's Office and due to reappraisal is also working on 50 cases which were filed in January.

The Executive would like the $4,000 vacancy savings restored to the budget.

Senator Thiessen moved the FA budget recommendation be adopted, restoring vacancy savings to the budget in the amount of $2,600.

The motion carried unanimously.

Mr. Eaton stated that the Executive had included $21,000 of liquor money in this budget due to the fact that about 1 to 1 1/2 lawyers are used for liquor problems. This does not inflate the Legal Division's budget as it will be reflected in the actual true cost of the liquor operation. The Executive proposes that the $21,000 would come from the liquor revenue collected for the sale of liquor.

In response to the committee's questioning, Mr. Eaton stated it is possible that if caseload exceeds capability, the program may have to contract for further legal services out of contracted services but basically this would be intended for in-house use only. He further stated that with revolving funds and earmarked funds the concept is the fund is paying its own way. They often are not and are being subsidized from some other fund or the general fund. In this case it can be called general fund or liquor fund but it is not reflecting which program the real expense belongs to. The Executive maintains this is an operational cost of liquor and should be shown in their budget as such.

The committee decided to leave the funding at status quo.

<u>Income Tax Division</u>

The Income Tax Program collects only personal income taxes.

Differences between the FA and the Executive were those created by field offices which have been set up by the agency. The FA maintained that the field offices were not authorized by the last Legislature and the agency has established 3 field offices and has overspent their equipment budget in doing so. A list of the equipment purchased was itemized. It was stated that the program was appropriated $15,000 for equipment and spent $39,000.

The Executive maintains that the last Legislature did authorize creation of the field offices and recalled the Legislative Auditor addressing this question in his audit and recommending the offices. Mr. Eaton further stated that it is reasonable for the agency to use whatever money available to buy equipment which is needed upon such authorization. The Executive does not believe it could have been legislative intent to locate auditors in Helena when they were specified to be field auditors working outside of Helena, even though specific funds were not identified for that purpose.

The FA stated that the field auditors were to work outside Helena but no offices were authorized to be established.

Mr. Eaton requested the opportunity to investigate this situation further and report back to the committee with his findings.

The operations and methods used by the field offices were discussed. Generally, it was explained that the field offices are now bringing in far in excess of their expenditures. The field offices in Billings and Missoula with staff personnel traveling within those specific areas and periodically traveling to and from Helena. The offices are operating on a walk-in, call-in operation during the non-tax preparation time. During tax preparation time, the offices assist the taxpayer with preparation and questions. The program has no desire to close down the field offices.

The FA would have to add $8,000 a year for rental plus utilities costs if the committee decided to recommend the 3 field offices plus the additional personnel. In other areas, the FA stated the agency is requesting increases of 36% and up from 1978.

Mr. Eaton explained that printing costs are up in excess of 24% this year over 1978. An additional 20% is anticipated for 1980 due to the fact that each time a deductible item is changed, this agency has to print new forms and change the data processing files. While there is no anticipated increase in the cost of data processing, costs are increasing because of the changes in the tax laws.

The FA contends that their recommendations have been the same or close to the same as the requests in the areas of data processing, printing costs and contracted services:

REQUESTED		LFA RECOMMENDATION
$163,000 - 1980 171,000 - 1981	Data Processing	Same
$114,000 - 1980 121,000 - 1981	Printing	Same
$281,000 - 1980 296,000 - 1981	Contracted Services	$280,000 - 1980 291,000 - 1981

The FA believes the differences lie in rental for the offices, equipment, utilities costs, travel of about $3,000 per year and all items would have to be put in if the committee recommends the field offices.

Representative Hand suggested that since the general fund money is less in the FA budget than the Executive, the committee recommend the FA budget, adding the additional FTE.

Of the 69 FTE positions requested, two auditors and five clerical positions are new. The FA recommended the two auditors but not the clerical people.

Variances in the personal services budgets is in the vacancy savings applied. The agency requested 67.15 FTE with personal services funding of $897,000 plus.

During discussion of the advisability of having field offices, it was noted that their primary functions would be for audits and for services to the people during tax times. If emphasis is placed on giving services to the people, there would be a higher cost and smaller return. If emphasis is on auditing, there will be higher revenue collections and less service to the people, except perhaps at tax time.

Representative Hand moved the Executive recommendation, deleting the SBAS and central payroll charges, reducing the equipment to $2,500 a year and including the field offices already established in Missoula and Billings. Senator Thiessen seconded the motion.

The motion carried.

Chairman Menahan asked Mr. Eaton to check on how much more income the offices are generating than they are expending.

During discussion of the motion it was revealed that an office is being set up in Great Falls which led to a discussion of the equipment budget. The FA recommended no equipment for either year due to the agency already making major purchases. The agency has requested $5,000 in 1980 and $3,000 in 1981 for equipment.

Chairman Menahan suggested that the committee recommend the $5,000 equipment request and hold it at that.

Representative Hand was excused from the meeting.

Operations

Differences expressed were that the FA increased operations by $49,000 but recommended $66,000 less in general funds. The Executive maintained that the FA did not recognize that Inheritance Tax was transferred into the program and did include the central supply as surplus funds in the revolving account and made a corresponding reduction in the general fund.

The Executive does not have the central supply budgeted and would prefer to divorce the central supply from the budget completely as the two funds are not related. Mr. Eaton stated the central supply is only a sideline operation for efficiency purposes and the agency's basic services are personnel management, inventory, mailing process for the income tax and word processing. He further stated that they cannot operate a central supply the way the FA has recommended and would rather it not be funded at all than in this way.

The FA's general contention is that the revolving fund is no different than any other revolving fund. She stated that in the past, through budget amendments, the program has increased the revolving fund authority in order to charge their own programs throughout the Department for the supplies sold through the central supply. At the end of this year, there was a $28,000 cash balance. In budgeting, the FA has attempted to bring the fund balance down to zero. The program should have to offset the general fund or reduced their charges for their supply items. Therefore, the FA increased the revolving fund and decreased the general fund by $28,000 to force the program to spend the fund balance.

The FA also recommended $57,000 inventory held by the central supply be brought down to a two month's operating supply. The Executive maintains the inventory will always be high because the central supply handles so many slower moving supplies. The states bid contracts are let on a 6 month or one year basis. The Executive further contended that the program's $28,000 fund balance is not a profit but represents replacement costs for future purchases which must be replaced at inflated rates.

The FA believes that replacement of supplies at inflated rates is already built into the budgets of the various programs who buy supplies from the central supply and the $28,000 fund balance added to the $57,000 inventory represents a major investment.

The Executive, in maintaining that the program cannot operate on the FA recommendation, stated the salary budget would have to be used to buy supplies. Mr. Eaton stated that out of the $28,000 fund balance, there is $6,000 worth of accruals, hence the committee should be concerned with $21,000.

The Executive requested that the committee determine the legislative intent with the statement that the program discontinue their central supply and it is not to have supplies greater than a certain level, ie., to give the program their own operational supplies and discontinue buying for other programs' use and purchase.

If the FA took out the revolving fund, she would then recommend $206,000 which is $15,000 difference between the FA and the Executive. There would still be the question of the $28,000 fund balance which would be left as is and it is possible the program can use the $28,000 to augment their own budget if things were a little tight for them.

Mr. Eaton suggested the committee direct the agency not to build up the fund balance and that it not be used for any other purpose than the purchase of supplies and materials for resale.

Chairman Menahan suggested that Mr. Eaton report to the committee tomorrow with a recommendation concerning this matter at 10:00 a.m. The committee concurred with this suggestion.

Differences in FTE were the FA had recommended .5 FTE less than the Executive. The FA stated it was her position that this FTE should be requested as a modified request as it was not included in the program's base.

The Executive stated this position was transferred from the Inheritance Tax Division with the position needed here more than in the Inheritance Tax. There is no overall increase. The position was authorized last session and was justified through program transfer with the Budget Office approving and concurring in the transfer.

Differences amount to $8,100 in personal services per year. Without the revolving fund problem, there is a difference of $5,000 per year in operations. This difference would be mainly in contracted services and communication costs and equipment differences.

Chairman Menahan restated for the committee the problems remaining to be resolved on the budget, ie., the $28,000 fund balance and the .5 FTE. He reiterated that Mr. Eaton would return in the morning concerning the revolving fund.

Research and Information

It was determined that the differences on this program are also in a funding relationship and that since the subject was terribly complex the committee would defer discussion until a later date.

The committee adjourned, noting that they would reconvene at 8:00 a.m. in the morning.

Respectfully submitted.

William Menahan, Chairman

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