

MINUTES OF THE MEETING OF THE APPROPRIATION ON EDUCATION  
SUBCOMMITTEE      January 7, 1981

An organizational meeting of the Appropriation on Education Subcommittee was called to order by Chairman Donaldson at 9 a.m. on Wednesday, January 7, 1981 in Room 104, Capitol Bldg., Helena, Montana. No roll call was taken, however, each member was present including all fiscal analysts.

Chairman Donaldson introduced all members as well as staff and said something about each. Each visitor introduced themselves and their positions regarding the subcommittee. (EXHIBIT A and Visitor's Register) At a later time Ed Argenbright, Superintendent of Schools introduced Deputy Alve Thomas, Maynard Olson, Ed Eschler, and Betty Cristie. Glen Levitt gave testimony on the operation of the Executive Budget Office.

It was agreed that all meetings would be at 8 a.m. each morning, Monday through Saturday, unless otherwise notified.

Chairman Donaldson reviewed the Thursday and Friday hearings on the Supplemental Requests. He also advised that all decisions should be made as soon as possible.

Subcommittee rules and procedures were covered by Chairman Donaldson.

Curt Nichols, Fiscal Analyst reviewed the budget information and resources that are available to the subcommittee by the Legislative Fiscal Analyst's staff. Mr. Nichols briefly discussed the handout (EXHIBIT A) and further explained the three types of Budget Requests; Budget Structure; Budget Amendments; Fund Structure; Budgetary Vocabulary.

Glen Levitt for the Budget Office described what they provide and defend. He discussed the process of the executive budget.

Curt Nichols gave the briefing on the Supplemental Budget Requests. The Universities are requesting \$2,893,681 for enrollment increases, \$1,051,071 for nongeneral funds, \$1,755,080 for utilities, and \$565,700 for millage.

Bruce Shively continued the briefing on the Supplemental Requests for the School for the Deaf and Blind. They are requesting a total of \$266,228 in supplemental appropriations. The details are broken down on the Organizational Meeting Agenda. (EXHIBIT A)

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SUBCOMMITTEE Page Two  
January 7, 1981

Meeting adjourned at 10:50 a.m.

A handwritten signature in cursive script, appearing to read "Gene Donaldson", written over a horizontal line.

Gene Donaldson, Chairman  
Appropriation on Education  
Subcommittee

pb

Tape: Side I, Track I, 636



## EDUCATION SUBCOMMITTEE

### Tentative Hearing Schedule

<u>Date</u>	<u>Legislative Day</u>	<u>Subject</u>
Jan. 7	3	Organizational Meeting
8	4	University Supplemental Requests
9	5	Agency Supplemental Requests
10	6	Work Session
12	7	State Library
13	8	Work Session
14	9	Historical Society
15	10	Work Session
16	11	School for Deaf and Blind
17	12	Work Session
19	13	Arts Council
20	14	Work Session
21	15	Agricultural Experiment Station
22	16	Cooperative Extension Service
23	17	Work Session
24	18	Work Session
26	19	Bureau of Mines
27	20	Forestry Conservation and Experiment Station
28	21	Work Session
29	22	Public Schools
30	23	Work Session
31	24	Work Session
Feb. 2	25	Office of Public Instruction
3	26	School Lunch, Transportation, Traffic Education, Adult Basic Education, Secondary Vocational Education.
4	27	Board of Public Education, Fire Services Training Academy, Vocational Education Advisory Council.
5	28	Work Session
6	29	Vocational Technical Centers
7	30	Work Session
9	31	Work Session
10	32	Universities
11	33	Universities
12	34	Universities
13	35	Work Session
14	36	Work Session
16	37	Community Colleges
17	38	Community Colleges
18	39	Commission of Higher Education, Board of Regents
19	40	Work Session
20	41	Subcommittee Wrap Up
21	42	Subcommittee Wrap Up
23	43	Subcommittee Wrap Up
24	44	Subcommittee Wrap Up
25	45	Subcommittee Wrap Up
26	46	Subcommittee Wrap Up
27	47	Subcommittee Wrap Up
28	48	Final Subcommittee Day

APPROPRIATIONS - FINANCE AND CLAIMS  
JOINT SUBCOMMITTEES

EDUCATION - Room 104

<u>Chairman</u>	Representative Donaldson (R) Representative Thoft (R) Representative Bengston (D)
<u>Vice Chairman</u>	Senator Nelson (R) Senator Haffey (D) Senator Jacobson (D)
<u>Secretary</u>	Patricia Bennett

Board of Public Education  
Office of Public Instruction  
    Operations  
    Foundation  
    School Lunch  
    Transportation  
    Adult Education  
    Five Vo-Tech Centers  
    Secondary Vocational Education  
Advisory Council for Vo-Ed  
Library Commission  
Historical Society  
Arts Council  
School for Deaf and Blind  
Community Colleges  
Commissioner of Higher Education  
Bureau of Mines  
Agricultural Experiment Station  
Cooperative Extension Service  
Forestry Experiment Station  
Board of Regents  
University of Montana  
Montana State University  
Eastern Montana College  
Western Montana College  
Northern Montana College  
Montana College of Mineral Science & Tech.

LFA STAFF

Curt Nichols  
Bruce Shively  
John Bebee

## BUDGET REQUESTS

Three types of budget requests are:

Current Level Request - Reflects usual expenditures for normal operations. Also referred to as the agency's "base", which is determined by adjusting out all one-time or non-reoccurring expenses from the 1980 fiscal year.

A current level base for operating expenses for 1982-83 is determined by applying inflation factors to each expenditure. Our personal service base is based on the 1981 pay matrix plus a nine percent pay raise and then applying a vacancy savings factor.

2. Budget Modification Request - Reflects an expanded level of service or the addition of a new service.

Sufficient justification should be submitted with each request.

3. Supplemental Request - Increases the current year appropriation when  
1) a portion of that year's appropriation was shifted to the previous year to pay for expenses in excess of the appropriation in fiscal 1980 or  
2) the current year expenditures are anticipated to be in excess of the appropriation.

## BUDGET STRUCTURE

Each budget includes three major components:

Personal Services  
Operating Expenses  
Equipment

### Personal Services

1. Salaries - Based on the grade and step of each FTE.  
FTE (or full-time equivalent):  
1.00 FTE equals 2080 hours or one full year of compensation for a full-time employee.
2. Benefits
  - a. Longevity - All employees with five or more years of service receive this benefit.
  - b. Health - \$720 per year for each employee is the amount of health insurance paid per employee in fiscal 1981.
3. Overtime - This expense is zero-based in our personal service recommendation unless sufficient justification has been submitted.
4. Other Compensation - Includes per diem payments (\$25 per day) to board members, when statutorily required.

Vacancy savings is applied to total personal services costs. This factor identifies what percentage of the personal service budget will not be expended due to staff turnover.

### Operating Expenses

1. Contracted Services includes services provided under contractual agreement with an independent contractor or services provided by one state agency to another for a fee.

Contracted services include:

- A. Professional services provided by an independent contractor, such as:
  1. Consulting services.
  2. Educational services
  3. Legal services
- B. Printing services
- C. Insurance coverage

These expenses should be carefully evaluated to determine:

- A. What benefits the state receives from such services.
- B. Is the cost of such expenses appropriate, and if not, could such services be eliminated or made to be provided more cost effectively.
- C. Can such services be justified for the coming biennium?

2. Supplies and Materials include:

- A. Office
- B. Printing
- C. Educational
- D. Vehicular
- E. Gasoline

3. Communications includes:

- A. Telephone expenses
- B. Advertising
- C. Postage and mailing
- D. Data transmission lines

4. Travel includes:

- A. Personal car mileage
- B. State motor pool
- C. Commercial transportation
- D. Meals and lodging

5. Rent includes:

- A. Buildings
- B. Office and other equipment

6. Utilities includes:

- A. Electricity
- B. Heating fuel  
(This expense is covered in rent charge for all agencies maintained in the capitol complex).

7. Repair and Maintenance includes:

- A. Buildings and grounds
- B. Office equipment
- C. Vehicular



8. Other Expenses includes:

- A. Organizational dues
- B. Subscription
- C. Registration fees
- D. Relocation costs

9. Goods Purchased for Resale includes:

- A. Merchandise
- B. Freight-in
- C. Raw materials

Equipment

This expenditure category includes all purchases of fixed assets, i.e., those assets which are not consumable within a year. This category includes:

- 1. Office equipment
- 2. Data processing equipment
- 3. Vehicles
- 4. Library books

This expenditure is zero-based; therefore, only recommended purchases are included in our budget recommendation.

Non-Operating Expenses

This expenditure category reflects disbursements of moneys by the agency. These disbursements are not considered part of the agency's operational expenses since they are not an actual cost of providing a service.

This category includes disbursements of grants, benefits and claims, and fund transfers.

Debt service expenses, including bond and loan payments, are also expensed here.

Property purchased for highway right of way is expensed to this category.

## BUDGET AMENDMENTS

During the interim between sessions, an agency may receive additional spending authority from the budget office. Budget additions are not allowed for general fund spending, however. General fund budget additions are authorized only as supplementals, which must be approved by the legislature.

HB 483, the 1979 appropriation bill, defines the following criteria by which a budget amendment may be authorized:

"The approving authority may approve a budget amendment to spend funds that were not available for consideration by the legislature but have become available from a source other than the state's general fund or earmarked revenue fund and other than receipts to the state from the United States government made available under provision of P.L. 94-488, the federal Revenue Sharing Extension Act or any extension or modification of that act.

A budget amendment may be approved for a time period greater than one fiscal year but not to exceed the biennium ending June 30, 1981. Budget amendments for greater than one fiscal year shall itemize planned expenditures by fiscal year.

In approving a budget amendment, the approving authority shall:

- (a) certify specific additional services to be provided as a result of a higher expenditure level;
- (b) certify that no other alternative is available to provide the additional services;
- (c) certify that the additional proposed services have not been considered and rejected by the legislature;
- (d) certify that no commitment, implied or otherwise, is made for increased future general fund support;
- (e) specify criteria for evaluating the effectiveness of the additional services provided.

The additional funds are appropriated contingent upon total compliance with all budget amendment procedures."

## FUND STRUCTURE

\*General Fund (01): Consists of all moneys deposited in the state treasury which are available to defray the general costs of state government and which do not fall into the following categories.

\*Earmarked Revenue Fund (02): Consists of moneys from state sources deposited in the state treasury which are specifically earmarked by the law for the purpose of defraying the costs of a particular agency, program, or function of state government.

Sinking Fund (03): Consists of moneys deposited in the state treasury for the payment of principal and interest and the accumulation of reserves for bonded or other indebtedness.

\*Federal and Private Revenue Fund (04) (FPRF): Consists of all expendable moneys deposited in the state treasury from federal or private sources, including trust income, which are to be used for the operation of state government.

Federal and Private Grant Clearance Fund (05): Consists of all expendable moneys deposited in the state treasury from federal or private sources, including trust income, which the state disburses to persons, associations or units of local government.

Bond Proceeds and Insurance Clearance Fund (06): Consists of moneys deposited in the state treasury obtained from the sale of bonds, certificates of indebtedness and moneys indemnifying the state for loss or damage of property.

\*Revolving Fund (07): Consists of moneys used to defray reimbursable expenditures and supply working capital for enterprise-type operations.

Trust and Legacy Fund (08): Consists of moneys deposited in the state treasury which the state administers as a trustee pursuant to a law or a trust agreement restricting the use of the money for a specified purpose and prohibiting the expenditure of the principal for a period of at least five years.

Agency Fund (09): Consists of moneys deposited in the state treasury which are held and disbursed by the state as a custodian or agent, and includes, but not limited to moneys held for the purpose of paying insurance or retirement benefits, moneys arising from lost or unclaimed property, and other moneys of a similar nature.

Each of the above funds, with the exception of the general fund, are made up of accounting entities. An accounting entity is an individually numbered account which collects specific revenue and to which specific expenditures are charged.

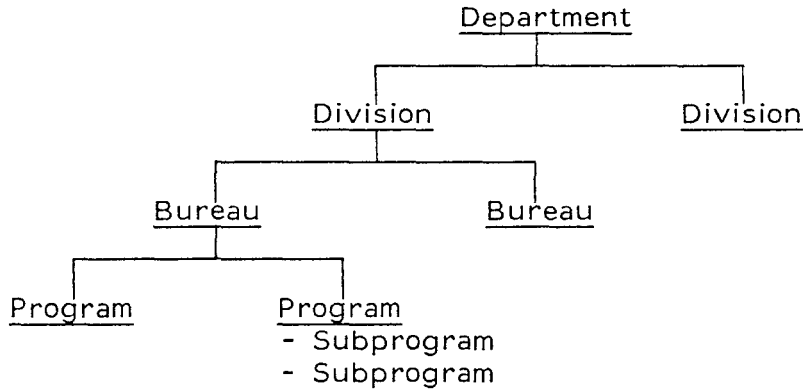
\*The most commonly referred to accounts within the budgeting process.

## Weaknesses of Revolving Funds

1. Spending authority is frequently increased through budget amendment.
  
2. Higher than necessary fees allow the agency to:
  - (a) increase the operating base of all agencies receiving the reimbursable service.
  
  - (b) accumulate reserve funds in the revolving account.
  
3. Reserve funds are frequently used to expand existing services or add new services.

## BUDGETARY VOCABULARY

1. Departmental organizations - Most of the departments are made up of the components as shown below:



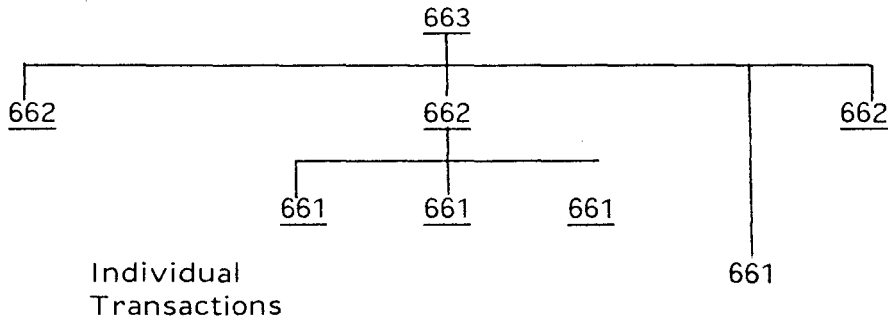
2. Statewide Budgeting and Accounting System (SBAS) - The accounting system used by all state government entities which tracks all financial transactions. The SBAS units most frequently used are presented here:

-Financial transactions are grouped into responsibility centers (SBAS #661). These responsibility centers are established by the department and may or may not correspond to organizational components (i.e, programs, bureaus, etc.).

-Most responsibility centers are combined into reporting centers (SBAS #662). Some are combined directly into a 663--see below.

-All reporting and responsibility centers roll up into the highest group, SBAS 663's.

### SBAS - GENERAL LAYOUT



3. Spending: The amount that can legally be spent by any department is limited by:

1. General funds appropriated by the legislature, and
2. Other funds appropriated by the legislature to allow expenditure of federal revenues, earmarked revenues, and revolving account revenues.
3. During the interim, the executive can approve expenditures from a non-general fund source that was not considered by the legislature through the budget amendment process. The amounts added by this process are not considered part of a budgetary base.

If spending exceeds or will exceed by fiscal year end the limits appropriated or budget amended, the department is in a supplemental situation.

4. Definitions:

FTE - Full time equivalent employees. This reflects the number of actual full time positions authorized by the legislature. However, an agency may have more individual employees because some work part time.

Vacancy savings - The amount of savings realized by staff turnover. The positions may remain vacant or a replacement is hired at a lower grade and/or step than the agency was budgeted for.

Fiscal year - The state fiscal year is July 1 - June 30. The standard federal fiscal year is October 1 - September 30. Certain federal grants may have different fiscal years, based on the date of the grant award.

Indirect costs - The overhead cost of administering federal grants or programs incurred by the state. These costs are reimbursed by the federal government at a pre-negotiated rate.

Matching ratio - Many federal programs require the state to pay a percentage of a program in order to receive federal funds. For example, a 25 percent match means one-fourth of the program is state supported.

Maintenance of effort - Some federal programs require the state to maintain a previous year's level of state spending to receive federal funds. This requirement does not state that federal funds must increase. Federal funds can decrease, yet the state spending cannot.

Accrual - Recording unpaid obligations as expenses at fiscal year end.

Operational plan - An operational plan is a financial outline of how the program intends to spend the appropriated amount. Broken into detailed expenditure categories, this plan should reflect legislative intent.

Program transfer - Funds can be transferred between programs as long as amounts transferred are within the same appropriation line item.

Operational plan amendments - During the year, monies are often transferred between expenditure categories within a program. Such transfers occur to cover shortages or to utilize surpluses.

Line item - Amounts for specific purposes can be line itemed to assure proper expenditure.

Fund balance and liabilities - The difference between an accounting entity's assets and liabilities equals the fund balance.

## VOCABULARY

**Compensation** - This is the total of salaries and benefits and therefore, includes employer contributions for health insurance, social security, and retirement.

**Student Contact Hour** - Enrollment X instructional hours per day X instructional days per quarter.

**Student Credit Hour** - The classes that one student takes to earn one academic credit. Typically this is one class per week for a 12-week quarter. In laboratory classes it usually represents more than one hour per week.

**Fiscal Year Full-Time Equivalent Student (FY FTE)** - Forty-five student credit hours equals one FY FTE. This could be the result of one student carrying 15 credit hours in any quarter or any other combination generating 45 student credit hours. In graduate courses 36 student credit hours represent one FY FTE. In vocational-technical centers 750 contact hours represent a FY FTE.

**Current Funds** - Those funds that are spent for day to day operations of the school.

**Current Unrestricted** - Funds for the general operation and maintenance of the school, not restricted for a particular purpose by those supplying the funds. These are primarily the funds appropriated by the Legislature.

**Current Restricted** - Funds restricted for a particular use by the source. The restriction must be made by some body external to the university. The typical example of these funds is a federal or private grant to carry out a particular research project.

**Current Designated** - Funds designated for a specific use by the university. These are usually similar to revolving accounts and are used to defray reimbursable expenditures. College motor pools are an example.

**Current Auxiliary** - Funds to operate auxiliary enterprises such as dormitories, food services and the like.

**Community Services** - Community service courses are those courses offered at the community college that typically generate no credit hours toward the students' graduation and/or the college's calculation of full-time equivalent enrollment. These courses are generally recreational in nature (i.e. fly-tying, gardening, infant swimming, underwater basket weaving).



## EXPENDITURE ACCRUAL ACCOUNTING

The state of Montana uses the modified accrual basis of accounting which means that at year end, obligations incurred but not paid are accounted for as expenditures or withdrawals but cash is accounted for as revenue or income only when received.

Criteria for determining valid obligations include the following:

1. Payroll costs should be accrued in the fiscal year they are earned. However, vacation and sick leave should be expensed when they are paid, not when they are earned.
2. Services should be accrued in the same fiscal year that they are rendered. However, service contracts and systems development contracts that extend into the next fiscal year may be accrued in the previous fiscal year.
3. Equipment is accrued in the same fiscal year that the purchase order is issued.
4. Supplies and materials may be accrued in the same fiscal year that the purchase order is written. However, agencies are encouraged to expense these items in the year the goods are received.

A major weakness in the accrual process is the tendency to accrue year end surplus funds for additional expenditures which otherwise might not occur. For instance, the agency might make an accrual for additional equipment which otherwise would not be purchased had the surplus not occurred. This practice increases state spending.



THE MONTANA UNIVERSITY SYSTEM

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EX B

COMMISSIONER OF HIGHER EDUCATION

TO: John A. Richardson  
 Commissioner of Higher Education

FROM: Jack Noble *JN*  
 Deputy Commissioner for  
 Management and Fiscal Affairs

DATE: December 11, 1980

SUBJECT: Enrollment Supplemental - 1980-81 Revised

The attached worksheet schedules reflect the amount of the supplemental budget request as a result of increased enrollments in the Montana University System. The calculations were based on the student faculty ratios and the average faculty salary guidelines contained in House Bill 483. A summary of the supplemental request follows:

SCHOOL	APPROPRIATED ENROLLMENT	REVISED ENROLLMENT	NET FY FTE INCREASE	REQUESTED SUPPLEMENTAL	GENERAL FUND PORTION
MSU	9,332	10,225	923	\$1,625,043	\$ 534,353
U of M	7,842	8,330	488	854,403	809,787
Tech	1,097	1,518	421	832,746	611,174
EMC	2,975	3,167	192	313,610	313,465
WMC	1,213	1,500	287	542,789	494,329
NMC	602	727	125	226,161	130,573
TOTAL	<u>23,061</u>	<u>25,497</u>	<u>2,436</u>	<u>\$4,394,752</u>	<u>\$2,893,681</u>

JHN/llt

cc: Presidents  
 Regents  
 George Bousliman, Budget Director  
 John LaFaver, Legislative Analyst