

MINUTES ON THE HOUSE APPROPRIATIONS SUBCOMMITTEE
ON INSTITUTIONS

Thursday, January 6, 1983

The meeting was called to order at 10:15 a.m. in Room 108 of the Capitol Building.

Members present were Sen. Mark Etchart, Sen. Bill Thomas, Rep. Bob Thoft, Sen. Donald Ochsner, Rep. Steve Waldron, and Rep. Glenn Roush.

Also present were Peggy Williams and Scott Sim of the Legislative Fiscal Analyst's Office (LFA), and Bill Gosnell of the Governor's Office of Budget and Program Planning (OBPP).

Chairman Waldron outlined how he would like the committee to operate. He would like all questions to be directed to the chairman to keep order. He will allow committee members to interrupt witnesses for questions. If committee members have a problem attending a meeting that they have a special interest in, he would like to know far enough in advance so that he can try to rearrange the schedule. If there is some area of the budget that is not being addressed in the proper manner or if a committee member feels more emphasis should be placed on it, Chairman Waldron would like to know so that he can attempt to work something out on it.

Chairman Waldron intends to schedule executive meetings in which decisions will be made in advance so that everyone will know when they are. Unless committee members give advance notice that they will not be able to attend a meeting, Chairman Waldron will proceed without that member. If a committee member gives advance notice of his absence in an executive meeting, Chairman Waldron will assure that the member will have a chance to vote. If a committee member is unable to give advance notice of his absence in an executive committee meeting, Chairman Waldron will do what he can to review the missed meeting. Budgets will not be heard after a decision has been made on them unless it is absolutely necessary. The committee may need to go back and look at a budget but those instances will be kept at a minimum.

Chairman Waldron introduced Scott Sim and Peggy Williams of the LFA and Bill Gosnell of the OBPP. He also introduced Lynn Tumey, secretary to the Institutions Subcommittee. Ms. Tumey will be in Room 114 of the Capitol Building and can be reached at 449-4846.

Chairman Waldron expressed his desire to have regular breaks arranged and does not want any smoking in the committee meetings.

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There will be some instances when the Senate Finance and Claims Committee will have to meet in Room 108 at 8:00 a.m. for about one hour. On those occasions, this committee will meet at 9:00 a.m.

It was established that none of the committee senators have any conflicting committee meetings between 8:00 a.m. and 11:00 a.m. Monday through Friday. The committee may have to meet on Saturdays but that alternative will be avoided if possible.

Chairman Waldron discussed the agenda for the week of January 14 through January 14.

Chairman Waldron wants the committee to pay particular attention to the philosophy and goals for each of the institutions.

Chairman Waldron turned the meeting over to Peggy Williams. Ms. Williams handed out a packet of general budget information and terminology used when discussing budgets. See Attachment 1.

The secretary requested that, if committee members or anyone testifying has printed material from which they will be testifying, she would like a copy of the material so that she can make copies for all committee members. If she does not receive a copy of the material, she cannot enter it into the record.

Chairman Waldron opened the floor for questions. There was some discussion on the meaning of prenegotiated rates and who sets these rates. Chairman Waldron explained that state agencies sometimes have to negotiate with federal agencies to establish rates in various programs they deal with so those are prenegotiated rates. Chairman Waldron stated that there is a state law that requires us to negotiate for indirect costs.

Sen. Etchart gave a little background on vacancy savings. Chairman Waldron said a lot of times agencies use that for raises -- additional raises. The agencies keep the same number of employees, take the additional money set out for personal services and give them all big raises -- especially the administrators.

Bill Gosnell of the OBPP went into more detail regarding the question on indirect costs -- basically one of the cognizant agency approach.


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There was some discussion on administrative costs.

Chairman Waldron adjourned the meeting at 10:45 a.m.
All committee members went to Mountain View School where
they were given a tour of the facility by Bill Unger,
superintendent of Mountain View School.

Respectfully submitted:



Steve Waldron, Chairman
Approved

SW/lt

BUDGET REQUESTS

Three types of budget requests are:

1. 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 1982 fiscal year.

A current level base for operating expenses for 1984-'85 is determined by applying inflation factors to each expenditure. Our personal service base is the 1983 pay matrix.

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 1982 or 2) the current year expenditures are anticipated to be in excess of the appropriation; 3) some revenues are less than anticipated and must be made up by general fund to achieve current year expenditures.

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 - \$960 per year for each employee is the amount of health insurance paid per employee in fiscal 1983.

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 to board members, when statutorily required.

Vacancy savings - 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.

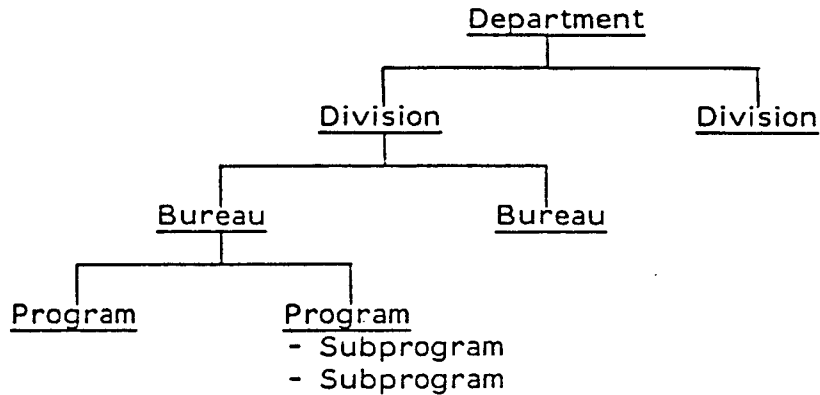
This category includes disbursements of grants, benefits and claims, and fund transfers.

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

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

BUDGETARY VOCABULARY

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



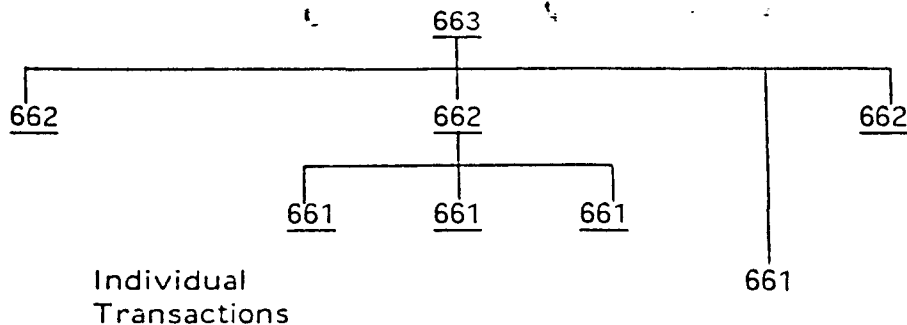
2. Statewide Budgeting and Accounting System (SBAS) - The accounting system used by all state government entities which tracks all financial transactions. The SBAS units most frequently used are presented here:

-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 - 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 Hours - 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 1000 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).

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 500, the 1981 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 to spend money in the earmarked revenue fund only if the approving authority certifies that an emergency justifies the expenditure.

A budget amendment may be approved for a time period greater than one fiscal year but not to exceed the biennium ending June 30, 1983. 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."

CURRENT FUND STRUCTURE

(until July 1, 1983)

*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 common referred to accounts within the budgeting process.

FUND STRUCTURE

(Effective July 1, 1983)

(a) Governmental funds, which include:

(i) the general fund, which accounts for all financial resources except those required to be accounted for in another fund;

(ii) the special revenue funds, which account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes;

(iii) the capital projects funds, which account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds; and

(iv) the debt service funds, which account for the accumulation of resources for and the payment of general long-term debt principal and interest;

(b) Proprietary funds, which include:

(i) the enterprise funds, which account for operations:

(A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or

(B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes; and

(ii) the internal service funds, which account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursed basis;

(c) Fiduciary funds, which include trust and agency funds used to account for assets held by state government in a trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds. These include:

(i) expendable trust funds;

(ii) nonexpendable trust funds;

(iii) pension trust funds; and

(iv) agency funds.

FUND STRUCTURE CHANGES

OLD TO NEW

<u>Old</u>	<u>New</u>
General Fund	General Fund
Earmarked Revenue Fund	State Special Revenue Fund
Federal and Private Revenue Fund Federal and Private Grant Clearance Fund	Federal and Private Special Revenue Fund
Sinking Fund	Debt Service Fund
Bond Proceeds and Insurance Clearance	Capital Projects Fund
Revolving Fund	Proprietary Fund
Trust Fund	Fiduciary Fund
Agency Fund	Fiduciary Fund

Weaknesses of Revolving (Proprietary) Funds or University Designated 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.

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.