

MINUTES OF THE MEETING
STATE ADMINISTRATION COMMITTEE
49th LEGISLATURE SPECIAL SESSION III
HOUSE OF REPRESENTATIVES

June 19, 1986

The meeting of the State Administration Committee was called to order by Chairman Sales on June 19, 1986, at 9:30 a.m. in Room 317 of the State Capitol.

ROLL CALL: Reps. Harbin, Kennerly and Nelson were excused to attend another meeting being held at the same time.

CONSIDERATION OF HOUSE BILL NO. 16: Rep. Ted Schye, District No. 18, sponsor of the bill introduced Linda King of the Department of Administration to explain the bill to the Committee thereby taking less time.

Ms. King presented written testimony to the Committee, Exhibit #1, attached to these minutes. She also explained the effect of this legislation on various agency funds should the bill pass. She said there would be approximately \$2 million at the end of the fiscal year that will not be earmarked.

PROPONENTS: There were no proponents.

OPPONENTS: There were no opponents.

DISCUSSION OF HOUSE BILL NO. 16: Rep. Pistoria remarked that this would add \$2 million more to the general fund for state government operation. Ms. King said that there would be \$2 million in FY86 and beginning in FY89 the investment earnings from the social security contribution investments would go to the general fund which would be \$175,900 per year, approximately.

Chairman Sales asked Ms. King where the .2% administrative fee comes from. She said that they were considering going back to the previous method of funding it at a lower rate. This comes from the employers and is collected on the basis of the salaries paid. She told the Committee that the administration costs for the entire division is \$664,000 per year so this would be paid by the public employers.

Rep. Jenkins asked if the administrative cost included the social security but that would be \$150,000 in addition to the \$664,000. Ms. King said the decision is up to the Legislature, however, the fund is rapidly being depleted over the years and this will have to be done at some point; now or later.

Chairman Sales asked why the cost is applied only to the employer. Ms. King said that is how it was done before. Lois Menzies, Staff Researcher from the Legislative Council, said that only increased contributions for benefits can be applied to the employees. Ms. King said that to remain exempt on investment earnings they cannot

charge it to the employees.

There being no further questions, Rep. Schye closed his presentation.

CONSIDERATION OF HOUSE BILL NO. 17: Rep. Gary Spaeth, District 84, came before the Committee as sponsor of HB 17 and explained the existence of the board of crime control and said that at one time it had been funded by federal funds. However, the duties and purposes of the board had been changed so it was eventually funded by the state. Those duties and purposes of the board have been diminished and reduced. He acknowledged that they are performing functions that are important and perhaps could not be transferred to the department of justice. He also stated that he was not personally sure in his own mind that it should be transferred to the department of justice but felt the Legislature should take a look at the board. He asked that the Committee table the bill so that it could be studied at length in cooperation with the personnel of the board.

PROPONENTS: There were no proponents.

OPPONENTS: Rep. Manuel appeared as an opponent to the bill and agreed with Rep. Spaeth that it should be killed in Committee. He said that he had been appointed to the board approximately six years ago and explained that the board was a coordinating agency that works with law enforcement, county attorneys, etc. He also agreed that all boards should be looked at closely but said that Rep. Spaeth would probably end up being one of their supporters.

Sen. Matt Himsl also appeared as an opponent as he was a new appointee to the board of crime control and felt that he had to be opposed to this bill until such time as he knew more about the board. He also commended Rep. Spaeth on taking the action to table the bill in Committee.

Reps. Harbin, Nelson and Kennerly appeared at the meeting at 10:00 a.m.

DISCUSSION OF HOUSE BILL NO. 17: In answer to a question from the Committee, Mike Lavin of the board of crime control stated that the board members receive compensation according to law which is \$50 per day that they serve.

There being no further questions, Rep. Spaeth closed his presentation.

EXECUTIVE SESSION:

House Bill No. 17: Rep. O'Connell moved that HB 17 DO NOT PASS, seconded by Rep. Janet Moore.

Rep. Jenkins said he had gotten a call from the sheriff in his home county asking that something be done to save the board of crime control. Rep. Jenkins was impressed with the presentation by Rep. Spaeth and commended him on his request that the bill be tabled until the regular session convenes in January.

Rep. Cody moved a substitute motion TO TABLE THE BILL. She stated that she was afraid if the bill received a Do Not Pass in the Committee it could be brought to life on the floor and said it would be safer to table the bill in Committee. Rep. O'Connell said that the bill would be rewritten in January so there was no purpose in keeping the bill alive in the Committee. Rep. Cody then withdrew her motion.

The question was then called on the original motion of DO NOT PASS. The motion CARRIED UNANIMOUSLY.

House Bill No. 16: Rep. Garcia moved DO PASS, seconded by Rep. Phillips.

Rep. O'Connell made a substitute motion DO NOT PASS. Rep. Jenkins asked if there could be discussion on the original motion. The chairman so ruled, therefore Rep. O'Connell withdrew her substitute motion.

A lengthy discussion followed. Rep. Holliday said she would like to see the cost split between the employers and employees and wanted to see the bill delayed in Committee until Lois Menzies could research that point to see if it would be legal and also fiscally possible. The substitute motion and the second were withdrawn. Rep. Garcia asked that Ms. King be asked to be at the meeting on June 20th to answer any questions. Chairman Sales said that would not be necessary. It was up to the Committee if they wanted to take this money at this time or leave it where it is. If it is to be split between the employers and employees, Lois should have some time to do some research. Virtually all of the retirement systems are administered by the PERS except the teachers.

Rep. Harbin said that if they collected \$1 per employee per month surcharge that would generate \$168,000 per year, however, Chairman Sales told him that it costs \$664,000 per year to administer the programs and the social security administration costs is \$150,000 in addition to the \$664,000. Rep. Pistoria said that this is then passed on to the local governments.

Rep. Pistoria moved a substitute motion DO NOT PASS, seconded by Rep. Smith. The motion FAILED on a 9-9 vote with Reps. Harbin, Phillips, Holliday, Garcia, Veleber, Cody, Jenkins, Kennerly and Peterson voting "yes".

Rep. Jenkins moved the bill DO PASS, seconded by Rep. Campbell.

Rep. Holliday said the Committee should not be passing the bill out on to the floor of the House until the Committee is in


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agreement, and if there is a possibility of splitting the cost.

Rep. Phillips moved a substitute motion TO POSTPONE ACTION until June 20, 1986, seconded by Rep. Janet Moore, Motion CARRIED.

Chairman Sales told the Committee that HB 27 would be heard on June 20th and also action would be taken on HB 13 and HB 16.

The meeting was adjourned.



Walter Sales, Chairman

DAILY ROLL CALL

STATE ADMINISTRATION

COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date 6-19-86

NAME	PRESENT	ABSENT	EXCUSED
SALES, Chairman	✓		
O'CONNELL	✓		
CAMPBELL	✓		
CODY	✓		
COMPTON	✓		
GARCIA	✓		
HARBIN	✓		✓
HAYNE	✓		
HOLLIDAY	✓		
JENKINS	✓		
KENNERLY	✓		✓
MOORE	✓		
NELSON	✓		✓
PETERSON	✓		
PHILLIPS	✓		
PISTORIA	✓		
SMITH	✓		
VELEBER	✓		

VISITORS' REGISTER

COMMITTEE

BILL NO. 16 & 17DATE 6-19-86

SPONSOR _____

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
LINDA KING	Public Employees Ret. Div	✓ HB 16	
Rep. REX MANUEL	Board Crime Control	✓	X 17
Sen. Matt Himes	Board Crime Control		X 17
MIKE LAVIN	BOARD OF CRIME CONT		X 17
Clayton Schenck	LFA		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CP. 1
6-19-86

Testimony of the
Public Employees' Retirement Division

on

HB 16

The Public Employees' Retirement Division administers the state's social security program in addition to eight state retirement systems. Since the federal government can not directly tax state or local governments, in order for employees of these governments to be eligible for Social Security coverage, the State of Montana entered into an agreement with the federal government to collect, certify, and pay Social Security taxes for state and local government employees. In addition, the state has signed agreements with local governments to collect Social Security taxes on their covered employees.

A "float" period of up to 45 days was originally created between the time Social Security taxes were collected from state public employers and the quarterly deposit dates required by the federal government. Since 1965, this "float" was invested and the resulting earnings accrued to the Social Security contributions account and have been used to fund first the administrative expenses of the state social security program and also, since 1977, the administrative costs of the eight retirement systems administered by the Public Employees' Retirement Board.

Because this "float" period has been reduced to around 5 days over the past few years, investment earnings on Social Security contributions have decreased substantially over the next few years.

The Public Employees Retirement Division supports HB 16 which would transfer the balance of approximately \$2 M in reserved interest earnings on Social Security collections from previous years to the state's General Fund. Future earnings on Social Security contribution investments (approximately \$175,900/year) will also accrue directly to the General Fund.

Montana is one of only a very few states where this is not currently state law, and the only state which has funded the operations of its retirement systems in this manner.

This legislation also proposes to reinstitute an administrative fee (limited to no more than .2% of PERS salaries) to reimburse the trust fund for the costs of administering the retirement systems. Previous to 1977, the retirement division collected an administrative fee of .3% of salaries for this purpose. We expect that the fee to be collected beginning in July, 1988 would actually be closer to .166%.

If the PERS trust fund were required to absorb the administrative expenses of the retirement division operations without the funding mechanism provided for in this legislation, it would reduce the funding for retirement benefits by that amount each year and would require greater employer contributions as this effect is compounded each year.

SECTION BY SECTION ANALYSIS OF

BILL TO TRANSFER OF EXCESS SOCIAL SECURITY EARNINGS

SECTION I: Amends 19-1-602 (Social Security Statutes). The amendment to subsection (3) will credit the General Fund with excess funds in the Social Security contributions account, starting on July 1, 1987.

19-1-602(3) currently provides for funds in excess of what is required for the payments of amounts due to the federal government to be transferred to the funds of the state agency (Public Employees' Retirement Board) and used to defray the costs of administering the state agency as it may determine. Since the state agency administers both the social security program and seven retirement systems, these excess earnings are currently used to defray the costs of administering the entire Public Employees' Retirement Division.

The amendment adding subsection (4) will provide for the immediate transfer of excess Social Security investment earnings from current and previous fiscal years (estimated to be \$2 Million) to the General Fund on or before June 30, 1986.

The effect of these two amendments, with their two separate effective dates, is to provide an immediate infusion of \$2 Million into the General Fund, allow agency budgets to be funded by FY 1987 Social Security investment earnings, and finally, to transfer those ongoing investment earnings to the General Fund beginning in FY 1988.

(NOTE: The 1987 Legislature must address the issue of whether the social security program will become a general fund appropriation or whether it will be funded through the assessment of an administrative fee on Social Security covered salaries, as currently allowed in statute.)

SECTION II: Amends 19-3-603(2) (Public Employees' Retirement System Statutes) to allow the assets of the system to be used for paying the administrative costs of the retirement systems administered by the Public Employees' Retirement Board beginning July 1, 1987.

The effect of this amendment would be to allow investment income on the PERS trust fund to be used by the Public Employees' Retirement Division to fund the costs of administering the retirement systems. The amendment will not allow the use of trust income to pay the costs of administering the social security program, as this is expressly prohibited elsewhere in statute.

SECTION III: Amends 19-3-805(1) (Public Employees' Retirement System statutes) to add language giving the Public Employees' Retirement Board the authority to assess, and the Department of Administration to collect, an administrative fee from covered employers to defray the administrative expenses of the retirement systems.

This amendment would become effective immediately upon passage and approval; however, the fee would not be assessed by the Board until July 1, 1987. The reason for the delay is because it is the Board's intention to assess only such a fee as is necessary to reimburse the trust fund for the actual funds expended in each preceeding fiscal year to administer the systems.

The fee is limited by this amendment to no more than .2% of covered employees' salaries. It is anticipated that the fee required to cover the retirement systems' budgets for the next three fiscal years would approximate .175% of salaries.

SECTION IV: Extends the existing authority of the Public Employees' Retirement Board to make rules on the subject of this act and is necessary in order for the Board to implement the proposed changes in funding described in this bill.

SECTION V: Provides two different effective dates for the sections of this bill. All amendments become effective upon passage and approval except the amendment to 19-1-602(3). As explained above, the effective date of this amendment, to provide the ongoing transfer of Social Security investment earnings to the General Fund, takes effect on July 1, 1988 in order to allow those investment earnings to be used to pay the expenses of the social security program until an appropriation can be made during the 1987 Legislature.

EFFECT OF LEGISLATION ON VARIOUS AGENCY FUNDS

	FY 1986	FY 1987	FY 1988
SOCIAL SECURITY PROGRAM	\$150,000	\$150,000	\$150,000
	Investment Earnings on SS Contributions		General Fund
RETIREMENT SYSTEMS ADMINISTRATION	\$664,463	\$664,463	\$664,463
	Investment Earnings on SS Contributions	Investment Earnings on PERS Trust	Administrative Fee Charged PERS Employers
GENERAL FUND	\$2,000,000	\$ 25,900	\$175,900*
	Transfer of Excess SS Investment Earnings		Transfer of SS Investment Earnings

* NOTE: If Social Security Program is a General Fund appropriation in FY 1988 and beyond, the \$175,900 income to the general fund will offset the \$150,000 budget of the program and the net income to the General Fund will be \$25,900/year.



STATE OF MONTANA
Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

April 30, 1986

Representative John Patterson
Patterson Ranch
Box 150
Custer, MT 59024

Dear Representative Patterson:

There are 209 elected or appointed officials in Montana whose salaries are specified in state law. Table 1 lists the titles of these officials and the number of individuals holding each office.

Table 1
Montana Elected and Appointed State Officials

<u>Title</u>	<u>Salary</u>	<u>Number</u>
<u>Elected</u>		
Governor	\$50,452	1
Lieutenant Governor	36,141	1
Chief Justice of the Supreme Court	51,722	1
Associate Justices of the Supreme Court	50,452	6
Attorney General	46,016	1
State Auditor	33,342	1
Superintendent of Public Instruction	39,672	1
Public Service Commission Chairman	37,363	1
Other Public Service Commissioners	36,141	4
Secretary of State	33,342	1
Clerk of the Supreme Court	32,401	1
District Court Judges	49,178	36
Legislators	5,408/90 day session	150
<u>Appointed</u>		
Commissioner of Political Practices	27,655	1
State Tax Appeal Board Chairman	28,373	1
State Tax Appeal Board Members	27,635	2
Total		<u>209</u>

For fiscal 1987, each 1 percent reduction in their salaries and benefits (excluding the state's insurance contribution) would save \$40,000. A

5 percent cut would reduce expenditures \$201,000, while 10 percent would save \$403,000. State law requires the salaries be paid from general fund unless other statutes specify another fund.

The salaries listed in Table 1 are those established by statute. The Governor also appoints department heads who, in turn, appoint some members of their staffs; the salaries of department heads and their staffs are not specified in statute. When our computer programmer returns to work next week, we will try to estimate the cost savings from reducing these salaries as you requested.

If I can provide additional information, please contact me again.

Sincerely,



Judy Curtis Waldron
Senior Fiscal Analyst



STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

May 7, 1986

Representative John Patterson
Patterson Ranch
Box 150
Custer, MT 59024

Dear Representative Patterson:

You requested the estimated cost savings from reducing the salaries of state employees appointed by elected officials and department heads. By my count, there are 307.33 FTE positions that are in this category with current, budgeted salaries of \$9.5 million. Each 1 percent reduction in their salaries and benefits (excluding the state's insurance contribution) would save \$105,000. A 5 percent reduction would reduce expenditures \$524,000, while 10 percent would save \$1,048,000.

Of the 307.33 FTE appointed by elected officials and department heads, the largest group of 119.33 FTE are what are titled "career executive assignment." These individuals hold positions of division administrator, deputy administrator, or ones with similar levels of responsibility. Eighty-four of the 307.33 FTE are county attorneys or deputy county attorneys; the state pays one-half of their payroll costs. The remaining 104 FTE are appointed by elected officials, including department heads.

There are several potential problems with reducing the salaries of appointed employees. First, with the exception of county attorneys, the salaries are not set in statute as they are for elected and appointed officials. Thus, the legislature does not now have direct control over most of the salaries paid. Second, employees in career executive assignments are classified into grades and steps on the standard salary matrix for state workers. Reducing their salaries without doing likewise for other classified employees may cause discrimination problems.

If I can provide additional information, please contact me again.

Sincerely,

Judith Curtis Waldron
Judith Curtis Waldron
Senior Fiscal Analyst

JC2:kj:jp

STANDING COMMITTEE REPORT

June 19

19 86

Mr. Speaker: We, the committee on State Administration

report SB 17

☐ do pass

☐ be concurred in

☐ as amended

☒ do not pass

☐ be not concurred in

☐ statement of intent attached

Walter Sales,

Chairman

First

reading copy (White)
color