

MINUTES OF THE MEETING
FINANCE AND CLAIMS COMMITTEE
MONTANA STATE SENATE

February 9, 1987

The sixth meeting of the Finance and Claims Committee met on the above date in room 108 of the State Capitol. The meeting was called to order at 6:15 p.m. by Chairman, Senator Regan.

ROLL CALL: All members were present.

CONSIDERATION OF HOUSE BILL 391: Representative Thoft, district 6 and chief sponsor of House Bill 391 said there was a bill passed in the '83 session that dealt with the expenditure of student fees collected prior to the fiscal school year. The Montana Historical Society got caught up in that piece of legislation and the auditor's recommendation was that we recommend the Society comply with the state law, or if necessary seek legislation to exempt them from this law. It deals with the publication of the Montana Magazine of History, and of course they publish that with subscriptions and those subscriptions come in for a period of 2 years and under the present law they would not be able to expend the subscription money to publish the magazine.

PROPOSERS TO HOUSE BILL 391: Bob Archibald, Montana Historical Society said he appeared as a proponent and was available to answer any questions.

There were no further proponents, no opponents and Senator Regan asked if there were questions from the committee.

QUESTIONS FROM THE COMMITTEE: Senator Gage asked Mr. Archibald if they have the subscriptions for extended periods of time, for example 5 years and was told the longest is 2 years. He said about 1/3 are for 2 years and the remaining 2/3 are one year subscriptions.

There were no further questions and Representative Thoft said he had nothing further in closing. Senator Regan declared the hearing on House Bill 391 closed.

CONSIDERATION OF SENATE BILL 253: Senator Himsl, Senate District 3, Kalispell, chief sponsor of Senate Bill 253 spoke for the bill and said this bill was a review of state special revenue accounts. His written testimony is attached as exhibit 1, Senate Bill 253.

PROPOSERS OF SENATE BILL 253: Kathy Fabiano, Accounting Division, Department of Administration spoke as a proponent of Senate Bill 253. She gave written testimony attached as exhibit 2, SB 253. She added a comment in regard to changing a classification to general fund, that they could not do so. Under H. B. 500 it would be budgeted for the next fiscal year specifically as a special revenue fund. She said she was not quite sure what that section of the bill intended, but according to what Senator Himsl just finished testifying on, it may be that the bill only requires us to transfer the unobligated fund balance to the general fund, but I would also submit that we are prevented from doing that because that requires an appropriation, the same as an expenditure from the accounts. Before we can transfer an account to the general fund, the legislature has to budget the next years activities, or at least a transfer in 500.

In ending her testimony she referred to their prepared amendments which are attached as exhibit 3, S.B. 253.

There were no further proponents, no opponents, no questions from the committee and Senator Himsl said he would just close and see what the amendments are. He said he had not checked with her on them.

CONSIDERATION OF HOUSE BILL 214: Representative Jan Brown, House District 46, Helena said House Bill 214 merely increases the amount in the Governor's disaster fund from \$1 million to \$1.5 million. General Duffy and two other members of his staff are here to explain why they have requested it.

PROPOSERS OF HOUSE BILL 214: General Duffy, Director of Military Affairs. The Governor's Disaster Fund was \$750,000 up until the 1983 legislature. At that time we asked to increase it to \$1 million. Prior to 1981 there was no state or local commitments for public assistance funds. After 1981 when there was a disaster the state had to come up with a 25% share. Prior to 1981 a Presidential Declaration was funded 100% by the federal government. In addition the irrigation districts in 1981 were consolidated as subdivisions of the state, and therefore they became eligible for assistance under the Governor's Disaster Fund. In 1986 the federal government changed the formula for declaring a federal Presidential Disaster so it makes it a little bit easier now to declare a disaster. The counties are urging the Governor more to apply for Presidential Disaster funds and when he does that he is committing the state to that 25% share. Prior to 1981 the National Guard when they were told to participate in a disaster their funds were paid, along with the other expenses involved, was money given directly out of the general fund--not the disaster fund and the budget director, at that time, looked at the

Attorney General's opinion because she did not feel they should be using money that was not appropriated and set aside for disaster, and the A. G. opinion said that yes, indeed, it did have to come out of that fund.

Mr. Duffy said in this particular year we have used all but \$200,000 of that money. On the flood we had up on the Hi-Line we spent over \$300,000. If we have another spring flood in that area, or any area in the state of Montana there is a good possibility that it would exceed \$300,000 or the \$200,000 that is left in the fund, and I would assume then that the Governor would have to call the Legislature into session to appropriate money to the Disaster Fund at that time.


There were no further proponents, no opponents, and Senator Regan asked if there were questions from the committee.

QUESTIONS FROM THE COMMITTEE: Senator Kealing asked if this was all general fund money and Senator Regan answered yes, it is. General Duffy answered yes, this is general fund money. It is money that is set aside and it can be spent only if the state has a disaster. It would be money that was not used at all if we did not have a disaster. This bill would become effective immediate upon passage.

Senator Regan asked--where do we get the money, since we are in a deficit position of approximately \$120 million?

There were no further questions, Representative Brown said she closed, and Senator Regan said there would be a meeting to hear Senate Bill 216 on Wednesday upon adjournment and they would take executive action on some of the bills.

The meeting was adjourned at 7:09 p.m.



Senator Pat Regan, Chairman

Review of Special Revenue Funds

Senate Bill # 253 comes before you at the request of the Legislative Finance Committee. There has been a growing concern over the increasing number of earmarked revenues and last year Senior Analyst Jim Maubain made an impressive comprehensive study of the problem and discovered that over 50% of Montana's tax and license revenues are earmarked.

A 1984 study reported Montana at 61%, was the third highest in the nation, only Alabama and Wyoming were higher; the NATIONAL average was 24%.

As of June 30, 1986, there were 212 state special revenue accounts with a fund balance of \$154.1 million and total receipts of \$449 million.

The state constitution earmarks revenues for highway programs, public schools and universities, livestock inspection and animal control, animal health programs, and operation of the Consumer Council. All other earmarked revenues are made by statute.

Despite the discovery and identification of these earmarked funds and their recognized position in the appropriation process, efforts to de-earmark have met with understandably strong special interest objection. This bill will not de-earmark any funds but would keep the issue in focus with a periodic review and in due time may bring corrective action.

One of these days the budget crunch will be so severe it will force a re-examination of the dedication of these accounts.

(more)

SENATE FINANCE AND CLAIMS
EXHIBIT NO. 1
DATE 2-9-87
BILL NO. SB 253

Senate Bill # 253 would have the Dept. of Administration examine all state special revenue accounts to determine if the unobligated balances could be transferred to the general fund, whether such accounts should continue or be modified to provide better program operation and to report findings and recommendations to the Legislative Finance Committee not later than June 1st of the year preceding a regular session of the legislature.

I have some reservations about having the Department, given to objective accounting, to be charged with making subjective judgments and evaluations of programs as suggested by the criteria section of the bill. These arguments might better be made by the sponsor of any reform proposals. I would invite the committees, ^{suggestions} in this area of the bill.

I think there is real merit in keeping the issue before the legislature, the agencies, and the public and it ought not be a burden for the Department to make an objective report of its biennial review.

I urge your acceptance of Senate Bill # 253.

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 1 Page 2

DATE 2-9-87

BILL NO. SB 253

SENATE FINANCE AND CLAIMS

EXHIBIT NO. 2

DATE 2-9-87

BILL NO. SB 253

DEPARTMENT OF ADMINISTRATION TESTIMONY

SB 253

The Department of Administration is proposing amendments to SB253 which essentially do three things-

- (1) The amendments expand the number of accounts examined by the Department of Administration to include "other" special revenue accounts and proprietary accounts;
- (2) The amendments delete subsection 2, which requires the Department of Administration to transfer unobligated balances in certain accounts to the General Fund; and
- (3) The amendments would relieve the Department of Administration from making certain decisions about an account's operations where we feel we are not the appropriate agency to be making such determinations.

Montana currently has approximately 150 state special revenue accounts, 75 "other" special revenue accounts and 65 proprietary accounts. The "other" special revenue accounts should be included in the examinations required by this bill because they are appropriated and operate the same as state special revenue accounts. They comprise the majority of the state's administratively established nonfederal special revenue accounts. Two examples of such accounts are the Department of Justice's Driver License Collections account and the Office of Public Instruction's School Lunch Program account.

Proprietary accounts are established when either the legislature or an agency intends that an activity be accounted for like a business. That is, they want accounting reports that show the total costs associated with that activity. If the agency does in fact record all the direct and overhead costs associated with the activity, then it is properly classified as a proprietary account. But if the agency does not record all the costs associated with the business, what you have is a special revenue account that can get a budget amendment without meeting the emergency criteria. Montana has more proprietary accounts than any other state for which we have financial reports.

Subsection 2 of the introduced bill requires the department to, where ever possible, eliminate restrictions and require the transfer of unobligated balances to the General Fund. There is at least one restriction applicable to every account that we cannot eliminate, that is HB500. We can't change an account's classification to General Fund in the middle of a biennium because under HB 500 its budget for the next fiscal year will be specifically established in the special revenue fund, nor can an account be reclassified at the end of the biennium for the same reason. Before the Department of Administration can change an

account to be General Fund, the legislature has to budget the next year's activity in HB500 as General Fund.

Subsection 3, parts (c), (d), (e) and (h) require the department to consider whether a program, or the account it's in, operate in compliance with statutes and legislative intent, whether it's continuing, whether it provides a direct benefit to its source of revenue, and whether it's cost-effective. The Accounting Division doesn't know what legislative intent was when most the state's 150 state special revenue accounts were established, nor do we know when an account was created whether the intent was to fund a continuing or temporary program. The answer to the question of whether or not an activity provides a direct benefit to its source of revenue depends on your definition of direct. Our proposed amendments would delete these subsection's, since we feel they would require us to make uninformed, subjective decisions about the accounts.

Prepared by-
Kathy Fabiano, Administrator
Accounting Division
Department of Administration

SENATE FINANCE AND CLAIMS
EXHIBIT NO. 2 - Page 2
DATE 2-9-87
BILL NO. SB 253

efk L

DEPARTMENT OF ADMINISTRATION'S PROPOSED AMENDMENTS
TO SB 253, AS INTRODUCED

1. Title, line 6.
Following: "ACCOUNTS"
Insert: "AND PROPRIETARY ACCOUNTS"
2. Page 1, Line 16.
Following: "state"
Insert: "and other"
Following: "accounts"
Insert: "and proprietary accounts"
3. Page 1, line 18.
Following: "state"
Insert: "and other"
Following: "accounts"
Insert: "and proprietary accounts"
4. Page 1, line 22 through line 7, page 2.
Strike: subsection 2 in its entirety
Renumber: subsequent section
5. Page 2, line 8.
Following: "state"
Insert: "and other"
6. Page 2, line 9.
Following: "accounts"
Insert: "and proprietary accounts"
Following: "if"
Strike: remainder of line 9 through "an", line 12
Insert: "each"
7. Page 2, line 14.
Following: "account"
Insert: ", other special revenue account or proprietary account"
8. Page 2, line 17 through line 21.
Following: line 16
Strike: subsections (c), (d) and (e) in their entirety
Renumber: remaining subsections
9. Page 2, line 22.
Following: "of"
Strike: "earmarked"
10. Page 3, line 2 through line 5.
Strike: subsection (h) in its entirety
Insert: "(e) has any restrictions against the transfer of unobligated balances in the account to the general fund."

SENATE FINANCE AND CLAIMS
EXHIBIT NO. 3
DATE 2-9-87
BILL NO. SB 253