MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By Chairman Bardanouve, on February 7, 1989, at 3:15 p.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Judy Rippingale, LFA

Announcements/Discussion: Chairman Bardanouve said he had written a letter to the Governor's office and outlined the position of this committee on vacancy savings because of the vote of 17-2 to take no vacancy savings. He said in the letter he would change the policy if the Governor's office could justify their position of vacancy savings. He said he had not heard from the Governor's office, and therefore put it on the agenda and requested the budget office to clarify the position of the Governor's office and try to work out a policy. If we continue with no vacancy policy and the budgets are based on that, we would have to change policy later and the Fiscal Analyst's office and the Budget office will have to do a lot of work, pulling all the budgets out and putting new figures in. He said we would like to resolve this question as soon as we can, if it cannot be resolved, we might have to do it in the Senate. He said he had told the Governor's office and the Budget office he would abide by the Committee vote. He asked Mr. Shackleford if he had anything to add that might clarify the issue.

Mr. Shackleford said he had been invited to talk about a couple of issues he was not too comfortable with. He said, on Vacancy Savings, so far as his office is concerned, we have taken the position of using a 4% vacancy savings. He said as he looked through the records of the Budget office and look at the payroll accounting system, it is clear there is a vacancy savings, and that rate has varied all over the board from very little to 22%. He said, the average, statewide over the years, has been about 4%. He said it was their rationale that if they put money into the budget to pay for the pay plan, it would be appropriate to use the vacancy savings. He said they would adhere to the following example. Any agency that had a higher than 4% vacancy savings would be retained at 4%. Any agency that had a less than 4% vacancy savings, that is the vacancy savings that would be utilized. He said they also made some overtures, questioning it's use as a revenue source, and perhaps in the long term there may be another way to look at building budgets without using vacancy savings, but at the present time they felt it was a prudent way to do business. He said he would suggest the committee consider a vacancy savings of 4% and allow some management ability to transfer funds.

Questions from the Committee:

Representative Thoft asked if he had said any agency with less than 4% it would be taken at actual vacancy savings? Mr. Shackleford answered yes, the lesser amount.

Representative Cody asked what the agencies did before we took vacancy savings? Mr. Shackleford said he had been around the agencies for about 8 years and vacancy savings occurred in their agency, and that is how some of the programmatic changes are made during the interim.

Representative Menahan said he had never liked vacancy savings, and he did not like them now. He mentioned the law suits and problems in the Institutions, and said we should come up with eliminating some of the programs and not pay it out in law suits. Mr. Shackleford said their long term goal is to not use vacancy savings.

Representative Spaeth said to Mr. Shackleford, you indicated about 4%, but if less than 4% it would be the actual vacancy savings. He asked if there was any language they could see that would indicate what sort of an impact that would be. He said the historical one is generally the one in the budget, and not necessarily applying to the actual amount. Mr. Shackleford answered it was his understanding that the current budget is 2% or what ever was less than 2% in order to pay for the pay plan. He said he did not have any language, but could develop some. Rep. Spaeth said his understanding is the present budget has it built in and the agency has to reach the 2%, or if a small group it might be less than 2%. We did that 2 years ago, we just told them they had to have that amount of vacancy problems or they would have real problems. It sounded to me that your proposal was much more voluntary. Mr. Shackleford answered that currently they are under a hiring freeze and are trying to get hold of the entire personnel services area, so in combination with that we are saying what the actual rate of vacancy savings is. We are interested in controlling the growth and seeing what the programmatic changes are. Rep. Spaeth said he was wondering if it was a voluntary vacancy savings, and Mr. Shackleford said he had seen the figure existing. Rep. Spaeth said if you have what the historical vacancy savings is, there is no leeway for programmatic changes. He asked if they should allow some latitude to allow programmatic changes we have not seen, and if you have some, what kind would we be looking at? Mr. Shackleford answered, we are trying to find out some of the positions that have been vacant for some time, some were vacant because they needed to meet the quota of vacancy savings to deal with personal services budget. If the agency wants to fill the position, because it is a new vacancy or a position they couldn't fill, or because they want to change some of their programs. Rep. Spaeth said, they you are not concerned about the line item aspect? Mr. Shackleford said no. Rep. Spaeth asked, you are concerned about the line item so you can move money outside of personal services then? Mr. Shackleford answered, if he had to put them in a priority item, the first would be losing some management flexibility at a time when we need it and second, just dealing with the vacancy savings issue. He said at this time it is not their attitude to make wholesale changes in the program, through the biennium, with the hiring freeze in place, and that kind of attitude, they will be able to see where programmatic changes are needed.

Representative Peck said you have indicated the position the Executive has taken is based on management flexibility, and if you sit in the Appropriations committee and hear these agencies, they will tell you the exact opposite is true, it creates inflexibility when you say they have to make a certain target on vacancy savings. He asked if the Executive was inflexible on this. Mr. Shackleford said no, it would be their long range goal to get out of this program, and did not feel they should make that change at this time.

(338) Representative Marks said if you don't have the flexibility for personal services, you don't have much flexibility at all. Given the routine boiler plate language which allows 5% executive management, if you take the normal 70 to 80% which is personal services out of any budget, you take the 5% out of the 20 or 30% left. He said that area includes utilities and other fixed expenses, you really don't have any flexibility at all.

Representative Bardanouve said while Mr. Shackleford was here, he would like to know if his office was prepared to present a pay plan to the committee. He said he felt it was very important to get it soon to start the negotiation process for the pay plan. Mr. Shackleford said it is in the Legislative Council, and he would visit with him within the week to decide that.

Representative Bardanouve said it has come to his attention that the Health Insurance is in a critical situation. There is a short fall, and to continue the Health Plan as it is now in operation, the LFA prepared figures that look like about an $18.5 million provided we maintain the same coverage, exemptions etc. we now have. Has your office any policy on the Health Insurance which has traditionally been a part of and related to the pay plan. Mr. Shackleford answered that it is a part of the pay plan and will be proposed with it.

Rep. Bardanouve asked if they will have a figure in there, or are you planning on any changes in the coverage or the charge the employees pay, or different deductible or something to reduce the cost. Mr. Shackleford said that is all a part of the original pay plan that was developed before he was on the job. The benefit program is part of the pay plan, and is impacted as part of the dollar estimate we will give.

Representative Quilici said he was concerned on these Health insurance costs, and was wondering how they will be built into the pay plan. He asked if Mr. Shackleford had any idea, it the plan were brought up to solvency, what it would cost now? Mr. Shackleford said he did not have the figures with him, but they are built into a part of the plan. Rep. Quilici asked if part of the costs are employee contributions to bring the costs down? Mr. Shackleford said the plan, as he recalled, is a combination of employee benefits, employee's contributing, and the contributions from the state. Rep. Quilici asked, when Mr. Shackleford had met with them before, it was stated that the administration was contemplating a pay raise of around 1.7 in '90 and 2.7 in '91. With those projections, and employees having to contribute to the insurance, have you looked at it to see if the percentage could be raised? Mr. Shackleford answered, we have to keep that fund on an actorarily sound basis, and a combination of things can be done. We could reduce benefits to increase the cost allocated to pay for them, and have the employees participate in the increased cost of the benefits. They are negotiable type of items and need to be discussed. Rep. Quilici asked if they had looked into generating more money in the area so they could make the plan solvent and yet not have the employees contribute part of their pay increase to the pay plan? Mr. Shackleford said it is being examined, they are aware of the modest increase.

Representative Menahan said an employee at the Institutions getting a 2% raise (about $260 a year) is getting an increase on Worker's Comp, now insurance, he asked if Mr. Shackleford could give him a rough estimate for a prison guard at $13,000 would net? He asked if any unions had signed off on any agreements. Mr. Shackleford said no negotiations had started yet that he knows about.

Chairman Bardanouve asked Mr. Shackleford about Indirect Costs. Mr. Shackleford handed out EXHIBIT 1, and said he would have the people who were impacted speak to this. He said he had picked 3 issues the LFA had addressed, and said they were substantive in terms of how we think it is probably inappropriate to make that move. He said he felt the people here representing some of the agencies that would be impacted would be better able to speak to it.

(650) Ray Hoffman, Department of Health and Environmental

Sciences (DHES) said the issue of indirects have a significant impact on DHES. Within the past 18 months the Department has had over 76 budget amendments which generated $7.6 million of additional funds into the state predominantly associated with federal funding sources. He said the DHES has felt, if federal funds were available at no cost to the state general funds, or conceivably institute a federally mandated program within the state, they should accept the funds. He said the management of the funds deals with indirect costs, the accounting or the administrative services associated with those grants.

Brian McCullough, Department of Labor and Industry, said he would echo the comments of Mr. Hoffman. He said they had problems in that general fund, looking at it from a consistency standpoint, constitutes a little over 2.6% of the total budget. State Special Revenues constitute .2% and the balance is federal. He said sometimes they have had management reorganization of some kind, and if they move something either in or out of the centralized support function, and the funds are different, it causes a clash.

(023) Kathy Fabiano, OPI, said she had told them a few weeks ago that their indirect costs should be in the general fund. Her reasons were that they were one of the few agencies that have their indirect cost pool in a state special revenue fund which is what the LFA has advocated in their letter. We disagreed and said general fund. One reason is there is a law on the books that says the Department of Administration should periodically review accounts and eliminate any that are unnecessary, or keep better fiscal control. The second reason we said it should be general fund, she said, is that currently in House Bill 2, there was a statement of Legislative Intent that said if we collect more than anticipated in federal indirect cost funds, we should revert a like amount of general fund. She said their indirect cost pool is funded about 60% federal, 35% general, and 5% state. She said if they collect the general funds and deposit them in a special revenue account they cannot get a budget amendment.

Carolyn Doering, Department of Commerce, said they have a unique situation. She referred to exhibit 1, following the paragraph numbered 3. She said their indirect cost pool consists of 16% general fund, 33% special revenue, 8% federal, and 42% proprietary which includes some internal service funds. She said they would request their indirect cost pool remain in a proprietary account.

Representative Bardanouve asked who will introduce the pay plan. Mr. Shackleford answered Representative Cobb.

Representative Bardanouve said he had asked Mr. Curt Nichols to give them some information also.

Curt Nichols said they had received the memo from Mr. Shackleford and had taken a look at the three objections he had raised to using the State Special Revenue Fund. He handed out EXHIBIT 2, and referred to the back page. He said table 1 showed the 3 agencies and examples of types of funds that are in that cost pool. He said table 2, the current account that these are budgeted to in the '89 biennium, and the way they appear in the Executive budget in the '91 biennium, and in the LFA budget as a result of the committee's actions. He walked the committee through the memo, addressing each issue.

(177) Chairman Bardanouve asked Mr. Nichols if, in essence, he had said the agencies can spend their money under this policy. They are not prohibited because they are unable to make budget amendments? Mr. Nichols said there is no prohibition against spending the money you appropriated, it would be more difficult to get a budget amendment, but we don't see evidence that it has been a problem. In answer to another question from Chairman Bardanouve, Mr. Nichols said they would only be prohibited if they could not justify the expenditure.

Representative Cody asked Mr. Nichols to address the DHES budget amendments for $7.6 million and Mr. Nichols answered that those were approved budget amendments, and they were probably fortuitous that they received that amount of additional grants. He said he would assume Mr. Hoffman was talking about a 2 year period since his records show about a $3.6 million for DHES for fiscal '88. He said we are not talking about the $3.6 million, only the portion that would relate to indirect costs, the administration by the agency. That was $24,000.

Representative Bradley asked if any of those making the points initially would want to respond to this.

Mr. Hoffman said Mr. Nichols is correct on the amount of dollars spent, since it shows about 3/4 of those budget amendments are continued appropriations. He said the reason he has picking up the $24,000 for the indirect costs is it was the only budget amendment he was allowed to put in by the prior administration. He said there are, currently, 2 budget amendments in, adding the additional staff to the DHES. He said what could happen agencies might put in for a budget amendment for the costs before they put a budget amendment in to get access to the additional funds.

Mr. McCullough said so far as a problem being an emergency in the past for those accounts that previously were not in earmarked accounts, there would be no reason for it to be identified as an emergency because they weren't there, so we didn't have to go through the issue.

Ms. Doering said when you are talking about DHES and the Dept. of

Labor, you are talking about millions of dollars. In the Dept. of Commerce we have applied for numerous small grants, and there are some indirect costs. If they are put into a state special revenue account, she felt they would not meet the emergency criteria, and they could not use them for administration.

Chairman Bardanouve said he would like the agencies concerned to sit down with the Fiscal Analyst's office and try to work out the situation. If you truly can't work it out, the LFA, I am sure will be fair to the agencies.

Ms. Rippingale said they had brought it to the attention of the committee since they felt it important to get it ironed out. She said her office would work to the best of their ability to do so.

Representative Marks (306) asked what kind of percentages are we talking about in these grants? Mr. Nichols answered that there is not a consistent number, they range from under 10% to over 20% in the amount of federal grant.

HEARING ON HOUSE BILL 26

"AN ACT TO INCLUDE THE UNITS OF THE MONTANA UNIVERSITY SYSTEM AND THE VOCATIONAL-TECHNICAL CENTERS UNDER THE UNIFORM STATE CENTRAL PAYROLL SYSTEM; AMENDING SECTION 2-18-401, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

Presentation and Opening Statement by Sponsor:

Representative Peck (338) Sponsor of H.B. 26 said H.B. 39 of last session transfers the Vo-Techs from local to state control and they do not have any central operation that will do their payroll any longer. He said Northern Montana College requested they be allowed to go on Central Payroll. He said throughout the University System both faculty and employees are constantly asking for a 2 week pay period, rather than the current monthly pay period. He said the statement of intent clarifies the bill. He said this would also let the other units of the system be included as determined by the units and the state auditor. He said there are some costs involved, and Mr. Williams, after talking to Mr. Shackleford in regard to the $13 million for the University System said the Governor has instructed the Budget office that he wants the centralized payroll put in place and the cost associated with it to be part of the $13 million.

There were no proponents and no opponents.

Questions From Committee Members: Representative Cody said she remembered the last session the trouble in getting a handle on how many FTE there were, etc. We are taking on the Vo-

Tech Centers and Northern this time? Rep. Peck answered that they were the only ones that had a deadline in it, if others wished to come and the State Auditor accepts them, they are eligible to come in. Rep. Cody said we have put the Vo-Techs under the Board of Regents, now we will take over the pay roll which alleviates the costs to the local governments of those school districts, what is the next step? Rep. Peck said he did not know if there was a "next" step relative to the Vo-Tech systems. He mentioned there might be a "marriage" of those units where there is a unit of the University system for administrative purposes. He said there is some discussion, but nothing formalized or plans. Chairman Bardanouve said the Commissioner of Higher Education has recommended consolidation.

Representative Peck asked about the cost figure, and Rep. Peck said $212,000 in '90, based on the assumption that all the units will come in.

Representative Quilici said they had just finalized the State Auditor's budget so far as the PPC system was concerned, if passed by both Houses, they would have to come back in and adjust it. Rep. Peck answered yes, and from the fiscal note you could not really tell. He said the units would have some additional cost if they come in. He said there would be more cost on those just coming on to the two week pay roll.

Representative Marks said he had not supported this bill on the floor. Some of the costs are not on the fiscal note, and he had asked MSU to prepare an estimate of costs. The other concern, the assumption the State Auditor is going to gear up. Will that leave you with more people than you need? Rep. Peck said the fiscal note was basing it on all the units and that is about the number of employees in the system. Rep. Marks said, Rep. Quilici's committee will have to deal with the additional expense in the State Auditor's office to put these units on line. The answer from the representative from the State Auditor's office said they would probably need an additional 2 FTE to bring on the Vo-Techs and Northern Montana.

Discussion was held on more staff if other units came on line, accountability, efficiency, and that the units were not being forced into the system. There was discussion on savings versus accountability, and Rep. Peck said the key issue was the Vo-Techs.

Tape 2 (000)

Chairman Bardanouve asked if someone from the University System would like to commend. Mr. LeRoy Schram, Legal Council, said they have a few misgivings about the bill. There is no problem with Vo-Techs and Northern (094) but the body of the bill is not permissive, it is mandatory for the other units to go in. He felt there was conflict between the statement of intent and the codified language. His second concern is cost. He said the fiscal note says 3100 FTE will be covered by this system. He said they have about 9800 employees they pay each year. He said they have about 5200 student employees, about 4400 regular employees. He said if you have 2 1/2 time employees, you still crank out a check for 2 people every two weeks, even though it is 1 FTE.

Some discussion was held on the offset of the system, and changing some language, to state including the Vo-Techs and Northern Montana College, and leaving it at that. Rep. Spaeth said the bill said "shall" and that is not permissive.

Closing by Sponsor: He said he closed.

DISPOSITION OF HOUSE BILL 26

Motion: by Representative Thoft to strike the underlined language (units of the University System) and add units of the university system which voluntarily enter the system.

Discussion: None

Amendments, Discussion, and Votes: Voted, passed, Representative Cobb voting no.

MOTION: by Representative Thoft that House Bill 26 as amended, do pass.

Recommendation and Vote: Voted, Passed.

HEARING ON HOUSE BILL 361

"AN ACT REVISING THE LAWS RELATING TO BUDGET AMENDMENTS; AUTHORIZING FIRE SUPPRESSION COSTS TO BE A GENERAL FUND BUDGET AMENDMENT; AMENDING SECTIONS 17-7-401 THROUGH 17-7-403; AND PROVIDING AN EFFECTIVE DATE."

Presentation and Opening Statement by Sponsor:

Representative Spaeth, Chief Sponsor of House Bill 361 explained there was no money for emergency fires such as the one in '88, and to save a special session the governor had authorized payment. He said there should be a fund available for use in case of another bad fire season.

Testifying Proponents and Who They Represent:

Mr. Dennis Casey, Commissioner designee of the Department of State Lands.

Mr. North, Chief Legal Council for the Department of State Lands (DSL)

Proponent Testimony:

Mr. Dennis said he wanted to introduce himself to the committee and assure them of their continued commitment to assist in your endeavors.

Mr. North said the Legislature has never appropriated money in advance for the DSL for fire fighting, chiefly because it is impossible to predict the cost. He handed in testimony EXHIBIT 3. (402)

Testifying Opponents and Who They Represent:

Opponent Testimony:

None

Questions From Committee Members:

Representative Thoft asked if this bill only dealt with fire suppression costs, Rep. Spaeth answered yes. Chairman Bardanouve asked if, outside of this year had there been any cause for this bill and Rep. Spaeth answered in 1985 and in the 1970's. There was discussion on whether prior fire seasons had been an emergency, or only this past year. Rep. Spaeth said the law was not broken in 1985 because of the June special session. (500) Rep. Spaeth said the A.G. opinion came out after the special session last time and that got them off the hook.

Representative Cody asked why not a supplemental and Rep. Spaeth said they can ask for a supplemental if the amount does not exceed their general fund budget within the Department, but when it does exceed it, they have to get money somewhere else because they do not have it within their budget guidelines. The Governor paid it out this time, but most times they have enough in their budget. Rep. Cody said over the course of the past 20 years there have been 3 emergencies, there does not seem to be a necessity of putting those general funds in the statute. Rep. Thoft asked about putting more money in the Governor's emergency budget and Rep. Spaeth said he had no objection to that approach. Chairman Bardanouve said he objected to passing a bill which he felt was unconstitutional to avoid a special session, it takes money from the general fund treasury and the constitution says you cannot do that.

Side B (45) Mrs. Rippingale said, for clarification, in terms of figuring the fiscal status ending fund balance, they do not put in the million dollars in the emergency fund. That is not a factor that is factored in, and the cost of the fires whether in an emergency or under this bill would be the same, they would not be a factor you need concern yourself with on coming up with money or not. She said it is not a cost they can say is "x" amount of dollars.

Closing by Sponsor: Representative Spaeth said he had closed.

DISPOSITION OF HOUSE BILL 361

Motion: Representative Thoft to put a cap of %5 million in the bill.

Discussion: Further discussion was held on a contingency fund and the ending fund balance possibly being less than the cost of the fire, then the Governor has the authority to trim agency budgets, or he may choose to bring the Legislature in to address the problems.

Amendments, Discussion, and Votes: Voted, passed, Representative Menahan, Cobb and Cody voted no.

Motion: Representative Spaeth moved that **House Bill 361 do pass as amended.**
Recommendation and Vote: Voted, failed, Representatives Cody, Peck, Cobb, Peterson, Swysgood, Nisbet, Thoft and Bardanouve voting no. Roll call vote, 9 nay, 8 aye.

Discussion: Representative asked for some direction for the subcommittee in regard to a sum that could be put in for them to work with.

Motion: Motion by Representative Spaeth that the subcommittee not pursue the problem of money for fire suppression.

Substitute Motion: Motion by Representative Cody to table the motion.

Recommendation and Vote: Voted, failed, 8-9, roll call vote.

Recommendation and Vote: Vote on the original motion by Representative Spaeth to not pursue the issue. Voted, failed, roll call vote 7 aye, 10 nay.

HEARING ON HOUSE BILL 354

"AN ACT ESTABLISHING A LEGISLATIVE COMMITTEE TO CONSIDER ISSUES RELATED TO THE GOVERNANCE AND FUNDING OF POST SECONDARY EDUCATION; PROVIDING AN APPROPRIATION; AND PROVIDING AN EFFECTIVE DATE AND A TERMINATION DATE."

Presentation and Opening Statement by Sponsor: (238)

Representative Mercer, Chief Sponsor of House Bill 354 said in the last session there was a study made to look at University funding, and there was an appropriation set aside of which about half was used. He said they looked at the funding and made some suggestions. Several issues they never had time to look at, and this bill would continue the study in cooperation with the Board of Regents and the

Governor's office, they would look into some of those issues.

Testifying Proponents and Who They Represent:
LeRoy Shramm, representing the University system, Board of Regents.

Proponent Testimony:
Mr. Schramm (304) said he felt the study did a lot to relieve tension between the University system and the Legislature, and he hoped the process will continue.

Testifying Opponents and Who They Represent:

None

Opponent Testimony:

None

Questions From Committee Members: Representative Peck asked what the balance in the fund was and was told by Mrs. Rippingale said she thinks it will be between $60,000 and $65,000.

Closing by Sponsor: The sponsor said he closed.

DISPOSITION OF HOUSE BILL 354

Motion: Representative Quilici moved that House Bill 354 do pass.

Discussion: None

Amendments, Discussion, and Votes: None

Recommendation and Vote: Voted, passed, unanimous of those present.

Representative Bradley said she would need permission (339) to draft a committee bill dealing with the change her subcommittee made dealing with the poverty level we fund AFDC on. It would amend the present law.

Discussion: Representative Peck asked if it was the percent she was dealing with, and Ms. Bradley said yes. Rep. Peck said, you are moving from what to what, and Ms. Bradley said they still have to figure out what is best. She said the committee had set it at 41% of the poverty level, and the poverty level is a national scheme and is shifted year by year.

Motion: Motion by Representative Peck that a committee bill be drafted.

Recommendation and Vote: Voted, passed, unanimous of those present.

Representative Spaeth said he had talked to some of the subcommittee members and would like to request a committee bill be drafted.

Motion: Representative Spaeth moved to request a committee bill to raise the Governor's emergency fund from $1 million to $5 million to use for fire suppression.

Recommendation and Vote: Voted, passed, Representative Kadas voting no.

ADJOURNMENT

Adjournment At: 6:05 p.m.

Bardanouve

REP. FRANCIS BARDANOUVE, Chairman

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DAILY ROLL CALL

HOUSE APPROPRIATIONS COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date 2-7/89

NAME	PRESENT	ABSENT	EXCUSED
REPRESENTATIVE BARDANOUVE	✓		
REPRESENTATIVE SPAETH	✓		
REPRESENTATIVE PECK	✓		
REPRESENTATIVE IVERSON	✓		
REPRESENTATIVE SWIFT	✓		
REPRESENTATIVE QUILICI	✓		
REPRESENTATIVE BRADLEY	✓		
REPRESENTATIVE PETERSON	✓		
REPRESENTATIVE MARKS	✓		
REPRESENTATIVE CONNELLY	✓		
REPRESENTATIVE MENAHAN	✓		
REPRESENTATIVE THOFT	✓		
REPRESENTATIVE KADAS	✓		
REPRESENTATIVE SWYSGOOD	✓		
REPRESENTATIVE KIMBERLEY	✓		
REPRESENTATIVE NISBET	✓		
REPRESENTATIVE COBB	✓		
REPRESENTATIVE GRINDE	✓		
REPRESENTATIVE CODY	✓		
REPRESENTATIVE GRADY	✓		

STANDING COMMITTEE REPORT

February 7, 1989

Mr. Speaker: We, the committee on Appropriations report that HOUSE BILL 26 (second reading copy -- yellow), with statement of intent included, do pass as amended.

Signed: ___________________
Francis Bardanouve, Chairman

And, that such amendments read:

1. Page 2, line 17.
Following: "including"
Strike: from "units" on line 17 through "and" on line 18

2. Page 2, line 18.
Following: "centers"
Insert: "and those units of the Montana university system who so propose to join"

11:35 am
1/1?/89
ja

STANDING COMMITTEE REPORT

February 7, 1989

Mr. Speaker: We, the committee on Appropriations report that HOUSE BILL 361 (first reading copy -- white) do NOT pass.

Signed: F. Bardanouve
Francis Bardanouve, Chairman

2/08/89
11:35 am
[illegible]

STANDING COMMITTEE REPORT

February 7, 1989

Mr. Speaker: We, the committee on Appropriations report that HOUSE BILL 354 (first reading copy -- white) do pass.

Signed: [illegible signature]
Francis Bardanouve, Chairman

OFFICE OF THE GOVERNOR

BUDGET AND PROGRAM PLANNING

EXHIBIT 1
DATE 2/13/89
Hum Serv Sub Com

STAN STEPHENS, GOVERNOR

STATE OF MONTANA

(406) 444-3616 HELENA, MONTANA 59620

M E M O R A N D U M

TO: Representative Francis Bardanouve
Chairman, House Appropriations Committee

FROM: Ray Shackleford, Budget Director Ray Shackleford
Governor's Office of Budget & Program Planning

DATE: February 1, 1989

SUBJECT: Federal Grants' Indirect Costs

The attached letter from the Office of the Legislative Fiscal Analyst (LFA) proposes that central service cost pools of four state agencies (Health & Environmental Sciences, Labor & Industry, Commerce, and the Office of Public Instruction) be budgeted in the State Special Revenue Fund. This is not in the state's interest for the following reasons:

1. **The definition of "federal special revenue" applies to these revenues.** The source of the indirect cost recoveries related to federal programs is the federal government. Section 17-2-102 (1) (a) (ii) (B), MCA, states, "The Federal Special Revenue Fund consists of money deposited in the treasury from federal sources, including trust income, that is used for the operation of state government." By definition, these monies should be recorded in the Federal Special Revenue Fund.

   State accounting policies, as promulgated in Management Memo 2-88-2, require that "Unless your grant agreement requires otherwise, all federal [indirect cost] recoveries received are deposited in the Federal Special Revenue Fund as revenue, using a revenue object tied to Revenue Class 1701-Federal Indirect Cost Recovery."

2. **The LFA proposal may prevent agencies from spending funds to administer federal grants.** Agencies must have the flexibility to manage federal programs consistently and in the best interest of the state. If unanticipated grants are received during the biennium, agencies must be able to spend the grant funds and the funds to administer the grant. If the LFA proposal is adopted and State agencies are required to record federal indirect cost recoveries in the State Special Revenue Fund, they would have to meet emergency budget amendment criteria to spend monies to administer the grants. In most cases, agencies couldn't meet the emergency criteria and the indirect federal funds would be unavailable to administer the grant.

- For example: Since July 1. 1988, the department of Health has requested $7.6 million in budget amendments for federal programs and added 30 FTE, with an approximate cost of $600,000. With an indirect cost rate of 12.7 percent, $76,200 ($600,000 X 12.7 percent) of indirect costs would be available to the department in the Federal Special Revenue Fund under current state budgeting-accounting policies. However, under the LFA's proposal, these monies would be deposited into the State Special Revenue Fund and remain dormant until the next budget cycle.

3. **The proposal may promote confusion.** It is confusing to budget the actual grant funds in one fund (Federal Special Revenue) and administer the monies from that same grant in another fund (State Special Revenue).

In most agencies of state government there is a funding source which is "dominant" (provides over 50 percent of the funding for central service pools) over all other funding sources. Central service pools in agencies where this is the case should account for central service operations in the same fund as the dominant fund source. There are instances where a department has no "dominant" funding source, such as the Department of Commerce. In agencies having no "dominant"source of funding, central service cost pools should be accounted for in an internal service proprietary fund.

The Executive proposes that state agencies account for indirect costs within a dominant funding source, when a clear dominant funding source exists. Indirect costs should be accounted for in a proprietary fund in agencies having no dominant source of funding.

Thus, we respectfully request that the House Appropriations Committee reconsider the subject of indirect costs with a hearing open to agency testimony.

Attachment

cc: Department of Administration
Department of Health and Environmental Sciences
Department of Labor and Industry
Department of Commerce
Office of Public Instruction

exh 2
Curt Nichols

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

EXHIBIT 2
DATE 2/7/89
~~HB~~
Appropriations

February 7, 1989

TO: House Appropriations Committee

FROM: Curt Nichols
Deputy Fiscal Analyst

Curt

SUBJECT: Central Services Cost Pool Fund Type

Previously this committee acted to designate the state special revenue account for appropriation of funds for centralized service cost pools. Subsequently, in a memo dated February 1, the Budget director has requested a reconsideration of this matter. In his memo three points are raised against the use of state special revenue funds for these pooled costs. I have prepared the following comments in regards to the budget director's memo.

1. <u>The source of the funds in the centralized cost pools is the federal government and therefore, by definition, should be reported as federal special revenue</u>.

In response to this, three things should be pointed out:

a. All revenues going into the indirect cost pools are not federal funds. They also include assessments to the general fund and state special revenue funds; therefore, why is it more right to call them federal funds rather than state funds.

b. The definition for Federal Special Revenue Accounts (Other) and State Special Revenue Accounts as defined in law both state they may be used to defray costs in state government and, therefore, there is no violation of the law if the funds are spent through a state special revenue account versus spending them from a federal account.

c. In his letter, the budget director cites Management Memo 2-88-2 requiring federal indirect cost revenues be deposited in the federal special revenue fund. In both the LFA current level and the executive budget, when the federal funds are received they are reported as federal revenues in the federal special revenue account set up to record the grant. The difference between the two budgets is that LFA current level transfers the portion related to agency wide indirect costs to a state special account while the executive budget transfers them to another federal account. Thus in both budgets, initial receipt of federal funds is reported as federal special revenue in compliance with Management Memo 2-88-2 because the indirect costs are deposited into the federal account when received. The management memo does not state the funds have to be expended from the federal account; in fact, it goes on to say that the indirect costs received that are applicable to recovery for the Statewide Cost Allocation Plan (SWCAP) are to be transferred to the general fund where the funds lose their identity as federal funds when they are spent.

2. If state agencies use the state special revenue for their centralized cost pools they will have insufficient flexibility to manage federal funds as they will not be able to meet the emergency criteria for the approval of a budget amendment.

First, it should be clear that the discussion only referring to the indirect administrative costs of federal grants as the direct administration of the federal grant is not a part of this cost pool. Secondly, while it is true that agencies would find it more difficult to meet the emergency criteria, past experience has indicated that this has not been a significant problem.

For example, the Department of Health in fiscal 1988 expended $1.2 million from budget amendment funds yet only spent $24,472 of budget amendment funds for their indirect cost pool account.

3. It is confusing to budget grant funds in one fund and administer these funds from another fund.

In response to this, the objection appears groundless in that currently these agencies budget the direct grant expenditures in one account and the administrative costs in another account which means there is no more work associated with nor confusion caused by transferring the funds to a state special revenue account than there would be to transfer them to another federal revenue account.

In addition to the above three points raised in the letter, the Budget Director also cites that "In agencies having no dominant source of funding, central service cost pools should be accounted for in an internal service proprietary fund." I have been unable to find any authority or sound reason for this statement. The statement is also contradicted by the Executive Budget's treatment of the Office of Public Instruction where the dominant revenue source is federal funds yet the account used is in the state special revenue fund.

CN3:kj:hac2-7

STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

January 10, 1989

TO: House Appropriations Committee

FROM: Curt Nichols, Deputy Fiscal Analyst

SUBJECT: Fund Type Designation for Central Service Cost Pool Accounts

Larger agencies of state government maintain separate programs for the provision of agencywide services such as: accounting, payroll, personnel management, budgeting, data processing, and various other functions. Four agencies use a single account which divisions or programs within the agency contribute from the funds that support their operations to support the central service functions. These accounts receive funds from state and federal sources. Table 1 lists the agencies and examples of the sources of revenue that are contributed to the central cost pool account.

Table 1
Revenue Sources for Central Service Pool Accounts

Agency	Revenue Sources
Office of Public Instruction	Federal grants, driver's training fees, driver's licenses, highway patrol fines, audio-visual library changes
Health and Environmental Sciences	General fund, federal grants, laboratory fees, junk vehicle fees, RIT interest
Commerce	General Fund, federal grants, state business and professional licenses, aviation licenses and fuel taxes, coal tax, accommodations tax, investment income, lottery and video gaming receipts
Labor and Industry	General fund, federal grants, worker's compensation insurance premiums, unemployment insurance taxes

The Department of Administration in its review of accounting entities required by the 1987 legislature cited the use of proprietary accounts for central service functions as an inconsistency in accounting entity classification. They noted that only two agencies account for their centralized service operations in proprietary accounts while all other agencies account for this activity in the general fund or state special revenue fund. The report states proprietary accounts should only be used when the agency has a cost accounting system that will accumulate and fairly allocate the total costs, including depreciation and overhead, of a particular service. The LFA budget analysis includes the above four cost pool accounts as state special revenue accounts. This is done as (1) the funds are state funds because they have been "earned" by providing the services to the variously funded programs and (2) state funds for the purpose of paying the particular costs of a program or function of state government are defined as state special revenues under 17-2-101, MCA. The following table lists the fund type used for these central service accounts in the current biennium, contained in the executive budget for the 1991 biennium, and included in the LFA budget analysis for the 1991 biennium

Table 2
Central Service Fund Types

		- - - - - 1991 Biennium - - - - -	
Agency	1989 Biennium	Executive	LFA
Office of Public Instruction	State Special	State Special	State Special
Health	Federal Special	Federal Special	State Special
Labor	Proprietary	Federal Special	State Special
Commerce	Proprietary	Proprietary	State Special

2/7/89
HB 361
[illegible]

EXHIBIT 3
DATE 2/7/89
HB 361

TESTIMONY OF DEPARTMENT OF STATE LANDS
HOUSE BILL 361
House Appropriation Committee, February 7, 1989

As you know, the legislature has never appropriated money in advance for DSL's firefighting activities because it is impossible to predict what the cost of fighting fires will be. Instead, DSL and the Legislature have informally agreed that DSL will fight fires as necessary and pay the costs out of its existing budget. Then, when the Legislature next meets, it will make a supplemental appropriation to make DSL's budget whole.

For many bienniums, this is an acceptable practice. For those years in which it is acceptable, it is so because the cost of fighting fires is not high relative to the Department's overall budget. However, whenever fire costs are so high that the Department, after paying its bills, does not have sufficient funds to operate until the Legislature can meet and pass a supplemental appropriation bill, this method fails. In other words, whether this arrangement works or not depends upon factors beyond the control of the Legislature and the Department. It is for this reason that both the Legislative Auditor and the Legislative Finance Committee have recommended that a solution that will work in all years be found. And the fires of 1985 and 1988 have reminded us of the need to find a solution.

As I see it, there are four possible solutions. They are (1) biennial appropriations in a certain amount; (2) a statutory appropriation in a certain amount; (3) a special session of the Legislature during high cost fire years, or (4) an amendment to the budget amendment statutes to allow the Department to obtain a budget amendment to pay for fire suppression costs.

HB 361 adopts the fourth alternative because it appears to be the most desirable. Legislators have expressed dissatisfaction with the biennial and statutory appropriation approaches because they feel these approaches would tie up general funds and create an agency "slush" fund. A possible variation here would be to increase the statutory emergency fund available to the Governor, but this alternative fund could be drawn down by other emergencies or disasters and leave the DSL in the same predicament. The special session alternative would be expensive to implement. The budget amendment alternative has none of these drawbacks. It provides the most efficient method of paying firefighting costs without creating a fund that is available to the agency without approval of a higher authority.

For these reasons, the Department urges the Committee to give HB 361 a favorable recommendation.

ROLL CALL VOTE

HOUSE APPROPRIATIONS COMMITTEE

DATE 2/7/89 BILL NO. HB 361 NUMBER 1

NAME	AYE	NAY
REPRESENTATIVE SPAETH	✓	
REPRESENTATIVE PECK		✓
REPRESENTATIVE IVERSON		
REPRESENTATIVE SWIFT	✓	
REPRESENTATIVE QUILICI	✓	
REPRESENTATIVE BRADLEY		
REPRESENTATIVE PETERSON		✓
REPRESENTATIVE MARKS		
REPRESENTATIVE CONNELLY	✓	
REPRESENTATIVE MENAHAN	✓	
REPRESENTATIVE THOFT		✓
REPRESENTATIVE KADAS	✓	
REPRESENTATIVE SWYSGOOD		✓
REPRESENTATIVE KIMBERLEY	✓	
REPRESENTATIVE NISBET		✓
REPRESENTATIVE COBB		✓
REPRESENTATIVE GRINDE		✓
REPRESENTATIVE CODY	~~✓~~	✓
REPRESENTATIVE GRADY	✓	
REPRESENTATIVE BARDANOUVE		✓

TALLY 8 9

Sylvia Kinsey
Secretary

Representative Bardanouve
Chairman

MOTION: Failed

HB 361 do pass as Amended

Spaeth Fire money

Form CS-31
Rev. 1985

ROLL CALL VOTE

HOUSE APPROPRIATIONS COMMITTEE

DATE 2/7/89 BILL NO. HB 361 NUMBER 2

NAME	AYE	NAY
REPRESENTATIVE SPAETH		✓
REPRESENTATIVE PECK	✓	
REPRESENTATIVE IVERSON		
REPRESENTATIVE SWIFT		✓
REPRESENTATIVE QUILICI	✓	
REPRESENTATIVE BRADLEY		
REPRESENTATIVE PETERSON	✓	
REPRESENTATIVE MARKS		
REPRESENTATIVE CONNELLY		✓
REPRESENTATIVE MENAHAN		✓
REPRESENTATIVE THOFT	✓	
REPRESENTATIVE KADAS		✓
REPRESENTATIVE SWYSGOOD	✓	
REPRESENTATIVE KIMBERLEY		✓
REPRESENTATIVE NISBET	✓	
REPRESENTATIVE COBB		✓
REPRESENTATIVE GRINDE		✓
REPRESENTATIVE CODY	✓	
REPRESENTATIVE GRADY		✓
REPRESENTATIVE BARDANOUVE	✓	

TALLY 8 9

Sylvia Kinsey
Secretary

Representative Bardanouve
Chairman

MOTION: Cody
Table Motion
Failed
Sub on Spaeth to NOT pursue the issue of fire suppression money in subcommittee

Form CS-31
Rev. 1985

ROLL CALL VOTE

HOUSE APPROPRIATIONS COMMITTEE

DATE 2/7/89 BILL NO. HB 361 NUMBER 3

NAME	AYE	NAY
REPRESENTATIVE SPAETH	✓	
REPRESENTATIVE PECK		✓
REPRESENTATIVE IVERSON		
REPRESENTATIVE SWIFT	✓	
REPRESENTATIVE QUILICI		✓
REPRESENTATIVE BRADLEY		
REPRESENTATIVE PETERSON	✓	
REPRESENTATIVE MARKS		
REPRESENTATIVE CONNELLY	✓	
REPRESENTATIVE MENAHAN	✓	
REPRESENTATIVE THOFT		✓
REPRESENTATIVE KADAS	✓	
REPRESENTATIVE SWYSGOOD		✓
REPRESENTATIVE KIMBERLEY	✓	
REPRESENTATIVE NISBET		✓
REPRESENTATIVE COBB		✓
REPRESENTATIVE GRINDE		✓
REPRESENTATIVE CODY		✓
REPRESENTATIVE GRADY		✓
REPRESENTATIVE BARDANOUVE		✓

TALLY 7 10

Sylvia Kinsey
Secretary

Representative Bardanouve
Chairman

MOTION: Not ~~act on pres~~ to persue the problem of the fire problem —

Spaeth

failed

Form CS-31
Rev. 1985