MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON FINANCE AND CLAIMS

Call to Order: By CHAIRMAN PETE STORY, on MARCH 29, 1989, at 7:00 A.M.

ROLL CALL

Members Present: Senator Gary Aklestad, Senator Loren Jenkins, Senator Esther Bengtson, Senator Matt Himsl, Senator Paul Boylan, Senator Tom Keating, Senator Judy Jacobson, Senator H.W. "Swede" Hammond, Senator Pat Regan, Senator Larry Tveit, Senator Fred Van Valkenburg, Senator Dennis Nathe, Senator Greg Jergeson, Senator Gerry Devlin, Senator Richard Manning, Senator Sam Hofman, Senator Lawrence Stimatz, Senator Ethel Harding, Senator Pete Story

Members Excused: None

Members Absent: None

Staff Present: Judy Rippingale, LFA

Announcements/Discussion: None

HEARING ON SECTION B HOUSE BILL 100

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCE

Presentation and Opening Statement by Sponsor:
Representative Dorothy Bradley, Chairman of Human Services Subcommittee, presented Section B of the bill. She said the section included Health, Labor, SRS, and Family Services. She discussed the funding, mission, and program expansions of the Department of Health and Environmental Science (See Page B-1 of HB 100 Narrative). She pointed out that program expansions were mostly due to increased federal programs and mandates.

Questions From Committee Members:
Senator Jergeson questioned the issue of hazardous waste cleanup and the superfund, its relation to RIT funding and whether there were sufficient balances to use for DHES and long range programs. Representative Bradley explained that it was hard to predict in advance when the cleanup would be needed. She pointed out that the

account was an on-going sum of money. Specific cleanup projects that were known would occur in the next biennium. She said that the Supreme Court gave flexibility on how the RIT account could be used.

Dave Lewis from the Budget office said that there was no conflict in the RIT account. He said that the Health Department gets funding off the top.

Senator Jenkins asked about the new FTE's and on page B-39 the increased workload. Bill Opitz, Deputy Director, explained that the increase was due to the obligation of the state to license 40-50 personal care facilities. Senator Jenkins said he felt that there were too many inspectors and they should cut down on travel (670). Mr. Opitz pointed out that the inspectors look at all aspects of the facility and they each have specialties. He noted that they were looking at the quality control of their surveyors but that the division had practically doubled their staff within the last three years and had a lot of new people on board. One position would make sure that all of the surveyors were meeting standards and looking at things in the same way.

Senator Himsl asked why it was necessary to use $100,000 of general fund (Page B-34). Representative Bradley replied that there was a need to expand the program in order to serve more people and there were no available funds to do that (810). She said the money was used for grants in the community for family planning services.

Senator Story asked for an explanation of the differences between personal care facilities. Mr. Opitz replied that personal care facilities did not have Medicaid or Medicare providing money but that the facilities still needed licensing by the Bureau. He said that the Department of Family Services also had facilities that were also licensed and certified but not under Health Department Licensing and Certification Bureau. He pointed out that when a person needed to receive medication or additional nursing staff they would need to be in a nursing home. Doug Maddis, DFS, said that homes licensed by DFS were different. DHES had much more specific standards than DFS. DFS homes licensed are adult foster care which were 24 hour but did not need medical care. (944)

Mr. Opitz pointed out that the reason for the increase in federal regulations was due to television programs such as 60 Minutes and it was Congress response to the need for inspections and ensuring that people in nursing homes received proper care.

Senator Hammond asked about Page B-28 Water Quality Bureau having 44 FTE's and if this was an area of duplication with other agencies such as Bureau of Mines. Senator Jacobson pointed out that the Resource Center was going to coordinate all the separate programs throughout the state, however it was taken out of the budget.

(Tape 1-B)
Senator Harding asked if there were any program expansion in Water Quality. Representative Bradley referred to Page B-27. Senator Aklestad noted that there was no general fund money supporting the expansions and the subcommittee felt because of the federal mandates the programs needed to be expanded but his concern was the feds may send less money in the future and the state would have to pick up those funding sources with general fund. Representative Bradley pointed out the importance of the programs and that they were 88% federally funded. (090)

Senator Aklestad asked for clarification of the non-point source pollution. Bill Opitz said this was a program that was being coordinated with DNRC to the Soil Conservation. Non-point source of pollution to waters and lakes of Montana is a primary reason that lakes and rivers do get polluted. It is an important aspect to be studied to look at the water quality of lakes and rivers in Montana, he stated. Senator Aklestad asked if the federal government mandated that the state put out a greater effort in non-point pollution and if so he'd like to see the documentation. Mr. Opitz pointed out that money was made available by EPA to study non-point pollution.

DEPARTMENT OF LABOR AND INDUSTRY

Representative Bradley discussed each section of DOLI. She pointed out that the project work would be placed into the welfare program. She discussed the reasons for expansions and the funding (See Page B-42). She pointed out the unfunded liability put the department in a difficult position by forcing double workloads. If the Legislature wants the payroll tax collected additional staff is needed to do the job, she said.

Questions From Committee Members:

Senator Aklestad asked about a triggering mechanism when there was a surplus of funds so that employers could get a better rate. Brian McCullough from the department answered that the schedule had triggered down in the trust fund. He said as the benefits that are paid out are dropping quicker than the revenues that are coming in so the trust fund has continued to decline. (567) He pointed out that if there was a downturn in the economy there would be a significant hit against the trust fund. Senator Aklestad asked if the two special assessments on employers were still on. Mr. McCullough replied that the .1% administration tax was still on and it was generating $2.3 million a year.

Senator Aklestad noted that on page 43 all of the programs came out of the unemployment trust fund. He said they don't go to pay unemployment like they were originally mandated but go to those special programs. He pointed out that the employers were still being assessed this extra tax and the funds were being siphoned off for extra programs. Representative Bradley said the reason for that tax was because the legislature was concerned that federal funds go up and down and they need an account there in case that they do. The concern at that time was specifically for job services.

Senator Aklestad asked for explanation from the subcommittee about the FTE expansion and the justification and for HB 373. Representative Bradley replied that because of reforms and changes in workers comp last time that it was felt by the appropriations committee that flexibility was needed because it was difficult to predict the number of claims. HB 373 allowed the increase of FTE depending on certain numbers of increase of claims. (740) However the positions were not used and they stored up some savings and transferred into operating expenses. The subcommittee felt that this did not comply with the intent of HB 373 but felt continued flexibility might be important. As long as vacancy savings can't be transferred elsewhere but have to remain with personnel that would be acceptable. The 15 FTE were allowed to remain because the claims load justified it. But the personnel number is line itemed so they can't be moved around. Judy Rippingale clarified that HB 373 authorized FTE to be added by workload criteria and they were reviewed by the finance committee but not through the technical budget amendment process because statutory language authorized these people. It was technically called an operational plan adjustment.

Senator Jenkins asked about the reason for the backlog of workers comp loads. Bill Palmer from the department, replied that one of the reasons for the backlog were people couldn't get to the cases, claimants were frustrated and got better attention through the court process. HB 373 authorizes about 300 claims per claims examiner. The claims load right now is around 400. Before HB 373 they were doing between 550-600 so it cut down the claims load dramatically. It is still not down to 300 and it may not have to go that low and hire that many people, he stated. (914)

Senator Devlin asked for clarification of funding and how much was being taken from employers. He pointed out that the fund increased each biennium and the administration continued to grow. Mr. Palmer replied that the employers enrollment had grown.

(Tape 2-A)
DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES

Representative Bradley summarized the SRS budget (page 65). She pointed out that the administrative cost was less then 10% of the budget. She pointed out that many of the programs had a very favorable match and when the economy in the state improves the match shifts to a disadvantage and is less favorable (238).

Representative Bradley pointed out the legal services on page 69. She said this was a continuing contract with Montana Legal Services who appealed to put the general assistance clients onto social security disability income which means they move off of state medical which is 100% general fund and onto Medicaid. The on-going program has proved its worth in the dollars saved which exceed the dollars contracted with the association, she stated. (288)

Representative Bradley discussed the breakdown on Table 1, page B-71, of the general assistance in the 12 state assumed counties. She pointed out on page B-72 that the predicted caseload dropped. The subcommittee felt that with all the emphasis on project work program and training and assistance that they would assume the caseload would drop. She said the federal poverty index was the key as far as setting the funding level for the eligible recipients. She noted that the new federal requirements would have to be dealt with.

Representative Bradley discussed the medical assistance program. She said it was important to know because it deals with supplemental requests that states the department shall not expand or reduce the amount, scope or duration of the benefits unless there are certain federal changes. She said this was a strong directive to the department and does not give them flexibility to make cuts when funds run out.

Representative Bradley pointed out that legislative intent language requests that the department study the possibility of limiting services provided to the medicaid program by defining services (600). She said the sentiment of the subcommittee was to try to stop the rapid growth of the agency in the future by providing more careful scrutiny of what is medically necessary but because of time restrictions language was not put in this biennium. She noted that the state of California does have restrictive language that defines illnesses and that two years from now the Legislature may want to consider that.

Representative Bradley pointed out the request to the department for cost containment strategies within the Medicaid program. She said that Representative Cobb amended out a budget increase in full appropriations committee so that part of the subcommittee increase was deleted leaving a smaller budget. If this is underfunding to the point where cost containment cannot absorb it could mean a supplemental.

Representative Bradley discussed the Omnibus Budget Reconciliation Act known as OBRA (057). She said this mandates major changes in the standards for delivery of nursing home care. The most expensive mandate is for the state to absorb the cost for providing training for nurse aides to be paid by the state medicaid program. She pointed out the need for flexibility by the department since it was difficult for the subcommittee to get a handle on the massive programs without having the necessary federal standards in hand.

(Tape 2-B)
Representative Bradley noted that #5 on page B-99, waiver expansion which deserved careful attention. She said that in subcommittee they heard from the city of Butte that they were the last metropolitan area not to have waiver services and yet they have a larger proportion of elderly in that community than the average in the state of Montana. Because they presented a good case on how the waiver services could be delivered the subcommittee felt there was no reason to exclude them from the program.

Representative Bradley discussed Vocational Rehabilitation Services on page B-104. She noted the program expansions on page 105. She discussed the concept of

SSSO that was used as an alternative to Boulder Development Center and that there are many individuals in the community that need this type of service now. She pointed out that the program was cost efficient and the families were quite desperate for the service. She discussed the Farm in the Dell as a program to provide pay by the day activities. She pointed out that number 5 on page B-114 to provide salary increases for the lowest paid direct care employees was in need of attention. (270)

Questions From Committee Members:

Senator Nathe asked about the responsibility for the Indian health. Peter Blouke, LFA, replied that the federal government required a single agency to handle the medicaid program. SRS passes the funds through to the Reservations but do not monitor the funds.

Senator Devlin asked about the 42% poverty index and what was the level for last biennium. Peter Blouke replied that it was 41% for 1988 and 40% for 1989, however in current statutes list payment levels for GA and the state is forced to pay at statute level (675).

Senator Van Valkenburg asked for clarification of the intent to fund the level for AFDC payments. Peter Blouke said the appropriations committee and the subcommittee did not specifically adopt language for the bill. Senator Keating pointed out that it would be in the statutes except for the percentage of poverty level.

Senator Devlin asked if the Early Intervention Program was being expanded or if funding was falling off. Mr. Dennis Taylor from the department (878), explained that the program was a state grant program. He said the first three years of the program the state must appoint an advisory council, designate a lead agency and is entitled to receive $327,000 in state grant funds. Beginning in the next federal fiscal year there must be some assurances that every eligible child with a developmental delay will be served. The increased money in the next biennium would allow an additional 50 to be served. At the next Legislature the department will be required to explain the full cost of providing an entitlement program for early intervention services to all other eligible children in Montana. Increased costs are anticipated in order to continue to receive federal grant funds but there has not been a major reduction of federal funding. Each year the state has to do more.

Senator Nathe asked if the subcommittee looked at the screening process under OBRA and if they found any DD people that needed to be moved to intermediate care. Dennis Taylor said that individuals that are screened and found to either have a long term illness or retardation would not take place in the next biennium. The state exercises its option to submit an alternative position plan.

(Tape 3-A)
Senator Van Valkenburg asked about the possible impact of the AFDC caseload. He pointed out that Mr. Lewis and Ms. Robinson were not in their job when levels were being set. He said he would like them to comment on the caseload levels in the coming biennium.

Mr. Lewis said they had concerns with the SRS budget. The issues should have been settled but they were of such magnitude that they needed to be discussed. Two areas of concern, primary care and AFDC, needed to be dealt with. Due to cuts by the subcommittee the program is about 4 million dollars short of general fund in that area. Unless something is done to reduce services a supplemental will be needed. It should be fairly funded or be an effort by the legislature to specifically reduce services. The other issue of concern is the AFDC area. The caseloads will not be reduced in this biennium and the people will not disappear.

Julia Robinson, Director of SRS, distributed Exhibit 2, 2A. (079) She pointed out that the original cuts were argued by Representative Cobb because the issue was posed that the department was not doing its job if the caseloads don't come down. She noted that caseloads come down when the unemployment rate comes down. The chart indicated that the unemployment rate was down right now (see chart). She pointed out that the caseloads did not come down as far as they should just given unemployment because the AFDC people are the hardest to place. They have been out of the job market and are hardest to put back. The new jobs program are designed to prevent long term dependency. The program is designed to get intergenerational welfare people off the program.

Julia Robinson pointed out one issue on bringing the caseloads down is for an aggressive child support program. She discussed the program as being financed like a business and in this way would not cost the general fund. She pointed out that this would take a year or so in putting staff on and getting training and working. The child support money goes in to an account and provides a better basis for funding AFDC (161).

Representative Cobb (240) discussed reduction of caseloads and reduction of payments. He pointed out that new laws restrict eligibility.

DEPARTMENT OF FAMILY SERVICES

Representative Bradley discussed DFS on page B-118. She introduced Bob Mullen as the new director. She pointed out the language on page 123. She said the variety of programs dealing with troubled youth seemed to have so many gaps. A plan was requested by the subcommittee to providers to present to the next legislature to set goals and to establish the number of categories of served or unserved. In certain areas the providers have fallen behind the actual costs of services that they provide that emphasis should be on finding the actual cost of services that are being bought in order to help the next subcommittee with direction.

Questions From Committee Members:

Senator Jenkins (734) asked if foster care was an expansion. Representative Bradley said that foster care was a crucial priority.

Senator Bengtson asked about the Pine Hills, Mountain View teachers annual leave if this was in the budget. Taryn Purdy replied that this was in the budget (792).

Closing by Sponsor: Representative Bradley closed.

ADJOURNMENT

Adjournment At: 12:10 p.m.

PETE STORY, Chairman

dt/PS

FCS329

DAILY ROLL CALL

FINANCE AND CLAIMS COMMITTEE - 1989

DATE 3-29-89 (HB 100)

NAME	PRESENT	ABSENT	EXCUSED
Senator Gary Aklestad	✓		
Senator Loren Jenkins	✓		
Senator Esther Bengtson	✓		
Senator Matt Himsl	✓		
Senator Paul Boylan	✓		
Senator Tom Keating	✓		
Senator Judy Jacobson	✓		
Senator H.W. "Swede" Hammond	✓		
Senator Pat Regan	✓		
Senator Larry Tveit	✓		
Senator Fred Van Valkenburg	✓		
Senator Dennis Nathe	✓		
Senator Greg Jergeson	✓		
Senator Gerry Devlin	✓		
Senator Richard Manning	✓		
Senator Sam Hofman	✓		
Senator Lawrence Stimatz	✓		
Senator Ethel Harding	✓		
Senator Pete Story	✓		

Form CS-30
Rev. 1985

... NO. 1
DATE 3-29-89
BILL NO. HB100

DEPARTMENT OF
SOCIAL AND REHABILITATION SERVICES

STAN STEPHENS, GOVERNOR

STATE OF MONTANA

P.O. BOX 4210
HELENA, MONTANA 59604-4210

March 28, 1989

TO: Pete Story, Chairman
Senate Finance and Claims Committee

FROM: Julia Robinson, Director
Department of Social & Rehabilitation Services

RE: The Economic Assistance Management System (TEAMS)

Attached is a report that outlines decisions I have made relative to the TEAMS project. This report will assist you in approving funding for the project as requested under House Bill 100.

After carefully reviewing all of the information. I believe that Montana should develop TEAMS in-house using an IDMS database management system. The Request for Proposal should be written in such a way as to provide Montana with accurate cost estimates on privatizing the operations portion of the system.

If cost estimates are close to in-house amounts and if the negative cost impacts on the Information Services Division of the Department of Administration can be mitigated, the operational portion should be privatized.

A thorough analysis of both the database and privatization issues substantiates the basis for my decision. If you have questions, please contact me at 444-5622.

Attachment

cc
Senator Aklestad
Senator Bengtson
Senator Boylan
Senator Devlin
Senator Hammond
Senator Harding
Senator Himsl
Senator Hofman
Senator Jacobson
Senator Jenkins
Senator Jergeson
Senator Keating
Senator Manning
Senator Nathe
Senator Regan
Senator Stimatz
Senator Tveit
Senator Van Valkenburg

Ex #2

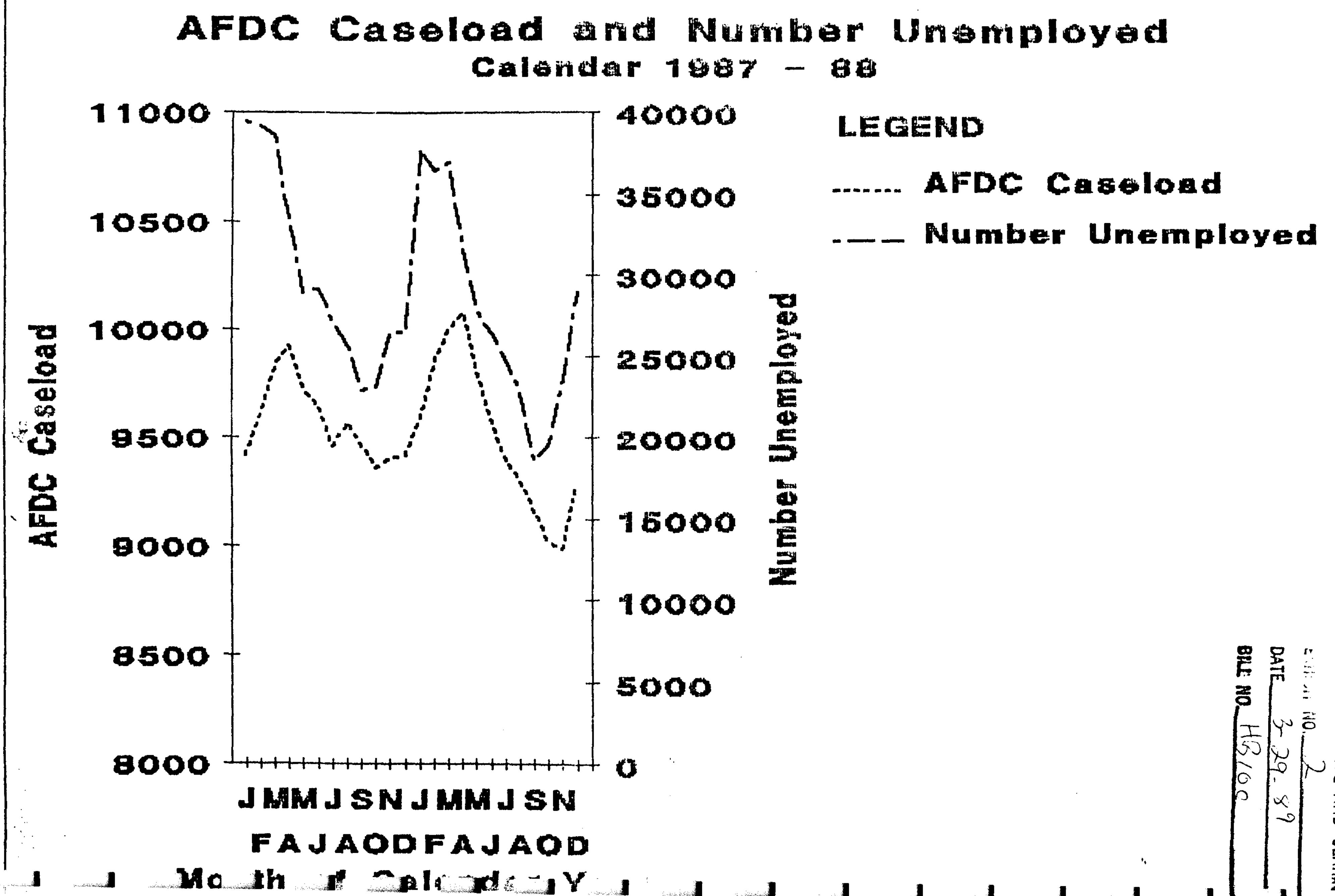
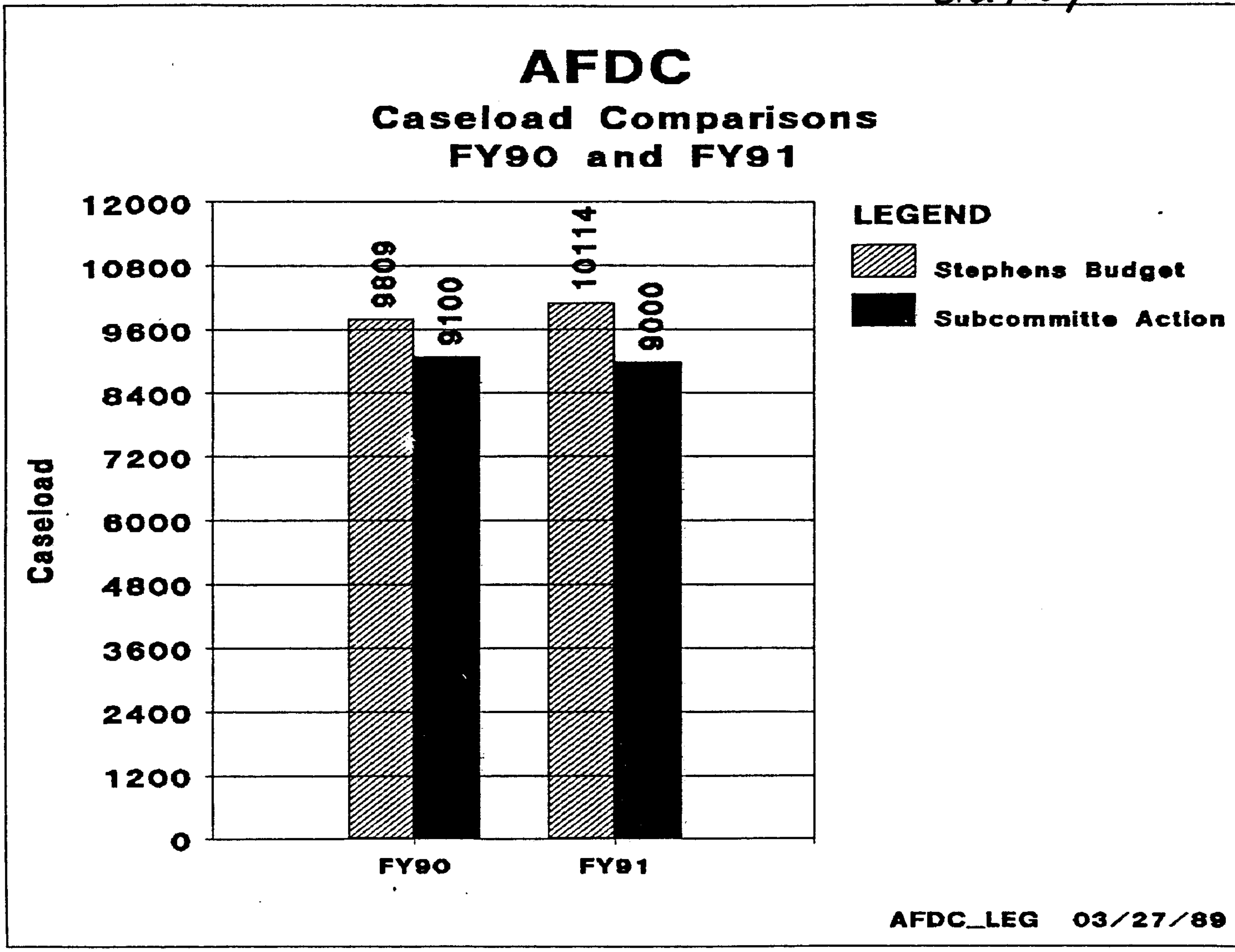


EXHIBIT NO. 2
DATE 3-29-89
BILL NO. HB 160

Ex. 2
3/29/89



LEGICOST

AFDC COST COMPARISON

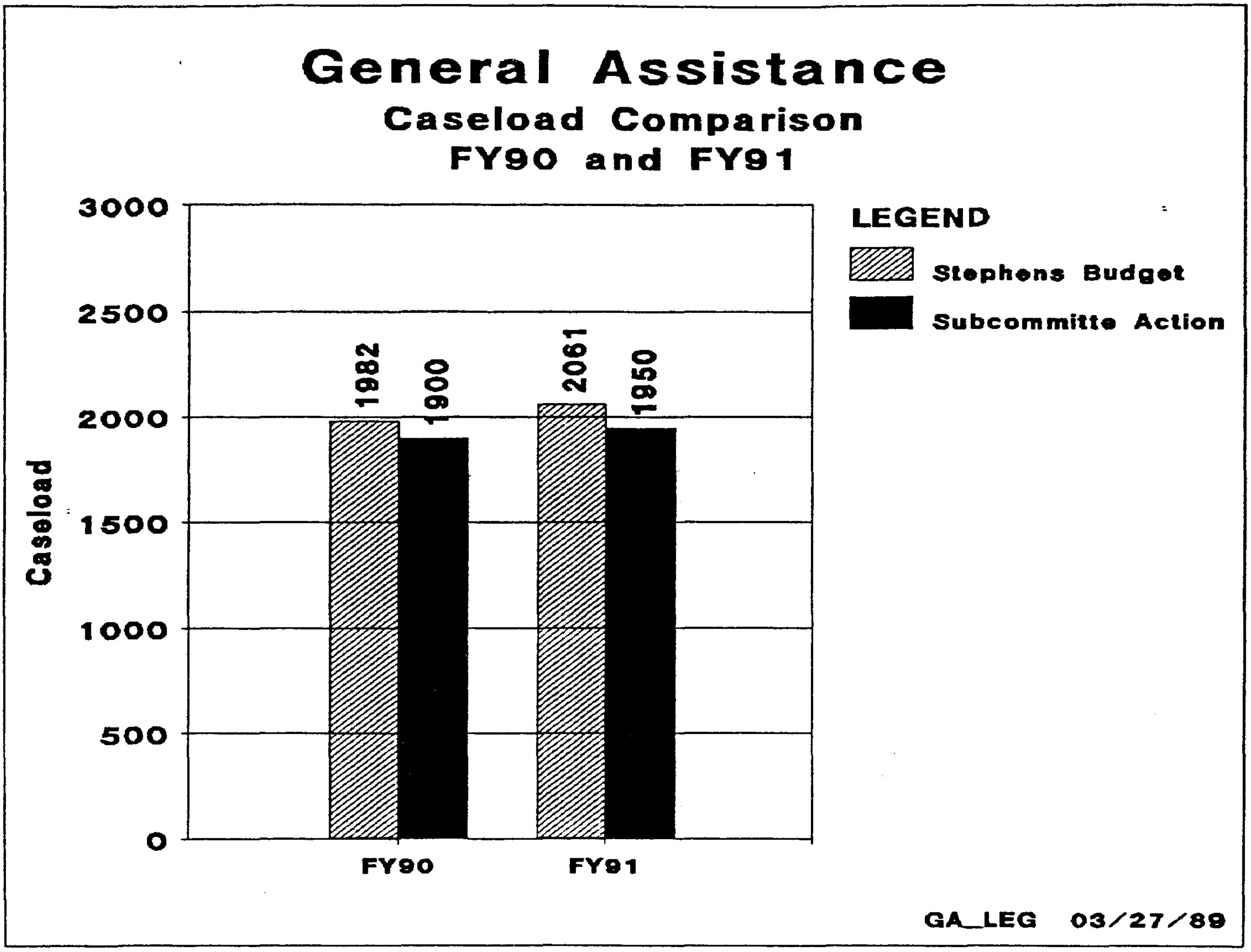
03/28/89

	FY90		FY91	
	Total Funds	General Funds	Total Funds	General Funds
Stephens Budget	$38,701,213	$10,459,873	$41,800,353	$11,254,380
Subcommittee Action	$35,904,355	$9,679,814	$37,196,518	$10,031,901
Projected shortfall: (Current SRS estimates minus subcommitee action)	$2,796,858	$780,059	$4,603,835	$1,222,479

Projected shortfall for 1991 Biennium: General Fund $2,002,538
Total Funds $7,400,693

Notes:
1. The original executive budget assumed the average caseload payment would be frozen at $333.00 per case
2. The current SRS costs assume the same average cost per case as the subcommitee, i.e. $328.79 in FY90 and $344.41 in FY91.

Ex. #2
3/29/89



LEGICOST

GENERAL ASSISTANCE COST COMPARISON

03/28/89

	FY90		FY91	
	Total Funds	General Funds	Total Funds	General Funds
Stephens Budget	$4,970,856	$4,970,856	$5,416,308	$5,416,308
Subcommittee Action	$4,765,200	$4,765,200	$5,124,600	$5,124,600

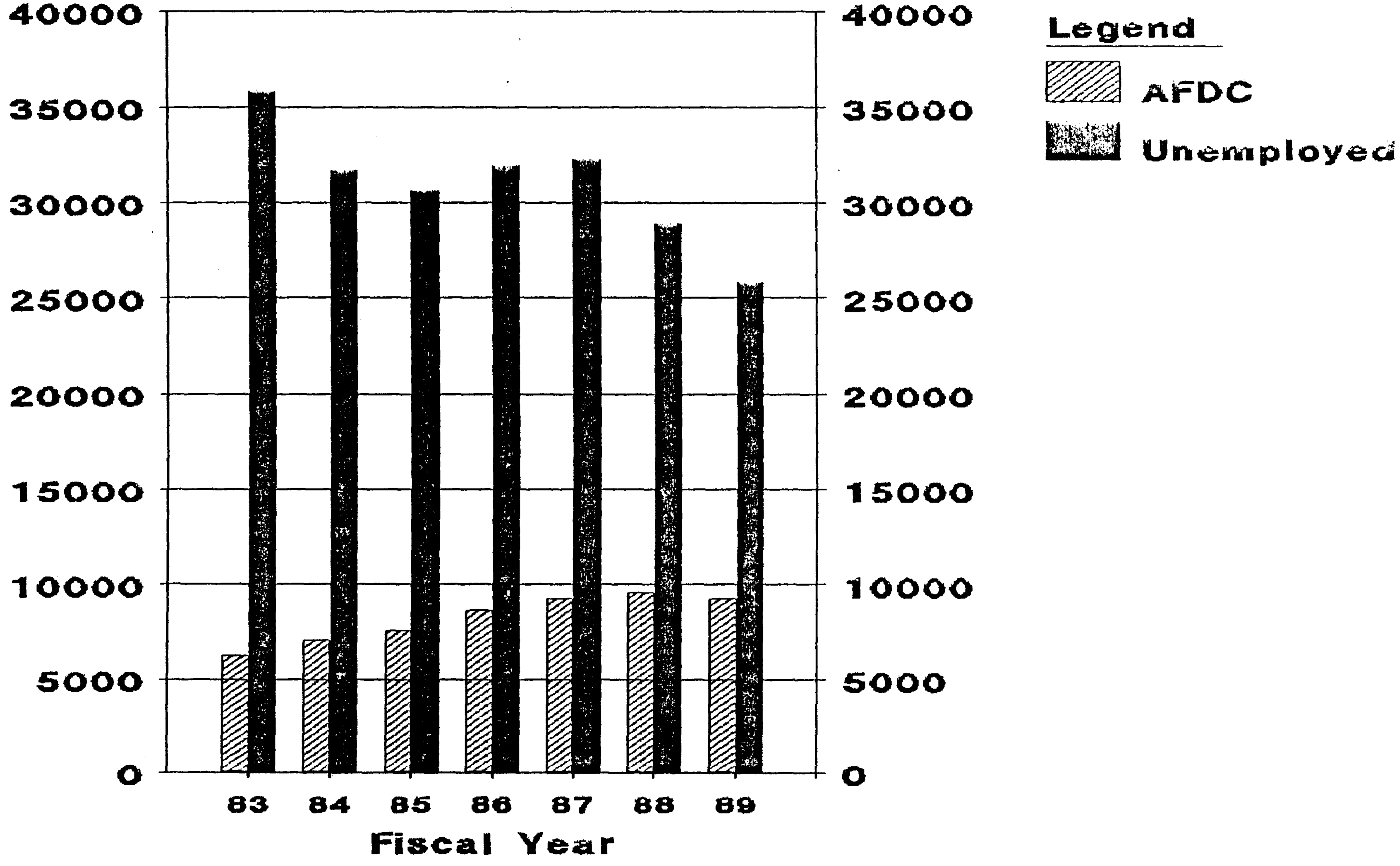
Projected shortfall: $205,656 $205,656 $291,708 $291,708
(Current SRS estimates minus subcommitee action)

Projected shortfall for 1991 Biennium: General Fund $497,364

Notes:
1. The original executive budget assumed the average caseload payment would be frozen at $214.00 per case
2. The current SRS costs assume the same average cost per case as the subcommitee, i.e. $209.00 in FY90 and $219.00 in FY91.

Ex. #29
3/29/89

AFDC Caseload vs. Number Unemployed
FY83 Through FY89



FY89 is projected. ADCUNEM 03/27/89

2a

Ex. #2a
3/29/89

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

STAN STEPHENS, GOVERNOR

P.O. BOX 4210

STATE OF MONTANA

HELENA, MONTANA 59604-4210

March 22, 1989

To: Interested Persons

From: Julie Robinson
Director

Re: Database and Development Decisions
Relative to TEAMS Project

Two major issues need to be decided before significant additional progress can be made on the TEAMS project. The two issues are:

1. Database management system for the project: IDMS or ADABAS
2. Approach to project: in-house development or privatization

<u>Background</u>

TEAMS is the project name of the proposed economic assistance eligibility system to be developed over the next two years by Montana's Department of Social and Rehabilitation Services in conjunction with the Information Services Division (ISD), Department of Administration. The system will place a computer on the desk of every Economic Assistance eligibility worker in Montana. It is being designed to process Food Stamp, Medicaid and AFDC cases as soon as it comes on line and the project plans include expansion to state only programs such as General Assistance in the next four years. The proposed system, when operational, will be the largest computer system in Montana. The current plans call for an in-house development and operations using IDMS as the database management system. The anticipated cost of the project is $12,068,000 to SRS and $2,720,000 to ISD. Of this amount the federal government matches 84.9% of the development costs at SRS and 0% of the cost to ISD.

The TEAMS project is currently at a critical juncture. The project has received approval from the Federal Family Support Administration (AFDC) and Medicaid but has been unable to receive approval from Food Stamps. The delay in Food Stamp approval is largely a result of Montana's use of an IDMS

Ex. #2a
3/29/89

database management system and concern about resource availability. Other states that have successfully transferred systems similar to Montana's TEAMS project have used ADABAS database management systems. Montana is proposing to transfer an existing system from Hawaii and translate it into IDMS. This has never been done in another state and everyone agrees that this approach will add to the upfront development costs of the project but it also reduces operations costs upon implementation.

A second issue which has come to the fore is the idea of privatizing the system. This issue has received serious consideration for two reasons:

1. Governor Stephens ran on a campaign of reducing the size of government and privatizing in areas where such activities would be cost effective and feasible[1] (Attachment A)

2. It might be easier and cheaper if ADABAS is the database of choice to contract out the development of the system to vendors with ADABAS expertise since Montana state government personnel does not currently have such expertise.

The purpose of this paper is to:

1. Summarize and assemble the materials gathered to reach a reasonable decision on the two points of database and development.

2. Highlight my thinking in coming to a decision and provide a decision which will be the SRS position in presentations to the Governor, Legislature and the Federal Government.

The paper is broken into four sections:

1. Process
2. IDMS versus ADABAS
3. In-house versus Privatization and,
4. Approaches - a preferred approach for Montana and an ADABAS approach if federal approval cannot be negotiated for the preferred approach

<u>Process</u>

I met with the TEAMS management team within a few days of assuming my duties as director of SRS in order to discuss the two issues outlined above and to develop a process for obtaining

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[1] Letter from Marilyn Miller to Ray Shackleford on TEAMS and Privatization.

information to make reasonable decisions. That process included four components:

1. A review of the cost data between in-house IDMS, in-house ADABAS, privatized IDMS and privatized ADABAS (Table 1).

2. A review of nonquantifiable considerations when selecting privatization versus in-house development. These qualitative concerns are more difficult to weigh but important to consider in any viable decision. (See Attachment B).

3. Review of literature available on the New Mexico system (the only privatized system in existence) and general literature on the performance of various systems. (This literature is available from SRS upon request.)

4. Group discussions with management of SRS, ISD and the Governor's Budget Office staff on all the points outlined above.

Finally, it should be noted that once choices are made, there will be no way of knowing if the other series of choices would have led to the described outcome. For example, New Mexico privatized because there was the appearance of a cost saving to the state. Once privatized, New Mexico's data processing unit has experienced large budget shortfalls because of the loss of its largest user. While there may have been a savings to New Mexico's human services agency, actual dollar savings to New Mexico government as a whole are now under dispute[2] (Attachment C).

It must be noted that even with the above process, a number of considerations represent only a best case scenario and rely heavily on assumptions. If one assumption is wrong, the whole scenario could be wrong. This is because no state has totally privatized the development of a system. New Mexico privatized after the state, with contractor assistance, had completed the development of their system. No state has transferred an ADABAS system to an IDMS system.

ADABAS versus IDMS

Background

The first state to successfully develop a FAMIS certified system using ADABAS was Alaska. The reason they chose ADABAS was because they believed at the time that it was the best solution

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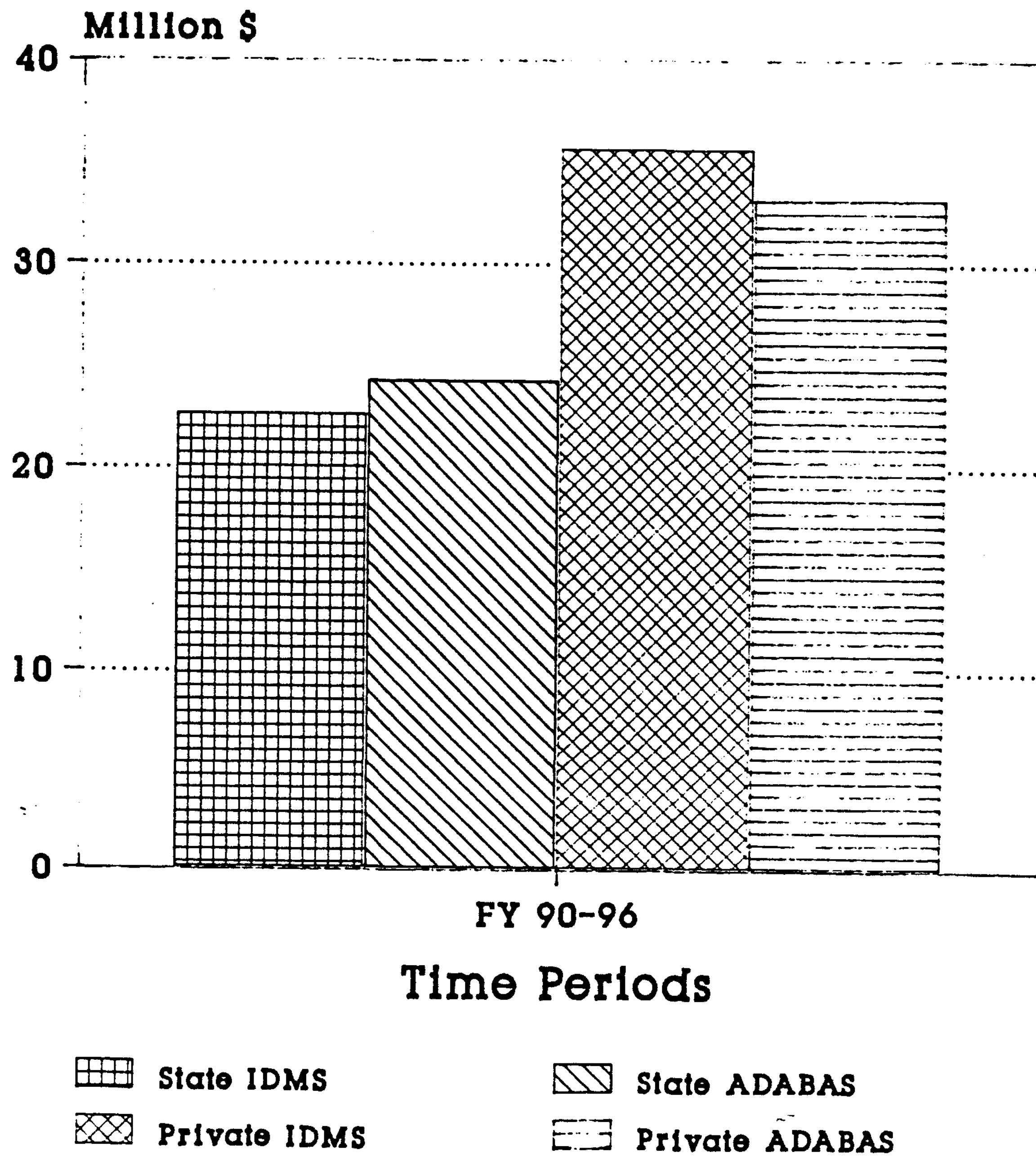
[2] Review by New Mexico's auditor of the costs of the BDM Contract, January 26, 1989.

TEAMS Cost Comparisons



Rev 3/21/89
Table 1

for them to use in bringing up the large and complex FAMIS project and because the Alaska state data center operated in an ADABAS environment. Since transfer of a system is less costly and less error prone than development of a system from scratch, the federal government has encouraged subsequent states undertaking FAMIS systems to transfer an existing system. To date seven states have transferred ADABAS systems. Coming from Wyoming which successfully transferred an ADABAS system from Alaska, my bias upon arrival was to determine what it would take to put in an ADABAS system in Montana. I brought this bias with me because an ADABAS system would save on development costs, reduce the potential for "bugs" in the system and facilitate the transfer of an existing system. My first question to the TEAMS management group was what would it take to put an ADABAS system in Montana? An ADABAS system is feasible in two ways:

1. ISD would be willing to recruit or train three staff to run such a system in-house. In fact, the ISD administrator has agreed to assist on any approach desired by SRS.

2. The system could be contracted out to a private vendor and the contract could require that the system be developed using ADABAS.

Database Considerations

1. Montana has an IDMS milieu. By that I mean that since the state of Montana has chosen IDMS as its primary database management system, skilled technicians working within government and outside of government but under contract with government are trained in IDMS. For example, a private vendor indicated to me that he felt that in developing a system in Montana, IDMS would be a better approach since this is the background of his staff also.

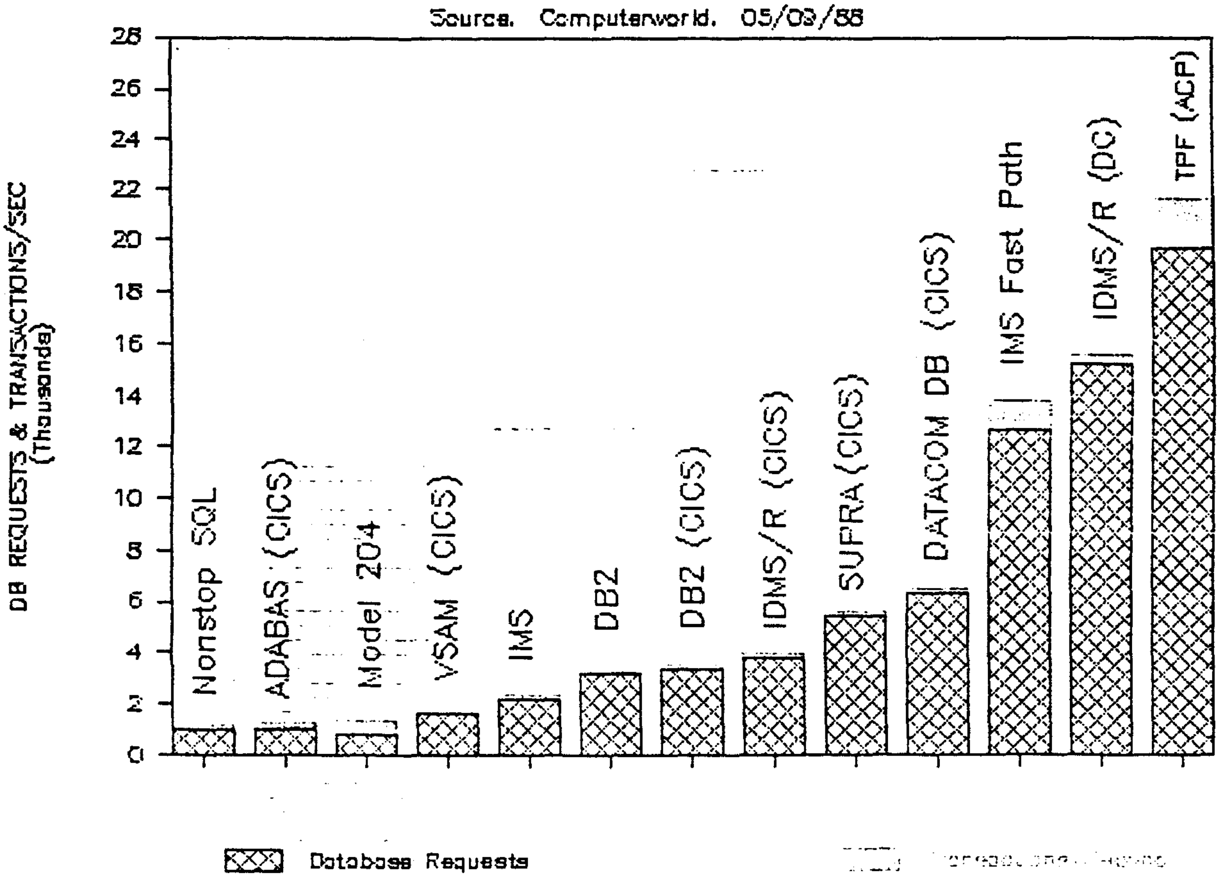
2. If an ADABAS system is developed in-house, ISD has indicated to me it would not augment any other Montana governmental systems. The ISD administrator does not feel that the performance of ADABAS would merit expansion of other agencies on to the database. (See Table 2).

3. Expansion of the system in-house will require a one-time $2,720,000 outlay at administration for mainframe and network expansion. This one time outlay combined with development of an IDMS system for TEAMS could result in a net cost savings for other state government users of $1,760,000 over a seven year period of time. This is the only approach which will result in cost savings to other government users.

Ex. # 2a
3/29/89

DBMS PERFORMANCE

Source. Computerworld. 05/03/88



Database requests and transactions per second are commonly accepted measures of DBMS performance

Ex. # 2a
3/29/89

4. While IDMS may cost more to develop, it is less expensive than ADABAS to operate. It is understandable that the federal government which is providing 84.9% of the development costs would be concerned about cost projections which are $1,439,996 more than developing a similar ADABAS system. Operating costs at 69.9% federal and 30.1% state funds will require more state general fund. Since operating the IDMS system is less costly than the ADABAS system, total cost estimates for IDMS in-house over a seven-year period are $10,588,100 and total cost estimates for ADABAS in-house are $14,740,300, for a long term savings to the general fund of $1,249,812.

5. While ISD has offered to develop limited in-house capabilities to run the ADABAS system, there are some unknowns to this offer. Montana state government salaries make it difficult to attract technical staff. Since no one else would know the system at ISD, there could be a problem with backup in cases of turnover or annual leave. These problems suggest privatization as the solution. However, under a privatized developed and operated ADABAS scenario, Montana government would not have the in-house ability to take over the system if something ever went wrong with the private contract. Montana would also not have the staff to monitor the performance cost issues that arise around a contract of this nature. Given the size of the contract, it seems unreasonable to allow a vendor to administer the contract with no technical oversight.

6. Intangible considerations are the commitment and skill of ISD management to an ADABAS system. While such commitment is pledged under either ADABAS or IDMS, it is clear in discussions with the ISD administrator the administration has a strong bias towards IDMS. Commitment and cooperation by ISD staff is imperative in any successful computer system. Obviously it is easier for management of ISD to develop and/or operate a data system where all staff in the agency have expertise which can be brought to bear to solve problems. In addition, once in operation, an ADABAS system might become a stepchild of the agency as the priorities shifted to develop new systems. The ISD administrator told the TEAMS management group that he would never recommend expanding in ADABAS to other agencies. If he was to choose a second database, it would be IBM's DB-2.

In-house versus Privatization

Background

The only state to privatize its FAMIS computer system is

New Mexico. New Mexico chose to privatize when the in-house operations approach failed to result in a system which would meet performance requirements. A private contractor, BDM, was contracted to bring the system up to standard performance levels (which it did successfully) and has a four year operations contract. This approach to managing the New Mexico system has not been without controversy (see Attachment C). There is some disagreement about actual cost savings.

The costs of privatization seem prohibitive if the computer were located in Montana. To develop a system with the computer in Montana would add $9,211,210 to the development costs and would do little to expand Montana's economic base. Because of this, I have made the decision that should Montana decide to privatize, it should not require the vendor to have a computer in Montana.

Considerations

1. A privatized FAMIS system could benefit Montana in a number of ways including:

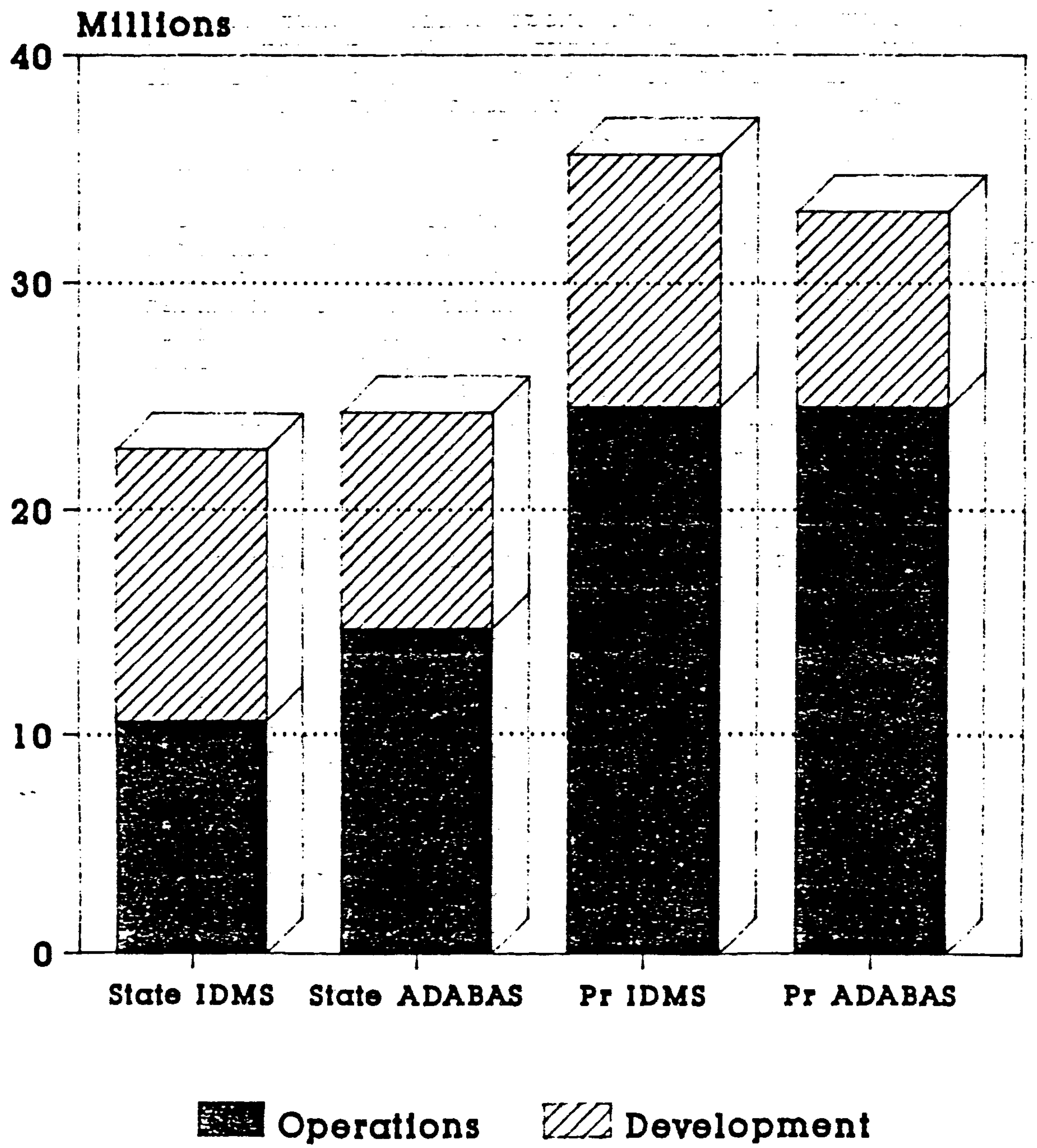
    a. If the contract was written carefully enough, the state could be guaranteed certain performance levels with no additional financial outlays.
    b. Providing staff support for complex computer systems can be difficult on limited state salaries. Privatization eliminates this problem.
    c. Improving the Montana relationship with industry through a public/private partnership of this scope can have the indirect effect of strengthening the state's economic infrastructure with the addition of professionals to the work force and the intangible message to industry that Montana "is a good place" to do business.

2. It is very difficult to project costs for the option of totally privatizing development since no state has ever undertaken such an activity. Cost projections presented in Table 3 are a result of extrapolating information from the New Mexico experience and information from vendors which the TEAMS project solicited in a Request for Information. This information was then built into a cost projecting model by a subcommittee of the TEAMS management group.

3. There are several options within the in-house privatized discussion. The options are:
    a. The project can be developed in-house with contractor assistance and operated in-house (most frequent approach to FAMIS systems)
    b. The project can be developed in-house with contractor assistance and contracted out for operation (New Mexico)
    c. The project can be contracted out for both (never attempted by a state but possible)

Ex. #2a
3/29/89

TEAMS COSTS OVER 7 YEARS



Rev 3/21/89
Table 3

d. It seems unlikely that if a project was developed in the private sector it would later be subsumed in-house. A totally private contract would negate the computer upgrades requested by administration and staff would have little familiarity with the system making ease of transfer back into government difficult. This would be particularly true with an ADABAS privatized model.

4. A privatized model would reduce the usage on the central host (mainframe ISD). New Mexico found this resulted in additional computer costs which were not estimated in the original cost estimates. At a minimum, privatization would prevent a rate reduction out of ISD to other users.

Preferred Approach

After carefully reviewing all of the information, I believe Montana should develop TEAMS in-house with contractor assistance using an IDMS database management system. The Request for Proposal should be written in such a way to provide Montana with accurate cost estimates on privatizing the operations portion of TEAMS. The privatized option should use the Montana mainframe if possible. This would accrue further revenues to Montana government which would be lost if the system were privatized with an out of state computer. If cost estimates are close to in-house and if the negative cost impacts on ISD as a result of privatization can be mitigated, the operational portion should be privatized.

Rationale

There is an element of risk involved in transferring an ADABAS system to an IDMS system. No other state has attempted this transfer. This risk is further compounded if Montana chooses to privatize the development stage of the system. This would add a second unknown variable to the scenario which no other state has attempted. I believe two unknowns are too great a risk to accept. Thus, I cannot recommend IDMS and a totally privatized development effort.

The decision to go with the IDMS database management system is a result of the following factors:

1. ISD and SRS staff are familiar with IDMS. This familiarity reduces the staffing unknowns and means that more backup staff would be available to be assigned to the project if necessary.

2. While development of the IDMS system is expensive, the long term operating costs of an IDMS system are less expensive than ADABAS (See Table 4). The state of Montana must pay a larger share of the operation costs and the operation costs will extend over a longer period of time. Thus, the reduced operational costs in

Ex. #2a
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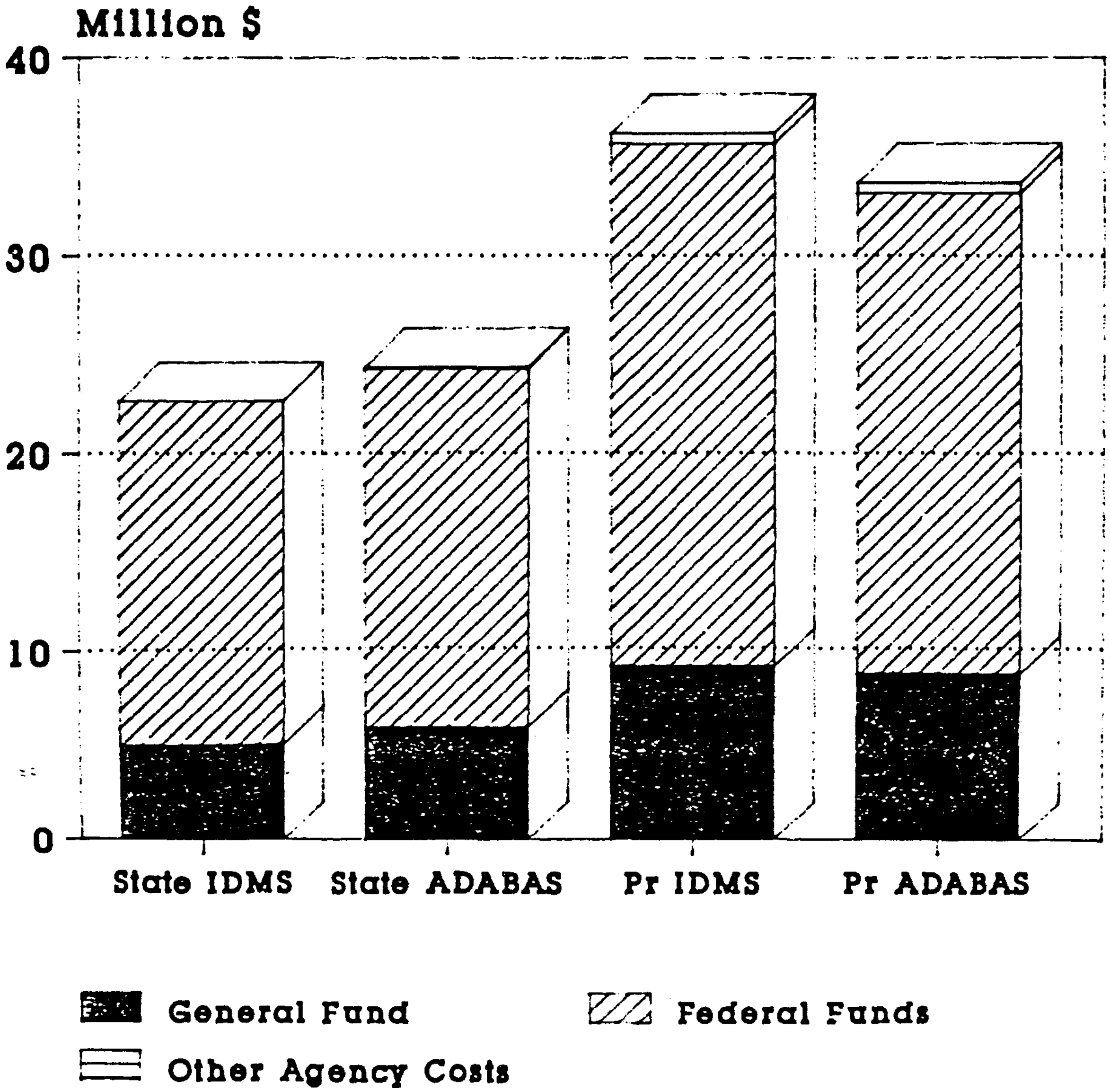
TEAMS COSTS OVER 7 YEARS
By Funding Source



With the State IDMS option other state agencies save $1,760,000.

Table 4

Ex. # 2a
3/29/89

state funds of IDMS are significant when looking at the life history of a computer system.

3. The administrator of ISD has given me his personal guarantee that if I choose IDMS in-house, he will bring to bear the necessary resources to develop an acceptable system on time and in budget. In a rural state like Montana where contractors fly in and out from metropolitan areas, the guarantee of someone who will be around at the end of the project is important.

4. Montana government as a whole would benefit most from the development of an IDMS in-house system through expanded computer capabilities and reduced user rates. I am interested in looking at the opportunity to privatize the operational portion for the following reasons:

   a. Wyoming found that once the system was in place maintaining it was difficult. Numerous changes in federal regulations can hit the system at once. Requests for Proposals for short term assistance sometimes take too long. The volume of the changes can overwhelm a limited in-house staff. It would be desirable to have the flexibility to commit a number of staff resources all at once. Private contractors have such flexibility. In addition, welfare agencies in the next few years are going to have trouble meeting all the new federal requirements. Privatization of operations would reduce the responsibility of SRS in an area where management ability to deal with change will be crucial to the success of the agency. I see privatization of operations not necessarily reducing existing staff at SRS but reducing the need for additional staff in the future and allowing some of the highly skilled TEAMS staff to assist with the new welfare reform initiatives where professional staff is badly needed.

   b. The Stephen's administration wants to be a partner with business. A large ongoing operation contract for TEAMS with the private sector would afford a vendor the opportunity to establish offices or expand offices in Montana. Such contracts have been important links in other states for large companies to do even more business in a state.

   c. It has been pointed out to me that Montana government does not pay competitive salaries with industry in the computer area. A privatized operation might provide a career path for some talented government employees. In addition, business as a neighbor and partner helps bring into focus: appropriate salary levels for government employees.

The above discussion highlights my preference to privatize operations. Such a decision, however, could only be finalized after reviewing proposals and actual costs from vendors.

ADABAS Approach

If Montana must use an ADABAS database in order to receive Food Stamp approval, I believe the system should be both developed and operated in the private sector. This assumes SRS receives bids which would make private development competitive with in-house development. Since there is no similar other state experience, the bidding process may show that privatization of development might be cost prohibitive. The bid should require cost estimates of both and the more cost effective bid accepted. Under such a privatized scenario, two staff skilled in ADABAS should be hired. One should be placed at ISD and one at SRS to facilitate interaction between the two agencies with the contract and assist with linkages with existing systems. Under this approach, Montana officials must realize that the system is frozen in time. By that I mean that once in place it could not be easily transferred back into government. The ADABAS system will not be compatible with other Montana government computer systems as ISD grows and develops. I believe over time it will eventually have to be transferred into a Montana government language at 100% cost to the state in order to facilitate ease of communication with other agencies. These considerations however are long range and involve a more comprehensive view of Montana government. Under this approach Montana loses an upgrade to its computer capabilities and a cost reduction to other users. On the short range ADABAS is the easiest system to transfer. The costs for a privatized ADABAS system were estimated to be more expensive than a state ADABAS system. However, since ISD has no experience with ADABAS and little commitment to it, I believe it would be necessary to do a request for proposal for both in-house development and operations and privatized development and operations before assuming the cost estimates are in fact correct. The advantage of privatizing the ADABAS approach is it would not be necessary to replicate the ADABAS skills in-house. In-house staff could be delegated to other projects which are more compatible with Montana's computer philosophy.

ATTACHMENT A

Ex. # 2a
3/29/89

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING

STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

RECEIVED

MAR 08 1989

SRS
DIRECTORS OFFICE

March 2, 1989

To: Julia Robinson, Director
Department of Social & Rehabilitation Services

From: Ray Shackleford, Budget Director
Office of Budget and Program Planning

Re: The Economic Assistance Management System (TEAMS) Project

As you may have heard, we have been considering the TEAMS project as a possible privatization effort for this administration. During the rather extensive research we did about this matter, some issues, positives and negatives became clear:

Issues:

It was suggested that, if Montana were to privatize the system, we would perhaps have to start back at square one with approvals by the federal government. Representatives of two federal agencies (Joe Leo, USDA, and Bob Stauffer, Health & Human Services) have assured us that we would be set back only as long as it takes to rewrite the RFP and that they would help in the privatization process. We would not have to start at the very beginning with lengthy approvals and phase 1, according to these two officials.

There is a fear that, rather than increasing Montana employment, privatization actually will be accomplished outside of Montana and that the state would lose jobs. New Mexico privatized its system and simply required the bidder to accept current employees. We could go one step further and require, as a part of the bid specification, that the operation be located in Montana. Representatives of the two companies we talked to--IBM and BDM--have indicated that they would bid it that way. To entice a company to move operations and employees to Montana would seem to require a four- or five-year term to the contract.

It has been suggested that the increase in volume at ISD from the TEAMS project would allow ISD to pass along price breaks to other state agencies. One federal official told us that the federal government would take a very dim view of being used as a windfall to the state; they would expect to pay only their fair share. That very scenario occurred in New Mexico before privatization: the federal agencies decided they were paying an inordinate share of the cost, and the ISD would not negotiate a price break for them.

It has been suggested that Montana could begin the project now and consider privatization at a later date. An employee in the human services department in New Mexico said that their system is working well but that, if they could do it over again, they should have started privatization from the very beginning. One of the pluses of privatization is that the contractor builds a system that is as "bug-free" as possible because he is going to have to run it and maintain it.

Some of the people in SRS perhaps fear that we will lose control of the system if we privatize. How sound that fear is probably depends to a great degree on how the RFP is written. Joe Leo of the USDA helped New Mexico get its program on the road and has offered to help us, as have the directors of the administrative services and the data processing divisions in New Mexico.

Positives:

It appears that large companies will bid on the Montana project and that they will move their operations to our state, along with professional people, advanced technology, and career opportunities for Montanans (two of New Mexico's project people now work for private companies). We can protect current staff people through the RFP process (e.g., providing that whoever gets the bid accept project staff; we would maintain the project director--a human services professional--at SRS).

The people who build the system will use a great deal more care in constructing the system, knowing that they will soon have to operate and maintain it.

Montana will be able to transfer rather than convert an existing system. Several federal agencies will be relieved at this prospect and seem willing to help get the system on the move as soon as possible.

It appears that privatization will save money. To begin with, transferring an existing system will be cheaper than converting one to IDMS (approximately $3.5 million versus $5.7 million, according to Dan Schramm of USDA). A project director from New Mexico has indicated

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that her state's ISD bid on their system was $33 million while the low bid was $22 million.

It appears that a "loser" here might be Montana's ISD, but I believe they will also gain by the infusion of advanced technology, professional interest, and higher paying jobs into the state.

<u>Negatives:</u>

Montana's ISD would not automatically receive a large infusion of funds and equipment. They could, however, bid on the project.

Project staff members seem a little leery about the chances of privatization meeting our needs and a little reluctant about what they view as having to start over. I am sure that when they experience a firm, supportive commitment to the project, they will also commit to the project in the same professional manner they have displayed so far.

After this research it is my recommendation that we:

1. Make a decision as soon as possible and then commit to making the project a success. I know that the federal agencies involved are looking for this firm commitment from the new administration. This will allay many of the fears they have about the Montana project.

2. Get some expert help from people who have learned from the New Mexico project to write the RFP to privatize the Montana TEAMS program transferring an ADABAS system. The federal agencies will be greatly relieved to know that Montana will be using a tested system, and it appears that the technology companies are hungry for this type of business and will move operations to Montana.

I would like to meet with you as soon as possible, Julia, to discuss this project. I know that you have had a great deal of experience with automated determination systems, and we are anxious to get your expert opinion. I know that you and your staff are anxious to proceed, and we will give the project priority status.

cc: Marilyn Carlin
    Mike Billings

ATTACHMENT B

Ex. # 2a
3/29/89

TEAMS IDMS/ADABASE

INHOUSE / PRIVATIZED SUMMARY ANALYSIS

Prepared by:
Art Pembroke, TEAMS
Bill Ikard, TEAMS
Jeff Brandt, ISD

ITEM	IDMS INHOUSE	IDMS PRIVATE	ADABASE INHOUSE	ADABASE PRIVATE
MISCELLANEOUS				
1. Staff recruiting/training	Easiest	N/A	Hardest	N/A
2. Guaranteed system availability	Equal	Equal	Equal	Equal
3. Future conversion to state operations.	N/A	Easiest	N/A	Hardest
4. Reduce government growth	3rd Best	2nd Best	Worst	Best
5. SRS control	Most	3rd Most	2nd Most	Least
6. Inter-state FAMIS compatibility	Worst	Worst	Best	Best
7. Inter-state Child Support compatibility	Best	Best	Worst	Worst

	ITEM	IDMS INHOUSE	IDMS PRIVATE	ADABASE INHOUSE	ADABASE PRIVATE
8.	Intra-state system interfaces compatibility.	Best	Best	Worst	Worst
9.	Future state support for adequate staffing levels.	Unknown	N/A	Unknown	N/A
10.	Future conversion from state to privatized operations.	Best	N/A	Best	N/A
TECHNOLOGY					
1.	Modern software technology (Original ISD evaluation)	Best	Best	Worst	Worst
2.	Degree of difficulty to perform System maintenance.	Easiest	N/A	Hardest	N/A
3.	Software errors (bugs)	Most	Most	Least	Least

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ITEM	IDMS INHOUSE	IDMS PRIVATE	ADABASE INHOUSE	ADABASE PRIVATE
4. Easiest transfer of code	Hardest	Hardest	Easiest	Easiest
COST				
1. Lowest cost to taxpayer	Best	3rd Best	2nd Best	Worst
2. Total system life cost	Lowest	3rd Lowest	2nd Lowest	Highest
3. Overall cost general fund	Lowest	3rd Lowest	2nd Lowest	Highest
4. Operational costs	Lowest	3rd Lowest	2nd Lowest	Highest
5. Development costs	Highest	Highest	Lowest	Lowest
6. System enhancement costs	Lowest	3rd Lowest	2nd Lowest	Highest

rev 03/15/89

ATTACHMENT C

Ex. #2a
3/29/89

State of New Mexico
Office of the State Auditor
PERA BUILDING, ROOM 302
Santa Fe, N.M. 87503

(505) 827-4740
1-800-432-5517

HARROLL H. ADAMS, CPA
STATE AUDITOR

MANU M. PATEL, CPA
DEPUTY STATE AUDITOR

January 26, 1989

The Honorable Ben Altamirano, Chairman
Senate Finance Committee
State Capitol Building
Santa Fe, New Mexico 87503

and

The Honorable Max Coll, Chairman
House Appropriations and Finance Committee
State Capitol Building
Santa Fe, New Mexico 87503

and

The Honorable Garrey Carruthers
Governor of the State of New Mexico
State Capitol Building
Santa Fe, New Mexico 87503

RE: General Services Department (GSD)--Office of Information Processing (OIP)

As a result of the awarding of a contract to BDM (a private company) to handle the data processing activities of the Human Services Department (HSD) as of August 1, 1988 my office has become concerned about the accounting for costs at the Office of Information Processing (OIP), the data processing costs to state agencies, and the cash out-of-pocket costs of the OIP. The awarding of the contract affected many areas and our findings are presented as follows:

I. Human Services Department (HSD) contract with BDM (a private corporation)

II. Rate Structure at the Office of Information Processing (OIP)

III. "One host center" for state agencies

IV. Data Processing Equipment Revolving Fund (ERF)

V. Statewide Indirect Costs and Fund Balances at OIP

Ex. #2a
3/29/89

VI. Transfer of staff from OIP to the Office of Communications

The Conclusions are presented in the same order beginning on page 13.

If additional information is needed please contact me.

Harroll H Adams

HARROLL H. ADAMS
STATE AUDITOR

HHA/ra

xc: Mr. Tom Thornhill, Secretary
General Services Department
Mr. Phil Baca, Director
Legialtive Finance Committee
Mr. Willard Lewis, Secretary
Department of Finance and Administration
Mr. Alex Valdez, Secretary
Human Services Department

[redacted]

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I. <u>Human Services Department (HSD) Contract with BDM (a private corporation)</u>

On August 1, 1988 the majority of data processing for HSD that was handled by the Office of Information Processing (OIP) was transferred to BDM. The contract is for $479,125 per month plus gross receipts taxes of $25,156 (computed at 5.25% at present). The contract was for four years for a total of $22,998,000 plus taxes of $1.2 million. There were positions at HSD that were eliminated as a result of the contract.

Since the utilization of the computer configuration capacity at OIP was reduced 50% to 60% without a replacement of activity to charge there were unabsorbed costs at OIP. The lost utilization of capacity at OIP will not be completely replaced for four years assuming a 20% growth rate and seven and a half years assuming a 10% growth rate. There has been a 20% growth rate in the past in the operations at OIP according to management. However, the costs have not shown a 20% growth. The Federal government shares approximately 53% of the cost of HSD charges, but only 1% of the other charges ($57,000 of $5 million) remaining at OIP. In a memorandum dated January 29, 1988 from Thomas W. Hoover, Chairman, Governor's Select Committee it was stated there would be a projected state general fund savings ranging from $1.0 to $2.2 million (over a four-year period) by accepting the BDM proposal. This estimate was based on a 20% growth rate at OIP using estimated projected costs submitted by OIP that showed a reduction in costs of $12 million over a four year period. Based on 1988-89 data there will be some reduction in costs, but the amount will be much less than the $12. million projected; therefore, there will probably be an out-of-pocket cost to the State General Fund as a result of the BDM contract. There was a material savings to the federal government on the basis of the assumption by the Governor's Select Committee.

In my opinion the basis used to compute the savings was not valid since bid amounts were used in making the projections. There appears to be an overall loss to the State General Fund based on present operations at OIP since the loss is 80% State General Fund at OIP and any gain to the State as a result of the contract with BDM is only 45%. The BDM contract adversely affected all state agencies using the OIP because of increased costs to the state agencies.

II. Rate Structure at the Office of Information Processing (OIP)

The rate structure at OIP should recover all operating costs including cash operating outlay, depreciation and statewide indirect costs (for the fiscal year 1986-87 $832,390 was added into the rates for the indirect costs applicable to the OIP for services received from other agencies that are not billed directly to the OIP). The rates do not recover for interest costs and other miscellaneous items. The rates are established at OIP and assuming that operations and costs are reasonably projected the rates will recover costs.

The rates were established for 1988-89 based on retaining HSD; however, since HSD transferred out as of August 1, 1988 the rates will recover only 55% to 60% of the projected costs. The HSD activity was heavily processing oriented. The OIP is projecting an increase of 20% each year in operations, but the revenues do not necessarily increase in the same manner because of the method used to compute rates. Assuming that the revenues increase by 20% during 1988-89 there will be a net cash shortfall at OIP.

The rates used in the past have been computed on an acceptable basis of accounting with the exception of interest costs. The proposed elimination of depreciation and interest in computing the rates means that the basis of accounting is unacceptable. Also, the agencies and the federal government (to a small extent) are being given a "free ride" for 1988-89 if the rates are not adjusted. The Federal people have naturally agreed to not charging depreciation since they will benefit from the action. In effect the rates to the remaining agencies should increase 30-40% to maintain a consistent approach to establishing rates.

There was a reduction of $0.5 in the expenses for 1988-89 because of the transfer of teleprocessing personnel that would have occurred even if the BDM Contract had not been signed.

There is also a required transfer of cash for depreciation from the operating fund to the equipment replacement fund (ERF). There is a question of what the cash transfer should be since the transfer would have been $2.7 million, but if only 50% is collected it is not clear whether only $1.35 million would be required. If there is no transfer to the ERF there is a violation of the statutes since the intent is to recover total equipment costs through depreciation.

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Prior to August 1, 1988 the federal government was billed for approximately $2.8 million (27% of total costs) for services from OIP; however, they will only be billed for $57 thousand (0.5% of total costs based on 1987 data). If the rates to the remaining agencies are not adjusted for 1988-89 the federal government will be underbilled for $57 thousand. The federal government will continue to be underbilled if the depreciation is undercharged in the rates.

The OIP does not have any immediate equipment needs because the present computer configuration is operating at 50% of capacity and any material change in the computer configuration would be when 100% capacity is being approached.

III. "One Host Center" For State Agencies

The OIP, Highway Department and Department of Labor are the main data centers for "state" agencies. The Highway Department and Department of Labor process their own transactions and the OIP operated as "a one host center" for most other "state" agencies. Some other "state" agencies have stand alone computers, but in general the "one host center", the OIP, took care of the majority of the processing at the state level. On August 1, 1988 a contract was awarded to BDM to process the HSD operations and OIP lost 50-60% of their revenue.

There was a five year plan and the OIP had contemplated a 20% annual increase in activities for the future, instead these activities were abruptly cut 50-60%. The OIP has available two large main frame computer systems an IBM 3090-200 to handle production and an IBM 3084 Q (fully depreciated) used for development work. The OIP considered that they had available capacity to handle current work and would at some time in the future need to consider upgrading but that was not an immediate concern. After August 1, 1988 the 3090-200 was reduced to 40-50% capacity and there will be no need to consider excess volume problems in the near future, unless there is a drastic change in the operations at OIP.

On November 1, 1988 the Sandia National Laboratories submitted a report of a study to investigate the feasibility of consolidating the IBM computer facilities at OIP, Highway Department and Department of Labor. Their report stated that OIP had enough machine capacity to consolidate both the operations of the Highway Department and the Department of Labor into the OIP data center and only reach maximum utilization of both main frame computers in June 1991. The report also listed economies that would result from the consolidation and monetary benefits to the State of New Mexico as the result of consolidation. The report did not study the impact of the consolidation on the OIP rate structure.

To my knowledge there is no plan to consolidate the three activities.

The five year plan for OIP is required by section 15-1-10 B, NMSA 1978 Compilation. The five year plan did not contemplate the change in the direction of processing data that occurred on August 1, 1988. The OIP had a computing configuration that contemplated a 20% growth rate, but instead the volume abruptly decreased by 40-50% and no near term replacement for the volume was projected.

A plan must be formulated to establish the direction of data processing for state agencies. The decision must be based on a review with parameters of voiding the BDM contract, consolidating data processing or eliminating the OIP as a "one host center."

IV. Data Processing Equipment Revolving Fund (ERF)

The Data Processing Equipment Revolving Fund (ERF) was established by statute (Section 15-10, NMSA, 1978) to segregate the money to be used for the purchase of equipment at OIP. The OIP has placed cash in the fund for the amount of depreciation on the equipment that is used by the clients (state agencies) classified as class B equipment. The class A equipment is the equipment used internally and is normally funded through the budget process. The depreciation is computed on the class B equipment and the money is transferred from the general operating account to the ERF. At the time of the purchase or payment for the class B equipment the cost is paid from the ERF. The theory was evidently that the ERF would provide a source of money to pay for equipment purchases only.

The ERF statute as presently written serves no useful purpose. The money for equipment purchases could be retained in the operating fund.

As a result of the privatization of the HSD data processing there was a 50%-60% loss of revenue to OIP. A management decision has been made by OIP to practically eliminate the depreciation charge and hence not transfer the corresponding cash from the operating account to the ERF. The total depreciation for the year ended June 10, 1988, was $3,106,767 and transfers to the ERF were $2.3. The assets and liabilities of the ERF as of July 1, 1988 were:

Cash and investments	$2,925,996
Receivable from operating (net)	1,626,456
	4,552,452
Payable for equipment	3,634,905
Fund Balance	$ 917,547

The property, plant and equipment less accumulated depreciation was $4,941,481 as of June 30, 1988 and a large portion would normally be added to the ERF over the life of the equipment through transfers equal to depreciation charges.

Management has also stated that cash from the ERF may be needed to cover the shortfall that may occur in 1988-89 if not received from some other source such as a state general fund appropriation.

Section 15-1-12-C, states that money that is attributable to depreciation shall be deposited quarterly into the ERF and money shall be disbursed pursuant to Sections 15-1-10 and 15-1-11, NMSA 1978 Compilation, of the Information

Systems Act. Management will be in violation of these statues if they do not deposit a percentage of the fees received (that represent depreciation) into the fund on a quarterly basis. Any expenditures from the ERF must be solely for the purpose of acquiring and replacing data processing equipment and cannot be used for operating expenses. If management decides to violate this statute there is no penalty under the statutes.

V. Statewide Indirect Costs and Fund Balances at OIP

There is a statewide indirect cost allocation plan for New Mexico to distribute the administrative costs not charged directly to agencies. Operating costs of the Department of Finance and Administration, Treasurer, depreciation on state buildings, etc., are accumulated and these costs are allocated to various agencies that receive the benefit of the services.

The OIP received services valued at $832 thousand for 1986-87. The OIP includes this amount in the rate, but is not required to pay the State General Fund for the services. Therefore, the OIP collects the money, but there is no offsetting cost. This amounts to a contribution each year and has not been presented in the past on the financial statements of the General Services Department.

The statewide indirect cost allocation should also be used by other agencies in establishing their costs for federal reimbursements. If an agency has collected for these costs, there is no requirement that the money be reimbursed to the New Mexico State General Fund. Therefore, what OIP has done is consistent with what is done at the state level.

The interest expense at OIP is not included in the rates, but is an operating cost. The Federal government does not allow interest costs to be included in rates even though it is an operating cost. In my opinion interest should be included in future rates charged by OIP.

As of June 30, 1988 the OIP had a retained earnings balance of $3.5 million and contributed capital of $2.3 million. The $3.5 million retained earnings is the result of revenues exceeding expenses on the books since the beginning of operations (the amounts charged to agencies have exceeded the costs to provide those services recorded on the OIP books except for the statewide indirect costs). The $2.3 million is the amount contributed by the state general fund over the years for operations and to fund equipment purchases (this amount does not include the indirect costs contributed by the State).

The retained earnings balance of $3.5 million is from:

Operating funds	$2.6
ERF	.9
	$3.5

The total of the operating funds retained earnings and contributed capital as of July 1, 1988 of $4.9 is available for operating the OIP (excluding the $.9 that is to be used for equipment purchases).

VI. Transfer of Staff from OIP to the Office of Communications

On July 1, 1988, 16 staff members were transferred from the OIP to the Office of Communications within the Information Systems Division. These staff members were involved in teleprocessing and the move was planned before the transfer of HSD. The costs for these 16 staff people of $0.5 million were included in the OIP rates and there has not been a reduction in the rates for 1988-89 as a result of the transfer.

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CONCLUSIONS

I. HSD Contract with BDM

The Governor's Select Committtee estimated a savings $1 to $2 million by entering the BDM contract. The committee estimate included a reduction in the cost of the OIP by $3 million a year for 4 years (from a total cost of $11 million per year to $8 million). This was an invalid assumption and is not occurring in the 1988-89 fiscal year. The present estimate is $9.0 million for total operating costs (excluding the $0.5 for the teleprocessers).

There has been no study of what will happen at the end of the four year BDM contract.

A decision should be made about data processing for state agencies and the parameters are:

1. Privatize all data processing on the state level;

2. Consolidate all data processing in a "one host center."

The decision should be based on a comprehensive study of data processing needs for state agencies and a plan developed to satisfy those needs in the most economical and efficient manner. Once the plan is established the plan should be changed only by considering all the consequences of the change.

II. Rate Structure at OIP

The options on the rates charged by OIP for 1988-89 are:

1. Continue the same rates

   This means that only 50% of the revenues will be collected and the cash position of the operating fund of OIP will be depleted.

2. Special appropriation

   A special appropriation could be made to OIP. This would replace the HSD revenues and would correctly reflect what has actually happened and would be a dramatic presentation of the cost of the BDM contract to the State of New Mexico. However, since the OIP has accumulated retained earnings and contributed capital of $5.8 (including the ERF) this does not appear to be a viable solution. Also there would be the problem of not correctly reflecting costs in the agencies.

CONCLUSIONS

3. Amend the rates for OIP

The rates for OIP would be almost doubled and hence the agencies remaining at OIP would pay twice as much as previously projected. Based on 1987 amounts this would mean that the Taxation and Revenue Department would pay $3.2 million for data processing rather than $1.6 million. Obviously there is not sufficient budget in the agencies to cover this charge.

A long-term solution is needed for the rates after June 30, 1989 based on the planned approach to data processing for state agencies.

III. "One Host Data Center" for State Agencies.

At the present time there are data centers at the OIP, Highway Department, Department of Labor, various specific agencies and the HSD uses BDM for processing. A decision should be made as to the type data center(s) that is (are) to serve New mexico State Agencies or the role of privatization in data processing.

IV. Equipment Revolving Fund (ERF)

There should be a review of the statutes that cover the Data Processing Equipment Revolving Fund (ERF). If the $1.3 million (1/2 of the total depreciation of $2.7 million since only 50% of the depreciation will be collected) is placed in the ERF as required by statute during 1988-89 this will seriously deplete the cash of the operating fund. Management will be in violation of the statutes if the transfer of $1.3 million is not made to the ERF and also if the cash in ERF is used for operating purposes.

V. Statewide indirect Costs and Fund Balances at OIP

Any statewide indirect costs recovered by state agencies from the federal government should be required to be remitted to the State General Fund. The OIP has in effect remitted these funds to state agencies over the years (the agencies were originally charged, but the rates were later reduced) except for $2.6 million that remains in their retained earnings at June 30, 1988. Therefore some of the indirect costs received through rates in the past is not available. If the statewide indirect cost allocation collected by OIF is required to be paid to the State General Fund this would further deplete the cash position of the OIP.

CONCLUSIONS

VI. Staff transfer from OIP to the Office of Communications

The OIP rates should be reduced for the transfer of 16 people from the OIP to the Office of Communications on July 1, 1988; however, this would also adversely affect the cash position of the OIP.

[redacted]

Ex. # 2a
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GOALS AND VIEWPOINTS AT BEGINNING OF SESSION TOWARD SRS

1. Instead of worrying about every nickel and dime in a 600 million dollar budget, we wanted to set policy and to slow the growth of spending to below the growth of personal income. The growth of SRS was 27.5% general fund growth/year the last 2 years.

2. We wanted to restructure the direction the programs in human services were going. That is, provide opportunity for those who want to get off the welfare system; maintain a good safety net, and spend money where necessary to help the most needy. To destroy what we believe is the unconscious creation of a welfare industry that needs poor people in order to get federal money to provide salaries for the welfare industry.

3. There are a lot of hard working providers of service trying to help people. However, overall, we end up with maintenance and red-tape types of programs that do little to help people get off the system once they get onto the system. We end up with numerous duplicative programs that treat only a "part" of a person instead of treating the person as an individual. We treat "hunger" or "housing" or "sexual abuse" - not whole people.

4. That the Legislature is an equal branch of government and we should not just rubber stamp executive branch appropriation requests and that we can and should set policy. That the Legislature has been passing numerous bills to change the welfare system with the executive ignoring the results of those bills as to eligibility for services as well as making new programs to help people get off the welfare system.

5. That the federal government, under JTPA, mandates too much quantity of numbers of people for placements instead of mandating quality of placements. That one actually gets penalized for spending dollars on the most needy and most economically disadvantaged because it costs more to help them and the "success" rate is much lower. So consequently you see too much money going to those more readily employable than those who are not.

6. That the state is in a serious economic crisis, but now is the time to spend the dollars on the most needy to help them when we begin to come out of a crisis. We also realize that there are only so many jobs in this state, but we also know that people are willing to leave if they have a good chance to have a job elsewhere. This is not a "bus ticket" approach, but one that does provide as much opportunity to

get ahead in economic opportunity.

7. That the Legislature can and should reduce spending and set direction as to the welfare system. However, if the executive branch of government refuses to follow our direction or have a policy change on solving problems instead of maintaining them, then nothing will get done and we will have to put money back into the welfare system in order to maintain people we could have helped get off the system.

8. That we can rise above the special interests trying to each grab a larger piece of the pie (where the pie is not growing) and show people and interests away out of economic problems we have. One of the major problems we have in this state is that when people push for changes, others continually look at the negatives and not the good and do not have a can do attitude, but instead, one of can't do.

COMMENTS ON TOTAL REDUCTIONS IN SRS

1. The main decrease in spending in the SRS budget came from the reduction in caseload numbers for GA and AFDC caseloads. This reduction in numbers comes to about 11 million dollars of general fund plus the usual matching federal money of about twice that amount. One really cannot cut the dollars here or there and save money. If you cut medical costs in one program, those costs will show up in another program. The whole welfare system costs are driven by caseload numbers. If the numbers go down the entire costs in the welfare system go down. For an example, if one AFDC family can get off the system, the savings amounts to over $12,000 per year.

2. There is all this discussion of the need for a supplemental of 10 million dollars to put the money back into this system. That people say we had no plan on what we're doing or even that our philosophy was bankrupt. We disagree that our philosophy is wrong or even bankrupt or that it wasn't thought through. If you don't believe us then look at the facts. There are 5 major reasons why those caseloads should be reduced.

A. The trend in growth rate of caseloads has slowed or even stopped during the last two years.

B. There are several new programs based specifically on reducing the number of people on AFDC that put up 8 million dollars or more over the biennium.

C. That we should be better utilizing the over 25 million dollars of old job training programs (JTPA) we now have to those most economically disadvantaged. We are not doing very much help to these people for the amount of money we have to spend.

D. There are over a dozen new laws going through the Legislature that reduce eligibility as well as create new programs to help people get off the welfare system.

E. There are serious management as well as organization disfunctions and problems within the executive branch which stop any progress in reducing the costs and caseloads. We need a single agency to be responsible for these people as to programs offered.

3. So when the executive branch is seeking a supplemental it appears to us they are making the following comments:

A. The new programs, even though they add millions of dollars to the economy, will not work to reduce caseloads. B. The old programs do not have much overall success either. C. The trend of caseloads will continue up even though we have new programs, it had leveled off the last year even though our population has leveled off. D. All these new laws being passed will have no effect to reduce costs and help people get off the system. E. The executive branch is not going to change management or organizational structures to save the state money and help people get off the system.

4. For the executive to imply there shall be no change shows a serious attitude problem, not just toward Legislative policies, but within itself in being unable to solve problems except throw more money at the system and raise maintenance costs instead of helping people get off the system. It also allows a welfare industry to develop even larger than it is. It comes across that we are unconsciously using poor people to get a lot of federal money to be used unnecessarily in work and training programs for these people.

DISCUSSION ON 5 POINTS

1. Trend Slowed
The overall increase in AFDC caseload has slowed. There seems to be no consensus why. Reasons range from it could grow only so fast; loss of population through out-migration; the economy can only grow so fast. For example,

for FY1989 the old estimate was for a caseload of 9900 when in reality it will be closer to 9400 now. That is the base we are working with and that is the base the new and old programs should be working on. In fact, the executive finally at ins~~tance~~istence of some committee members did later on in subcommittee took out approximately 400 caseloads each year. This reduction should be added to the 9.7 million dollars taken out of the budget and would likely show another million or so total reductions the subcommittee made. One also has to remember that once caseload numbers are lowered, all the associated costs also fall including medical costs, day care costs, etc.

2. New Programs

There are several new programs or revamping of existing programs that should help reduce caseloads.

A. The new welfare reform package appropriates 8 million dollars into helping AFDC families off welfare. The main fiscal note by the budget office shows that after spending 8 million dollars 48 families got off welfare. The Legislature should expect better results. The Labor Department does say that the program should get 400-600 families off the system but they are not taken into account in the executive budget numbers for caseloads.

It is true that families are coming on and off the system all the time. However, the executive budget never took into account any permanent reductions that should take place if this program is started.

B. Transition to Work

This program is not a "bus ticket" out of town. If people have jobs in different counties or out of state we will help pay for transportation, rent and day care. For example, if a General Assistance recipient had a chance to go to a project to drive truck in another state, before he gets paid he has to work two weeks. But once he leaves the state he receives no benefits and he is supposed to have no savings while living in this state so he has an almost impossible task to make it off the system. Surveys show that people are willing to move to a job. We help people in the Dislocated Workers program to find jobs outside of Montana, but there is no program to help those on F.A. or A.F.D.C.

We realize that no one wants to leave the state, but we need to provide the opportunity for those who voluntarily seek to find opportunity elsewhere. It is my estimate that 400-600 families or individuals will use this program. The executive did not take this into consideration.

C. New Horizons
This program was started last session and did not work very well. the law was amended and is supposed to make it work better. This law was not taken into consideration either.

D. New project work
The full committee of appropriations temporarily killed the old Project work program for G.A. recipients until a new program was developed. Even Peg Hartman, the old Department of Labor Director, said the program was not a success. Also under Project work we were counting these people as numbers to get a lot of federal money. Much of that money was not used for these people. The new director of SRS has revised Project Work and the money was given back to SRS to fund the new program. No account was taken of this revision in the executive budget.

3. Old Programs

A. There are many duplicated programs with slight variations within them ranging from child care programs with three different departments involved to many different types of medical programs within departments with slight variations between them as to eligibility or a means test.

B. Job Search for AFDC does not spend most of the federal money directly on AFDC clients.

C. We do a very poor job for AFDC or G.A. recipients for use of Job Training Partnership Act monies for job training programs. These people may be priorities in these programs but the amount of money used for these priority grounds is very small to the total amount of the budget. There must be more money spent on those needing the most training and willing to take the training and less on those readily employable. We should be spending a lot more money on these people and we aren't. We are not using a case management approach to GA and AFDC recipients as we should. Also, for example, if a GA recipient is in Project Work and goes to VoTech school, his food stamps are cut. However, if a GA recipient is in JTPA program, he can go to a Vo Tech school and not lose his food stamps.

Also, we do a poor job using our Vo Tech schools in doing the training for a person whether skilled or just needed job search skills and basic education programs.

Also the Department of Labor, through its staff, fought to have any type of audit to see how JTPA programs actually help people long term. The cost to see how well people were still working after six months on a job would have cots $50,000. The department staff felt that $50,000 took away too much money from this 21 million dollar program. We should also use JTPA funds for training of lower income jobs in different providers, nursing homes, etc that we don't know.

D. The Department of Labor and SRS need to change their viewpoints to GA and AFDC recipients from simple maintenance to a more active role to find jobs and skilled training where necessary, as well as to new ideas which they don't have now. When you have ex-directors saying the Labor Department really doesn't want to serve AFDC or GA recipients, when you have numerous recipients saying programs can be run better, then you realize there is a problem.

4. Management Problems

A. The system hurts anyone trying to get off the system.

B. A major component of all welfare reform is providing sufficient funding for the child support bureau. For most states every dollar they put out for AFDC total costs they receive 26 cents reimbursements. Montana receives only 14 cents back. We should be collecting at least twice as much child support as we currently are. The state should be receiving one to two million dollars more in general fund than we are now receiving.

Currently we are faced with sanctions by the federal government because we are not collecting enough child support. This is no criticism of the staff at the bureau. They are simply understaffed with antiquated collection laws.

There are new collection bills being passed by the current Legislature which will help in collections.

New paternity laws have been passed to help individual parents. For example, over 22% of AFDC mothers using medical facilities for their children do not list any paternity for their children.

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Using data from other states, it is estimated that perhaps 2400 AFDC families in Montana, that their ex-spouse has some type of medical insurance that could pay for the children's medical bills. The state of Montana collects little or no medical costs from ex-spouses except in a rare occasion. The state should be saving at least 1-2 million dollars of general fund per year on costs if only one half of the ex-spouses (1200) were paying medical bills. At the same time medical providers and institutions could be receiving full reimbursements instead of arguing in our subcommittee for 1-2% increases to cover only 60% of the costs we now pay for under medicaid.

5. New Laws
The Legislature is passing over ten welfare bills. Some restrict eligibility, others provide new benefits and programs to help people get off the system. SB 101 restricts assistance to GA recipients. Due to this bill there is an estimated reduction of 400 recipients each year. The subcommittee only reduced the recipients per year by about 100. The subcommittee did not take out enough.

Other bills implement the welfare reform package required by the Federal Government that are supposed to reduce caseloads. However, these new laws and their reductions in caseloads were not taken into account by the executive budget. Schwinden's budget was released in November of 1988 but no one adjusted caseloads down even though new information was available.

CONCLUSION

We have identified five major areas that the executive budget is out of line, that is with their own policies, Legislative direction, new laws, new programs and better management from the executive.

After looking at the amount we cut, we should have cut another 2 million dollars in general fund per year from the SRS budget. It's true that if the executive will not change, will not implement Legislative policies, will not make new programs work and old programs work better then the money will likely have to be put back into the budget.

It's true that the numbers of reduced caseloads are not set in concrete, but when you mandate change, then the numbers will be reduced. It is not our intention to hurt anyone, but to make programs work and provide opportunity for people.

WHERE DID THE MONEY GO

1. The overall growth of general fund in the SRS budget was cut from 27.5% growth to below 5% growth per year.

2. The money saved had to go to pay for the state's share of the new mandated federal programs for senior citizens, nursing homes and other programs.

3. Medical providers received 4% increases where the original budget gave only 2% increases. D.D. providers received 5.5% increases where the original budget asked for only 2%. Also, the poorest wage earners will receive a higher increase than the higher wage earners.

We raised nursing home increases to 3% from 2% increases. We kept AFDC payments the same as this year and increased them for the 2nd year of the biennium instead of freezing them at a lower rate than they are at now.

The subcommittee started an SSSO facility to care for 52 disabled persons in a community, paid for respite for 97 families of disabled children who receive no other services. We also raised day care and foster care provider rates dramatically.

We also kept current funding up for Big Brothers and domestic violence programs that were asked to be cut by the executive budget.

The committee also provided for new programs to keep elderly out of nursing homes in the Butte area as well as the surrounding counties around Lewistown.

The final point we would like to make is that we moved money down to the more needy and we expect the executive branch of government to change their organization, attitudes and fight the turf fights needed to provide opportunity for people to get off the welfare system.

DATE 3-29-89

COMMITTEE ON

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
Jim Ahrens	Mt Hospital Association			
Chris Volinkaty	Developmental Disabilities	#100 H. Serv.	✓	
John Fitz	" "	"	✓	
Bill Palmer	Dir of Work Comp	# HB100	✓	
Bill Opitz	DHES	HB-100	✓	
Ray Hoffman	DHES	HB 100	✓	
John Huth	OBPP	HB 100	✓	
Dave Lenny	OBPP	HB 100	✓	
Lois Steinbeck	OBPP	HB 100	✓	
Bob Kuchenbrod	OBPP	HB100		
Dennis M. Taylor	DDD/SRS	HB100		
JanDee May	DDD/SRS	HB 100		
Doug Matthies	DFS	HB 100		
Bob Mullen	DFS	HB 100		
Jim Smith	HRDC / MAR	HB 100	✓	
Jerry LaChere	Lottery	HB 100		
Julie Rohm	SRS	HB 100		
Brenda Nordlund	MT Women's Lobby	HB100	✓	