

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By Chairman Francis Bardanouve, on January 11, 1991, at 12:03 p.m. in room 104 of the State Capitol.

ROLL CALL

Members Present:

Francis Bardanouve, Chairman (D)
Ray Peck, Vice-Chairman (D)
Dorothy Bradley (D)
Dorothy Cody (D)
Mary Ellen Connelly (D)
Larry Grinde (R)
John Johnson (D)
Mike Kadas (D)
Berv Kimberley (D)
Wm. "Red" Menahan (D)
Jerry Nisbet (D)
Mary Lou Peterson (R)
Joe Quilici (D)
Chuck Swysgood (R)
Bob Thoft (R)
Tom Zook (R)

Members Excused: Representatives Cobb and Grady

Staff Present: Teresa Olcott Cohea (LFA).

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: CHAIRMAN BARDANOUVE said the LFA office had requested the meeting to explain differences between their budget and the Executive budget.

Informational Meeting:

Terry Cohea, Director of Legislative Fiscal Analysts, said the meeting was moved ahead because of a request from Senator Jacobson, Chair of Senate Finance and Claims that the Senate F & C members could sit in on the meeting and avoid having two meetings for the same purpose.

Mrs. Cohea passed out testimony attached as EXHIBIT 1. She explained this is in more detail in the LFA budget book, but this exhibit concentrates on the items in which there is a major variance between the two budgets. She said Lois Steinbeck would

present a short overview on the LFA figures and Mr. Bob Marks, Director of the Department of Administrations, would do so on the Governor's budget.

Lois Steinbeck, LFA discussed **EXHIBIT 1** in more detail and referred to the LFA budget analysis Vol. 1. She then discussed **EXHIBIT 2** in regard to the computer upgrade. One of the differences in the budgets was network fees. The way computer services are funded in some agencies is different and can be quite significant. The Executive Budget includes a modified request of \$1.6 million proprietary authority and three FTE for over the biennium in addition to current level services of about \$1 million to fund purchase, installation and support of local area networks. These are also referred to as LAN's. **EXHIBIT 2.** **Mike Trevor**, Administrator, Information Services Division, Department of Administration, distributed **EXHIBIT 3** which he felt objectively discussed the pro's and con's of automation. He said the extra cost of a good system (IBM) assured them of a system that would work, cost less to upgrade, and put the state on a compatible system that worked. He said it would cost more over the next biennium to have it "up and running" but was putting out more work without hiring additional FTE, and this was where the real savings were. They had given rate reductions because of increased use in the agencies, and without them the state would have spent \$2.8 million more just to do the level of work that was done in the FY '88 base.

Questions from the Committee: (Tape 1, 519)

CHAIRMAN BARDANOUVE questioned **Mr. Trevor**, saying he could not understand how they were going to save money by spending more. He said he was concerned that in 1993 the committee would be told they need a \$3 million new main frame because the one we have now is too small. **Mr. Trevor** said the main frame they have invested in now can grow in incremental and IBM has a board which does not like to have customers come in unhappy because they have to reinvest in a multimillion dollar main frame because theirs became obsolete. Instead of asking for several million they can ask for \$500,000 to upgrade and the computer they have on the floor today will still be there in 1995.

CHAIRMAN BARDANOUVE asked if all this computerizing is really necessary, how much are we getting for it and where are we making the savings. The budget does not show a reduction in FTE's. **Mr. Trevor** said the TEAMS project (the Welfare system) is one that a considerable amount of money is going into, and one of the major justifications in the SRS TEAM system is improving the quality of that information and minimizing welfare over payments. When welfare overpayments do occur they have the ability to recover them. The Dept. of Justice is a good example in their registration process at Deer Lodge which was patchy but now can track vehicles involved in an accident or crime quickly, and even narrow the search by a description of the vehicle.

REPRESENTATIVE QUILICI said he was concerned that this new network system was not brought up in the 1989 session. (Tape # 593) **Mr. Trevor** said his main reason was that at the time they thought the P C phenomenon could be handled much like the terminals attached to the main frame. He said anything presented in the '89 budget would have been input almost a year before, and at that time he barely even understood the term LAN. The change has been a sweeping revolutionary sort of thing and very difficult for them, working with the agencies, to develop a plan like this one today and in 1989 he would not have known enough to talk about it.

REPRESENTATIVE QUILICI said the net increase due to the new network system, while not saying the new network system is not needed, he was concerned that they did not get Legislative authorization to set up the new network system. There are network fees of \$676,000 and \$679,000 and the agencies that use the network have to pay for them. Some agencies have higher main frame use and some that do not while still using P C's. Those having the higher main frame use will have to pay more and he did not know if those agencies are budgeted for it. The network charges are built into the budgets and if they do not pass this modification how are the agencies going to pay it? He was disturbed that they had not come to the Legislature and done it in the right way.

Mr. Trevor said what Rep. Quilici said is correct, and it is unfortunate that it was not done in a more timely way. He grew up with computers in Montana and has a 25 year pin, and goes back to before there were terminals. Of the decisions they have had to make during those years--and even though they had to get rather aggressive and take some risks now--there should be a reasonable fall back that can be worked out with the LFA. He felt comfortable, would take the criticism respectfully, but still felt the decision is the best decision he has ever made.

REPRESENTATIVE QUILICI said he is not saying ISD (Information System Division) is not needed. They had an incident in committee this morning with the Secretary of State's office where they didn't go through ISD and had to given the Secretary of State a new in-house network capability. They negotiated and had contracts with WANG Corporation. The system did not work, they had to go back on the main frame, and if problems of this sort come up we have a Legislative Finance Committee and it should be run by them during the interim to see what they say about it. He said his concern was not the need for the system but the way it was done.

REPRESENTATIVE KADAS said he was interested in the 30 to 40% increase in the coming biennium when you are already looking at a 58% from last year. **Mr. Trevor** said with the growth he has the problem of making a rate reduction and projections in the time frame that is necessary to get it into the budget, get it printed, and their best estimate for the increase in FY '92 over

'91 base was 33%. At the present time it is running ahead of their estimate, but it may have something to do with the Legislative session starting up. By the end of this time in looking at the full '91 utilization figures, it may have dropped off some.

(Tape 1, side 2) **Mr. Trevor** continued by saying if he projected a rate decrease, had to come back in the middle of the biennium, and said we have to upgrade them, he would be complete chaos, and he would appear to be a poor manager. The utilization aspect is the toughest part for them to estimate. It might be looking high now because TEAMS has a large staff doing development etc.

REPRESENTATIVE KADAS asked what kind of control the Legislature or the Administration have over your utilization? What kind of justifications are required within agencies? Is it something that is just growing in a cancerous way or is it something that is planned and cost effective? **Mr. Trevor** said the control you have is in the agency approval budgets and the amount the subcommittees budget for. The agency will have to show you that the benefits are sufficient to warrant the costs. You have control so far as the amount of dollars allocated but where the utilization can climb is in the rate reduction we may make, since for the same amount of dollars they can get more utilization.

REPRESENTATIVE QUILICI assured the committee that his subcommittee would delve into this issue very thoroughly since they want some answers before they approve the ISD's budget.

REPRESENTATIVE PECK asked who they worked with on rate reduction and **Mr. Trevor** answered that it is with the staff that is monitoring and tracking budgets, calculate costs and work with the budget office.

REPRESENTATIVE PECK asked if they have the authority internally to adjust rates and **Mr. Trevor** said this is only the 3rd session where they have been asked to project rates ahead.

REPRESENTATIVE SWYSGOOD said they work the budget then find in the next session something is done beyond the authority of the budget, and he felt it did not end.

Mick Robinson, Department of Justice (821) said they rely tremendously on the back up of the ISD and said recently they had been forced to put in a network in the Attorney General's office. He said they have not seen savings in the operating budget but have been able to do more work with the present clerical staff. He said this has probably resulted in not requesting 2 FTE for the next biennium since the work is more efficient .

Some discussion was held on the WANG system in the Sec. of State's office and **Mr. Trevor** said he has a copy of his recommendation to them at the time which stated it should not be purchased pointing out what would--and did--go wrong but they had

bought it anyway.

REPRESENTATIVE CODY asked about the different utilization rates by the different agencies and was told they could not give accurate information about each user, the network cost is \$40 per PC (930).

Mrs. Cohea distributed **EXHIBIT 4, Budget Basics**. She referred to this sheet and the starred items as major differences in the two budgets. Many of the staple items in the category of food as well as gasoline and medical expenses were based on different years. She mentioned electricity as one that the LFA had discussed with Montana Power, Montana Dakota Utilities, the Public Service Commission, etc., and felt they had a more accurate projection of cost for the next biennium. In-depth study had also been made on other items. She also distributed **EXHIBIT 5** and discussed the tables as well as the difference in the fiscal year base used between the two budgets on the items with major differences.

REPRESENTATIVE SWYSGOOD asked if the OBPP was going on the '91 base, wouldn't it have reflected the increase in travel and **Mrs. Cohea** said it is the appropriated '91 base which you appropriated in '89.

Mr. Rod Sunsted, Budget Director, asked if there would be a further meeting to go through the budget and decide which way the subcommittees were going so there wasn't a different direction for each. **CHAIRMAN BARDANOUVE** said they would try to get a meeting as soon as possible, and suggested a meeting with the subcommittee chairpersons. **Mr. Sunsted** said because of the difference in what is being used as a base he felt it was important to realize that what is done on (for instance) inflation on utilities doesn't necessarily mean that we will go out and make that adjustment in the Governor's budget. He felt it was important that, once decided what will be done with utilities, then the LFA and the OBPP can go back and decide what the issue is to that subcommittee. They used the appropriated base and allowed agencies to reallocate the money among the items in that base and in some cases agencies may have a down sizing. In MDC, they purposely lowered their utilities because they plan to consolidate part of their campus on one side of the river or at least lower the number of cottages they have. He said when the committee decides what they are going to do on inflation, it is not as simple as just going out and changing it in their budget because they had done some reallocations.

ADJOURNMENT

Adjournment: 1:22 p.m.

HOUSE APPROPRIATIONS COMMITTEE

January 11, 1991

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FRANCIS BARDANOUE, Chairman


Sylvia Kinsey, Secretary

FB/sk

HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE

ROLL CALL

DATE 4/11/91

NAME	PRESENT	ABSENT	EXCUSED
REP. FRANCIS BARDANOUVE, CHAIRMAN	✓		
REP. RAY PECK, VICE-CHAIRMAN	✓		
REP. DOROTHY BRADLEY	✓		
REP. JOHN COBB			
REP. DOROTHY CODY	✓		
REP. MARY ELLEN CONNELLY	✓		
REP. ED GRADY			
REP. LARRY GRINDE	✓		
REP. JOHN JOHNSON	✓		
REP. MIKE KADAS	✓		
REP. BERV KIMBERLEY	✓		
REP. WM. "RED" MENAHAN	✓		
REP. JERRY NISBET	✓		
REP. MARY LOU PETERSON	✓		
REP. JOE QUILICI	✓		
REP. CHUCK SWYSGOOD	✓		
REP. BOB THOFT	✓		
REP. TOM ZOOK	✓		

CS05APP.MAN



TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

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EXHIBIT 1
DATE 1/11/91
Inf. meeting

January 11, 1991

TO: House Appropriations Committee
FROM: Teresa Olcott Cohea
Legislative Fiscal Analyst
SUBJECT: Fixed Costs and Inflation factors

Following is a summary of the differences in inflation factors used by OBPP and LFA in preparing the 1993 biennium budgets.

FIXED COSTS

OBPP and LFA used the same fixed costs for:

2104 Insurance and Bonds

2114 Payroll processing

2307 Messenger service

2527 Department of Administration rent

OBPP and LFA used very comparable rates for Grounds Maintenance (2770). OBPP used a fixed cost rate of \$0.275/square foot for both fiscal years 1992 and 1993. LFA used an inflation rate that yielded a \$0.274/square foot rate for both years.

The only significant difference in fixed costs is in legislative audit fees (2122). The Executive Budget includes \$201,419 for the biennium for 4.5 additional FTE that the Legislative Auditor is requesting in a budget modification. Because the legislature has not yet approved this budget modification, this cost is not included in the LFA current level audit fees

for the 1993 biennium. The total audit fees included in each budget is shown below.

TABLE 1 Total Audit Fees		
	Fiscal Year 1992	Fiscal Year 1993
OBPP	\$1,324,106	\$1,324,084
LFA	1,223,400	1,223,371

INFLATION FACTORS

Attachment A shows each expenditure item for which the LFA and OBPP used different inflation factors. The LFA applied these inflation factors to fiscal 1990 expenditures. In general, OBPP applied inflation factors to the fiscal 1991 appropriation. For food and some utilities, it used the fiscal 1990 expenditure base.

Since the subcommittees have agreed to use fiscal 1990 as the base for considering budgets, any inflation factors that are selected will need to be calculated on a fiscal 1990 base.

Food

OBPP used the food component of the Consumer Price Index (CPI) as reported in Wharton Econometrics. LFA used the Wharton Econometrics implicit price deflator for food items.

OBPP applied this inflation factor to fiscal year 1990 expenditures of certain food items in selected agencies. No inflation factor was applied to food items in other agencies. LFA applied the inflation factor to all food items in all agencies.

Oil-related Products

The Executive Budget's inflation factors are based on oil prices of \$23.88/bbl. in fiscal 1992 and \$21.88/bbl. in fiscal 1993.

The LFA current level used the following prices per barrel in estimating revenue collections and inflation factors for oil-based products: \$23.729 in calendar 1991; \$21.60 in calendar 1992; and \$21.227 in calendar 1993.

As a benchmark, the LFA prices were based on gasoline pump prices (excluding federal tax) of \$1.01/gallon in fiscal year 1990. The inflation factors anticipate average pump prices (exclusive of federal tax) of \$1.19 in fiscal year 1992 and \$1.12 in fiscal year 1993. The state is exempt from the federal gas tax.

Utilities

Because anticipated (and budgeted) increases in utility costs between fiscal 1990 and fiscal 1991 did not occur, OBPP included deflation factors for Montana Power Company (MPC) electricity rates during the 1993 biennium when applied to the fiscal 1991 appropriation. [The 1989 legislature included inflationary adjustments for fiscal 1991 of 6.4 percent for Montana Power Company electricity and zero for Montana Dakota Utilities (MDU) electricity.] Table 2 compares the inflation rates for utilities, adjusted to the fiscal 1990 base. As the table shows, OBPP's inflation factors for utilities are substantially lower than the LFA inflation factors.

<div>TABLE 2</div> <div>Comparison of Utility Inflation Rates</div> <div>Applied to FY90 Base</div> <div>(Percent)</div>				
Expenditure Item	---FY90/FY92---		---FY90/FY93---	
	OBPP	LFA	OBPP	LFA
MPC Electricity	2.47%	6.43%	(2.83)%	7.49%
MPC Natural Gas	4.90	6.59	7.94	11.39
MDU Electricity	2.87	6.43	2.87	7.49
MDU Natural Gas	4.41	6.59	8.85	11.39

The inflationary factors used in the LFA current level budget are based on historical information from the Public Service Commission and forecast data provided by the utility companies. The inflation factor for MPC electricity reflects the \$30.5 million interim rate increase approved in August 1990, and the scheduled decreases for the Colstrip 3 phase-in. MPC has requested a \$60 million permanent rate increase effective during the 1993 biennium. While the major restructuring in natural gas utility pricing that will take place during the next several years makes forecasting for this item difficult, the LFA inflation factors reflect an expected increase in natural gas prices in the 1993 biennium.

Travel

Section 2-18-503, MCA, requires that mileage reimbursements for legislators and state employees be based on rates established by the Internal Revenue Service (IRS). The LFA inflation factor for personal car mileage (2401 and 2411) is based on the IRS rate for calendar 1991. This per mile rate has increased from fiscal 1990 levels: calendar year 1989-\$0.24; calendar year 1990-\$0.255; and calendar year 1991-\$0.26. OBPP included no inflation factor for these expenditure items.

In fiscal 1991, state motor pool rates increased from 3.4 to 16.6 percent (depending on vehicle type) to fund replacement of a large portion of the fleet. Depreciation costs will decline during the 1993 biennium, as the program plans to purchase fewer vehicles. The LFA inflation factor for motor pool rates assumes that rates will return to the fiscal 1990 level, due to the net impact of gasoline price increases and reduced depreciation costs. OBPP used a deflation factor for motor pool rates, since it uses fiscal 1991 appropriations as its base.

Shown below are actual motor pool rates as published by the Department of Highways for these years.

TABLE 3
Rate Per Mile

Class No.	Description	Fiscal Year 1990	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993
02	Utility 4x4's	.2913	.3013	.2609	.3430
05	Sub-Compacts Cars	.1942	.2205	.2030	.2043
06	Compacts Cars	.2044	.2365	.2256	.2225
07	Pickups	.2444	.2551	.2189	.2457
12	Vans, All Types	.3051	.3556	.3181	.3538

Supplies

LFA rates for coarse paper (2211), forms (2219), fine paper (2226), and office supplies (2236) are based on the estimates provided by Department of Administration Purchasing Division staff to OBPP. OBPP used lower inflation factors.

Miscellaneous

OBPP and LFA used identical inflation factors for most medical-related items. However, OBPP did not apply an inflation factor to Medical Service (2116), while LFA did.

BUDGET INFLATION/(DEFLATION) FACTORS
(Percent)-Exhibit # 1
1/11/91 Info. Mtg

-----OBFP-----

-----LFA-----

Exp. Code	Name	FY1991/FY1992	FY1991/FY1993	FY1990/FY1992	FY1990/FY1993
<u>FOOD</u>					
2205	FOOD*	7.44	11.80	8.52	13.01
2251	MEAT*	7.44	11.80	8.52	13.01
2252	DAIRY*	7.44	11.80	8.52	13.01
2253	PRODUCE*	7.44	11.80	8.52	13.01
2254	BAKERY*	7.44	11.80	8.52	13.01
2264	GROCERY*	7.44	11.80	8.52	13.01
2275	POULTRY*	7.44	11.80	8.52	13.01
2277	SUGAR*	7.44	11.80	8.52	13.01
2278	BEVERAGES*	7.44	11.80	8.52	13.01
2279	RED MEAT*	7.44	11.80	8.52	13.01
2288	CANNED GOODS	7.44	11.80	8.52	13.01
2289	FOOD STAPLES	0.00	0.00	8.52	13.01
2291	SEA FOOD*	7.44	11.80	8.52	13.01
2292	PORK*	7.44	11.80	8.52	13.01
<u>OIL-RELATED PRODUCTS</u>					
2216	GASOLINE	15.60	14.90	17.86	10.67
2242	DIESEL FUEL	15.60	14.90	17.86	10.67
2602	FUEL OIL	15.60	14.90	17.86	10.67
2604	LAB GAS	0	0	6.59	11.39
2607	PROPANE	0	0	6.59	11.39
2724	OIL	15.60	14.90	17.86	10.67
2725	TRANSMISSION FLUID	15.60	14.90	0.00	0.00
2726	GREASE AND LUBE	15.60	14.90	0.00	0.00
2732	PAINT-TRAFFIC LANE	15.60	14.90	17.86	10.67
2738	ROAD OIL	15.60	14.90	17.86	10.67
2742	OIL MIXED MATERIALS	15.60	14.90	17.86	10.67
<u>UTILITIES</u>					
2601	ELECTRICITY MDU	2.87	2.87	6.43	7.49
2601	ELECTRICITY MPC	(3.70)	(8.68)	6.43	7.49
2603	NATURAL GAS	3.99	8.42	6.59	11.39
<u>TRAVEL</u>					
2401	IN-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2404	MOTOR POOL TRAVEL	(10.12)	(0.72)	0.00	0.00
2411	OUT-OF-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2414	OUT-OF-STATE MOTOR POOL	(10.12)	(0.72)	0.00	0.00
<u>SUPPLIES</u>					
2211	COARSE PAPER	6.00	12.00	18.76	18.56
2219	FORMS	6.00	12.00	2.40	(1.57)
2226	FINE AND COMPUTER PAPER	6.00	12.50	20.47	19.82
2236	OFFICE SUPPLIES	(3.00)	(2.00)	0.99	(1.34)
<u>MISCELLANEOUS</u>					
2116	MEDICAL SERVICES	0.00	0.00	6.20	12.89

*OBFP applied inflation to FY 1990 actual expenditures of selected agencies for commodities.



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EXHIBIT 2
DATE 1/11/91
Inf. Mtg

January 10, 1991

TO: House Appropriations Committee
FROM: Teresa Olcott Cohea *TC*
Legislative Fiscal Analyst
RE: Background for 1/11/91 Committee Meeting

On Friday, January 11, the House Appropriations Committee will meet on adjournment to discuss inflation factors and fixed costs to be used in the 1993 biennium budgets.

One of the topics will be the Department of Administration's proposed budget modification for expansion of the computer network system. The Executive Budget included the cost of this budget modification in the computer fixed cost rates and inflation factors in state agencies' budgets. Since this budget modification has not yet been approved by the legislature, the computer fixed cost rates and inflation factors used in preparing the LFA current level budget do not include this cost.

Enclosed is some background information on this issue. At tomorrow's meeting, the Department of Administration will make a presentation on the budget modification request and its impact on fixed costs and inflation factors.

Please contact our office if we can be of any assistance.

TC3B:pe:AC1-10.mem
Enclosure

INFORMATION SERVICES DIVISION

Table 10
Emergency 911

<u>Budget Item and Fund Estimates</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level---- Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	2.00	2.00	2.00	0.00
Personal Services	\$72,977	\$75,971	\$75,856	4.10%
Operating Expenses	<u>6,557</u>	<u>2,635</u>	<u>3,890</u>	<u>-59.81%</u>
Total Costs	\$79,534	\$78,606	\$79,746	-1.17%
Funding Source				
Proprietary Funds	\$79,534	\$78,606	\$79,746	-1.17%
Total 25 Cent Tax Revenue	\$1,090,964	\$1,122,942	\$1,139,227	2.93%
Seven Percent of Total Revenue	\$76,367	\$78,606	\$79,746	2.93%

The Emergency 911 program manages the statewide emergency telephone number program. The program is funded from a portion of the monthly 25 cent fee assessed on telephone subscribers across the state. The program may expend 7.0 percent of the quarterly fee collections or actual expenses, whichever is less, to administer this activity. For budgeting purposes, it is assumed that revenue is generated in equal quarterly installments, although that has not always happened. Current level assumes that the assessment will generate \$1,122,942 in fiscal 1992 and \$1,139,227 in fiscal 1993. Seven percent of that amount is \$78,606 and \$79,746 respectively.

The fiscal 1992 budget is 1.1 percent lower than the fiscal 1990 actual expenditures in order to stay within the seven percent limit. The program expended \$3,167 more than the seven percent allocation of the phone tax revenue in fiscal 1990. The program used funds from the computer services operation to cover the shortfall.

Issue

Expansion of Network Services

The Executive Budget includes a modified request of \$1.6 million in proprietary authority and 3.0 FTE over the biennium (in addition to current level services of about \$1 million) to fund the purchase, installation, and support of local area networks (LAN's) and to install a buried cable in the capitol complex to link some agencies to the mainframe computer. A LAN is a combination of hardware, software, and wiring connections that allows a number of personal computers to share software and data and to communicate with each other. Depending on the wiring configuration, typically up to 72 terminals or PC's can be reside on one LAN. A LAN can be linked to the statewide data network (SNA), thereby providing each LAN terminal with access to mainframe software and processing capabilities. LAN's can also be hooked together, allowing agencies or divisions and bureaus within an agency to share software applications and data.

INFORMATION SERVICES DIVISION

In order to fund expanded services and to make the network services self-supporting, the Executive Budget includes \$2.8 million generated by charges to agencies. The proposed changes are \$40 per PC per month and \$30 per "dumb" terminal for every work station in every agency, regardless of whether the stations are networked or can ever be networked. Two rate reductions, totalling \$1.5 million, offset about 53 percent of the network rate increase: 1) a 12 percent reduction in mainframe processing charges; and 2) discontinuation of the optional subscription fee of \$20 per month per PC for support services and reduced training costs. Table 11 shows the estimated cost increases and rate reductions included in the current level Executive Budget.

Table 11
Increases and Decreases Included in the
Current Level Executive Budget to
Fund Network Services

<u>Cost</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Increases		
Network Fees	\$1,429,859	\$1,432,058
Decreases		
Computer Processing	\$524,585	\$524,585
Subscription Fees	<u>228,532</u>	<u>228,091</u>
Subtotal	\$753,117	\$752,676
Overall Net Increase	\$676,742	\$679,382
Biennial Increase		\$1,356,124

During the 1991 biennium, the division experienced a dramatic increase in the number of agencies requesting installation and maintenance of LAN's and connection of LAN's to the statewide network (SNA). In addition, several inexpensive LAN hardware packages came on the market, allowing agencies the

capability to network PC's at a lower cost.

In order to encourage the installation of standard software and hardware in all state agencies, ISD decided to subsidize the cost of network components for agencies. Also, the division did not want to implement a new rate structure as agency budgets were already in place. The division believes that it is less expensive in the long run to install compatible hardware and software initially, than to try to replace and standardize LAN components after agencies have installed a variety of different LAN's which are not compatible. ISD equates the decision to encourage standardization of LAN's to installation of the same phone system in all state agencies.

The statewide LAN standard selected by ISD was more expensive than some of the other options being considered by agencies. The pricing policy evolved throughout the biennium, with ISD gradually increasing installation and ongoing service charges by requiring agencies to pay costs established in the ISD 1991 biennium rate structure for installation services, SNA charges, and subscription fees. However, ISD still funds the capital investment, on average \$620 per machine for terminals connected to LAN's and \$920 for terminals hooked to LAN's and the SNA. Agencies with LAN's pay \$20 per month per machine to ISD and pay other monthly charges if the LAN's are connected to the SNA. Agencies also pay actual installation charges which average \$150 per machine to cover the wiring costs.

ISD debt-financed about \$1.1 million of LAN components from February 1989 through January 1990. The term of the debt was scheduled to coincide with the depreciated life of such components. During fiscal 1990, the amount of revenue collected by network services was inadequate to cover the cost of the operation (see Table 12), according to data prepared by the division. Although network services generated the second highest amount of revenue deposited in the computer services proprietary account, it still needed a subsidy of

INFORMATION SERVICES DIVISION

\$871,625 from computer processing income to break even.

Table 12
Comparison of Income and Expenses for Computer Services Account
Information Services Division
Fiscal 1990

Service Type	Income by Service	Expense by Service	Income Over (Under) Expenses	Percent Income-Expense Over or (Under)	Percent of Total Income
Computer Processing	\$4,608,414	\$3,500,761	\$1,107,653	31.64	59.02
Network Services	991,856	1,863,481	(871,625)	(46.77)	12.70
Systems Development	649,485	732,262	(82,777)	(11.30)	8.32
Justice Computer (Armory Computer)	523,002	530,224	(7,222)	(1.36)	6.70
Subscriptions	237,971	345,539	(107,568)	(31.13)	3.05
Data Entry	224,554	286,259	(61,705)	(21.56)	2.88
Computer Generated Microfilm	144,619	101,467	43,152	42.53	1.85
Conventional Microfilm	135,167	142,918	(7,751)	(5.42)	1.73
Records Storage	121,399	111,405	9,994	8.97	1.55
Training	90,884	138,303	(47,419)	(34.29)	1.16
Laser Print	29,970	35,148	(5,178)	(14.73)	0.38
Pool Equipment	29,135	51,664	(22,529)	(43.61)	0.37
Job Submission to the Mainframe Computer	21,498	49,357	(27,859)	(56.44)	0.28
Other	(205,909)	(2,138)	(203,771)		
Total	\$7,602,045	\$7,886,650	\$(284,605)	(3.61)	100.00

Note: Information prepared by ISD.

House Bill 100 directs the department to develop a cost recovery plan. The intent of the legislature is that the cost of each service should be fully recovered through the rate charged for each service. As shown in table 12, only three services funded from the computer services proprietary account fully recovered costs in fiscal 1990. The legislature may wish to direct the division to prepare documentation for review regarding the adequacy of each service rate, the amount of revenue expected to be generated, and the proposed budget for the relevant service. Preliminary ISD estimates of network fee revenue shows that computer processing income is expected to continue to fund about \$600,000 or 20 percent of network expenditures in

fiscal 1992 and about \$121,000 or four percent of network costs in fiscal 1993.

Executive Budget Modifications

Armory Computer Upgrade

This Executive Budget includes \$200,000 in proprietary funds over the biennium to upgrade the computer which runs programs for the Department of Justice. Two systems are run on the computer--the Criminal Justice Information Network and the Montana Motor Vehicle Registration System. The processing workload is growing at a rate expected to exceed the system capabilities. The modified budget would fund the purchase of a

3

EXHIBIT 2
DATE 1/11/91
HB Inf Mfg

BENEFITS OF AUTOMATION

As agency budgets are reviewed and it's noticed that their information services expenditure plans continue to grow, the question will be asked, do the benefits of automation justify these expenditures? To help answer this question, this document makes the point that benefits from automation come in many forms.

In general, the use of computers and automated systems can yield these kinds of benefits:

- . **Provide cost avoidance/reduction -**
Automation performs the functions previously done manually for less cost and/or with fewer people. Also, the unit cost of computing, whether it's on the central mainframe or a PC workstation, is constantly decreasing. (Example: the Highway Department justified their CADD system on the basis of reducing a substantial number of FTE's.)
- . **Perform functions or tasks that were not, or could not, be done manually -**
Some tasks are too complex to be performed manually; some are too time consuming or repetitive to be practical if attempted manually. (Example: the ability to access 1.3-million records in the Motor Vehicle Registration file by license plate number, V.I.N., or registered owner.)
- . **Improve availability of information -**
Data and information are made available in a more timely manner which benefits the organization, the end-user, and ultimately the public. Data can be shared and compared among agencies more easily. (Examples: Legislative Council's Bill Status system provides timely information on the status of legislative bills, and libraries sharing resources throughout Montana.)
- . **Improve the quality of information -**
Improved accuracy and the elimination of errors saves the State big bucks. (Example: SRS TEAMS System will minimize welfare overpayments.)
- . **Improve the productivity of state workers -**
Many workers and managers are able to take on additional workloads because they make more efficient and effective use of their time with computer systems and office automation. (Example: Spreadsheets, Word-processing, Electronic Mail and On-line systems in general.)

Today's automation projects are seldom justified on the basis of direct replacement of FTE's. However, the avoidance of additional FTE's occurs frequently. Typically, automation projects are justified by their ability to provide a combination of the benefits listed above. It's not uncommon to see the implementation of these systems change the business processes within the user agency.

The Department of Administration proposal for:
CENTRALIZED CONTROL AND MANAGEMENT OF DATA NETWORKS

Pros

- o The data network will be managed and supported in a manner similar to the state telephone network which will provide many benefits and opportunities, such as:
 1. Workstations will all be connected in a standard way.
 2. Central network control services will provide coordinated changes, diagnose communication problems and guarantee system availability (ie, keep the system up).
 3. Agencies can concentrate their Data Processing resources on development and support of applications.
 4. Standard interfaces to other networks can be established and supported in one place for the use of all agencies.
 5. Budgeting for workstation connectivity will be simplified.
- o Costs for the state as a whole will be less with a central approach. Note: network related costs will also be more visible--there will be better accountability.
- o A single data network concept will help achieve a "one company" perspective in state government.
- o Moves and reorganizations in government will be streamlined because data communication facilities are interchangeable.
- o Standards will be much easier to enforce due to the inherent control that comes with centralized ownership and management of a statewide system.
- o Statewide administrative systems such as electronic budgeting, pre-payroll, and electronic mail will be much easier to implement and maintain when utilizing multiple platforms of computing capability (ie, PC's front-ending mainframe applications).
- o The State will avoid the extremely high (perhaps prohibitive) cost of converting to a statewide network in the future.

Cons

- o Agencies lose some control of what they perceive to be their own data processing resources (ie, LAN's).
- o Central support can often be viewed as less responsive to agency needs.
- o Costs are averaged, which makes budgeting easier, but creates an inequity for the user who does very little communicating when compared to the heavy user of the system.
- o Recruitment and retention of highly skilled support people will be a critical problem for ISD to overcome if we are to provide the level of support expected by the agencies.

The other alternative:

DECENTRALIZED CONTROL AND MANAGEMENT OF NETWORKS

Pros

- o Agencies will be in control of all of their data processing resources including their LAN's.
- o In many instances agencies will experience short-term savings, some of which will come from low-cost substitutes for the standard components.
- o ISD will not need to increase its budget for data networks.

Cons

- o Over time, the cost to the state will actually be greater than the centralized approach, due to needless duplication and proliferation of unshared network resources.
- o Agencies will be hiring more of their own in-house network expertise.
- o Implementation and ongoing support of statewide administrative computer applications will be much more difficult and costly for the implementing agency.
- o Adherence to standards which will improve compatibility and connectivity will be very difficult for the State to influence or even monitor, and impossible to control.
- o Centralized network control functions, including coordinating changes, problem resolution and diagnostic services, will be less effective, and in many cases, unavailable. The result will be much less reliable data communications for the agencies.
- o Implementation of multi-platform applications will be inhibited by any slight variation in network and workstation standards.
- o The "one company" image will be more difficult to achieve.
- o The cost effectiveness of the statewide SNA network will be eroded as agencies devise their own low-cost means for providing peer-to-peer (ie, any computer to any other computer) communications for their own needs.
- o The cost of changing to a uniform, centrally managed statewide data network in the future will be very expensive--California has implemented a \$50 per month per workstation charge just to cover costs of inter-operability between separate networks. This is in addition to all other ongoing network costs.

DATA NETWORK CONSOLIDATION PROPOSAL
IMPACT ON AGENCY BUDGETS OF CONSOLIDATION AND
PROCESSING RATE DECREASES
IN FY 92 AND FY 93

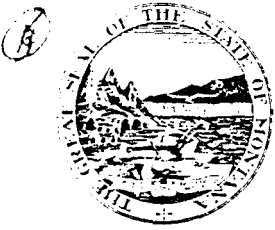
COST CATEGORY	FY92	FY93
INCREASED NETWORK FEES (\$40.00 AND \$30.00 rates)	\$1,429,859	\$1,432,058
DECREASE COMPUTER PROCESSING CHARGES (8% each year due to consolidation)	(524,585)	(524,585)
ELIMINATE SUBSCRIPTION FEES (consolidation related)	<u>(228,532)</u>	<u>(228,091)</u>
NET INCREASES DUE TO NETWORK FEES	676,742	679,382
DECREASE COMPUTER PROCESSING CHARGES (normal rate reduction, 11% and 19%)	<u>(720,000)</u>	<u>(1,348,000)</u>
ANNUAL DECREASE IN AGENCY BUDGETS (all rate changes considered)	<u>\$(43,258)</u>	<u>\$(678,618)</u>
BIENNIAL DECREASE IN AGENCY BUDGETS		<u>\$(721,876)</u>

DATE 7/11/91
by mtg

BUDGET BASICS

Table 2
 Budget Inflation/(Deflation) Factors
 (Percent)

Exp. Code	Name	-----OBPP-----		-----LFA-----	
		FY1991/FY1992	FY1991/FY1993	FY1990/FY1992	FY1990/FY1993
2116	MEDICAL SERVICES	0	0	6.20	12.89
2163	Typesetting	2.00	2.00	2.00	2.00
2172	COMPUTER PROCESSING	(19.00)	(27.00)	(7.00)	(15.00)
2175	System Development	3.00	6.00	3.00	6.00
2177	INFORMATION CENTER	7.00	14.00	0.00	0.00
2183	Operation Support	(14.50)	(14.50)	(14.50)	(14.50)
2190	Printing/P&G	2.00	4.00	2.00	4.00
2191	Printing/Other Provider	4.00	8.00	4.00	8.00
2192	Graphic Arts	2.00	2.00	2.00	2.00
2193	Photocopy Pool Services	6.00	12.00	6.00	12.00
2205	FOOD*	7.44	11.80	8.52	13.01
2209	Medical	6.20	12.89	6.20	12.89
2211	COARSE PAPER	6.00	12.00	18.76	18.56
2216	GASOLINE	15.60	14.90	17.86	10.67
2219	FORMS	6.00	12.00	2.40	(1.57)
2222	Drugs	6.20	12.89	6.20	12.89
2223	X-Rays	6.20	12.89	6.20	12.89
2225	Books/Reference Materials	5.30	10.57	5.30	10.57
2226	FINE AND COMPUTER PAPER	6.00	12.00	20.47	19.82
2236	OFFICE SUPPLIES	(3.00)	(2.00)	0.99	(1.34)
2242	Diesel Fuel	15.60	14.90	17.86	10.67
2249	EKG and EEG Supplies	6.20	12.89	6.20	12.89
2250	Hospital	6.20	12.89	6.20	12.89
2251	MEAT*	7.44	11.80	8.52	13.01
2252	DAIRY*	7.44	11.80	8.52	13.01
2253	PRODUCE*	7.44	11.80	8.52	13.01
2254	BAKERY*	7.44	11.80	8.52	13.01
2256	Janitorial Supplies	6.00	12.00	6.00	12.00
2264	GROCERY*	7.44	11.80	8.52	13.01
2265	Misc. Medications	6.20	12.89	6.20	12.89
2275	POULTRY*	7.44	11.80	8.52	13.01
2277	SUGAR*	7.44	11.80	8.52	13.01
2278	BEVERAGES*	7.44	11.80	8.52	13.01
2279	RED MEAT*	7.44	11.80	8.52	13.01



TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

STATE OF MONTANA
Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406-444-2986

EXHIBIT 5
DATE 4/11/91
BY huf mtg

January 11, 1991

TO: House Appropriations Committee
FROM: Teresa Olcott Cohea
Legislative Fiscal Analyst

SUBJECT: Fixed Costs and Inflation factors

Following is a summary of the differences in inflation factors used by OBPP and LFA in preparing the 1993 biennium budgets.

FIXED COSTS

OBPP and LFA used the same fixed costs for:

2104 Insurance and Bonds

2114 Payroll processing

2307 Messenger service

2527 Department of Administration rent

OBPP and LFA used very comparable rates for Grounds Maintenance (2770). OBPP used a fixed cost rate of \$0.275/square foot for both fiscal years 1992 and 1993. LFA used an inflation rate that yielded a \$0.274/square foot rate for both years.

The only significant difference in fixed costs is in legislative audit fees (2122). The Executive Budget includes \$201,419 for the biennium for 4.5 additional FTE that the Legislative Auditor is requesting in a budget modification. Because the legislature has not yet approved this budget modification, this cost is not included in the LFA current level audit fees

for the 1993 biennium. The total audit fees included in each budget is shown below.

TABLE 1 Total Audit Fees		
	Fiscal Year 1992	Fiscal Year 1993
OBPP	\$1,324,106	\$1,324,084
LFA	1,223,400	1,223,371

INFLATION FACTORS

Attachment A shows each expenditure item for which the LFA and OBPP used different inflation factors. The LFA applied these inflation factors to fiscal 1990 expenditures. In general, OBPP applied inflation factors to the fiscal 1991 appropriation. For food and some utilities, it used the fiscal 1990 expenditure base.

Since the subcommittees have agreed to use fiscal 1990 as the base for considering budgets, any inflation factors that are selected will need to be calculated on a fiscal 1990 base.

Food

OBPP used the food component of the Consumer Price Index (CPI) as reported in Wharton Econometrics. LFA used the Wharton Econometrics implicit price deflator for food items.

OBPP applied this inflation factor to fiscal year 1990 expenditures of certain food items in selected agencies. No inflation factor was applied to food items in other agencies. LFA applied the inflation factor to all food items in all agencies.

Oil-related Products

The Executive Budget's inflation factors are based on oil prices of \$23.88/bbl. in fiscal 1992 and \$21.88/bbl. in fiscal 1993.

The LFA current level used the following prices per barrel in estimating revenue collections and inflation factors for oil-based products: \$23.729 in calendar 1991; \$21.60 in calendar 1992; and \$21.227 in calendar 1993.

As a benchmark, the LFA prices were based on gasoline pump prices (excluding federal tax) of \$1.01/gallon in fiscal year 1990. The inflation factors anticipate average pump prices (exclusive of federal tax) of \$1.19 in fiscal year 1992 and \$1.12 in fiscal year 1993. The state is exempt from the federal gas tax.

Utilities

Because anticipated (and budgeted) increases in utility costs between fiscal 1990 and fiscal 1991 did not occur, OBPP included deflation factors for Montana Power Company (MPC) electricity rates during the 1993 biennium when applied to the fiscal 1991 appropriation. [The 1989 legislature included inflationary adjustments for fiscal 1991 of 6.4 percent for Montana Power Company electricity and zero for Montana Dakota Utilities (MDU) electricity.] Table 2 compares the inflation rates for utilities, adjusted to the fiscal 1990 base. As the table shows, OBPP's inflation factors for utilities are substantially lower than the LFA inflation factors.

<p style="text-align: center;">TABLE 2 Comparison of Utility Inflation Rates Applied to FY90 Base (Percent)</p>				
Expenditure Item	---FY90/FY92---		---FY90/FY93---	
	OBPP	LFA	OBPP	LFA
MPC Electricity	2.47%	6.43%	(2.83)%	7.49%
MPC Natural Gas	4.90	6.59	7.94	11.39
MDU Electricity	2.87	6.43	2.87	7.49
MDU Natural Gas	4.41	6.59	8.85	11.39

The inflationary factors used in the LFA current level budget are based on historical information from the Public Service Commission and forecast data provided by the utility companies. The inflation factor for MPC electricity reflects the \$30.5 million interim rate increase approved in August 1990, and the scheduled decreases for the Colstrip 3 phase-in. MPC has requested a \$60 million permanent rate increase effective during the 1993 biennium. While the major restructuring in natural gas utility pricing that will take place during the next several years makes forecasting for this item difficult, the LFA inflation factors reflect an expected increase in natural gas prices in the 1993 biennium.

Travel

Section 2-18-503, MCA, requires that mileage reimbursements for legislators and state employees be based on rates established by the Internal Revenue Service (IRS). The LFA inflation factor for personal car mileage (2401 and 2411) is based on the IRS rate for calendar 1991. This per mile rate has increased from fiscal 1990 levels: calendar year 1989-\$0.24; calendar year 1990-\$0.255; and calendar year 1991-\$0.26. OBPP included no inflation factor for these expenditure items.

In fiscal 1991, state motor pool rates increased from 3.4 to 16.6 percent (depending on vehicle type) to fund replacement of a large portion of the fleet. Depreciation costs will decline during the 1993 biennium, as the program plans to purchase fewer vehicles. The LFA inflation factor for motor pool rates assumes that rates will return to the fiscal 1990 level, due to the net impact of gasoline price increases and reduced depreciation costs. OBPP used a deflation factor for motor pool rates, since it uses fiscal 1991 appropriations as its base.

Shown below are actual motor pool rates as published by the Department of Highways for these years.

TABLE 3
Rate Per Mile

Class No.	Description	Fiscal Year 1990	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993
02	Utility 4x4's	.2913	.3013	.2609	.3430
05	Sub-Compacts Cars	.1942	.2205	.2030	.2043
06	Compacts Cars	.2044	.2365	.2256	.2225
07	Pickups	.2444	.2551	.2189	.2457
12	Vans, All Types	.3051	.3556	.3181	.3538

Supplies

LFA rates for coarse paper (2211), forms (2219), fine paper (2226), and office supplies (2236) are based on the estimates provided by Department of Administration Purchasing Division staff to OBPP. OBPP used lower inflation factors.

Miscellaneous

OBPP and LFA used identical inflation factors for most medical-related items. However, OBPP did not apply an inflation factor to Medical Service (2116), while LFA did.

-----OBPP-----

-----LFA-----

Exp. Code	Name	FY1991/FY1992	FY1991/FY1993	FY1990/FY1992	FY1990/FY1993
<u>FOOD</u>					
2205	FOOD*	7.44	11.80	8.52	13.01
2251	MEAT*	7.44	11.80	8.52	13.01
2252	DAIRY*	7.44	11.80	8.52	13.01
2253	PRODUCE*	7.44	11.80	8.52	13.01
2254	BAKERY*	7.44	11.80	8.52	13.01
2264	GROCERY*	7.44	11.80	8.52	13.01
2275	POULTRY*	7.44	11.80	8.52	13.01
2277	SUGAR*	7.44	11.80	8.52	13.01
2278	BEVERAGES*	7.44	11.80	8.52	13.01
2279	RED MEAT*	7.44	11.80	8.52	13.01
2288	CANNED GOODS	7.44	11.80	8.52	13.01
2289	FOOD STAPLES	0.00	0.00	8.52	13.01
2291	SEA FOOD*	7.44	11.80	8.52	13.01
2292	PORK*	7.44	11.80	8.52	13.01
<u>OIL-RELATED PRODUCTS</u>					
2216	GASOLINE	15.60	14.90	17.86	10.67
2242	DIESEL FUEL	15.60	14.90	17.86	10.67
2602	FUEL OIL	15.60	14.90	17.86	10.67
2604	LAB GAS	0	0	6.59	11.39
2607	PROPANE	0	0	6.59	11.39
2724	OIL	15.60	14.90	17.86	10.67
2725	TRANSMISSION FLUID	15.60	14.90	0.00	0.00
2726	GREASE AND LUBE	15.60	14.90	0.00	0.00
2732	PAINT-TRAFFIC LANE	15.60	14.90	17.86	10.67
2738	ROAD OIL	15.60	14.90	17.86	10.67
2742	OIL MIXED MATERIALS	15.60	14.90	17.86	10.67
<u>UTILITIES</u>					
2601	ELECTRICITY MDU	2.87	2.87	6.43	7.49
2601	ELECTRICITY MPC	(3.70)	(8.68)	6.43	7.49
2603	NATURAL GAS	3.99	8.42	6.59	11.39
<u>TRAVEL</u>					
2401	IN-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2404	MOTOR POOL TRAVEL	(10.12)	(0.72)	0.00	0.00
2411	OUT-OF-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2414	OUT-OF-STATE MOTOR POOL	(10.12)	(0.72)	0.00	0.00
<u>SUPPLIES</u>					
2211	COARSE PAPER	6.00	12.00	18.76	18.56
2219	FORMS	6.00	12.00	2.40	(1.57)
2226	FINE AND COMPUTER PAPER	6.00	12.50	20.47	19.82
2236	OFFICE SUPPLIES	(3.00)	(2.00)	0.99	(1.34)
<u>MISCELLANEOUS</u>					
2116	MEDICAL SERVICES	0.00	0.00	6.20	12.89

*OBPP applied inflation to FY 1990 actual expenditures of selected agencies for commodities.

VISITORS' REGISTER

COMMITTEE

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Y 11/91

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~~REPRESENTING~~
~~SUPPORT~~ ~~OPPOSE~~ ✓

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.