

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON GENERAL GOVERNMENT & HIGHWAYS

Call to Order: By Chairman Quilici, on January 30, 1991, at 8:05 a.m.

ROLL CALL

Members Present:

Rep. Joe Quilici, Chairman (D)
Sen. Larry Stimatz, Vice Chairman (D)
Sen. Harry Fritz (D)
Rep. Mary Lou Peterson (R)
Sen. Larry Tveit (R)
Rep. Tom Zook (R)

Staff Present: Lois Steinbeck, Associate Fiscal Analyst (LFA)
Bill Mandeville, Budget Analyst (OBPP)
Arlene Carlson, Secretary

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

Announcements/Discussion: Chairman Quilici stated there will be additional information provided to the committee regarding Records Management; discussion on computer services modified; presentation of State Fund Budget; executive action Department of Administration

DEPARTMENT OF ADMINISTRATION

Tape 1

Records Management

CHAIRMAN QUILICI said they are considering transferring Records Management from DOA to Secretary of State and requested Mr. Smith's comments. **Ed Smith, Clerk of Court**, stated that when he presented his budget before the committee he talked about the 53 years records that need to be copied. The Secretary of State under the Constitution is charged with keeping the official records of the state. The Clerk of Courts Office is the archival of records. Personally it would seem that those agencies who have permanent records, like the Secretary of State's Office, is

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better equipped and focused in that regard. Eventually, whoever stores them will have to look at the technology available in the future.

Mr. Bob Clark, Head of the Archives of the Historical Society, said the society has the statutory responsibility for housing, preserving and making accessible to research, the permanent and historically significant non-current records of state government. They have no vested interest in where the records management is lodged. Their concern is with the proper preservation, storage, retention of government and local government records. A strong records management function will be effective in helping local governments face problems they have regarding records.

When records management was started within state government, computerization was just a dawning concern and has grown into a considerable monster to modern technologies to government offices. One concern in maintaining these records is the archives of machine records created, stored and read by computers. It's proper place is where it will get the most support and resources.

SEN. FRITZ asked **Mr. Clark** if his agency does duplicating and microfilming of records. **Mr. Clark** stated they do microfilming on the basis of making a distinction between the potential artifactual value of records and the value of the space. The agency does not have money in their budget for microfilming.

SEN. FRITZ asked if they had objections to transporting documents from the archives to another location to be microfilmed. **Mr. Clark** said no, they do that.

SEN. FRITZ asked if most of the work is generated in Helena or are there out-of-town requests for duplication. **Mike Trevor, Administrator, Department of Administration,** stated most of the requests to copy records are from Helena, but there are requests from outside Helena.

A general discussion was held regarding the transfer of Records Management to the Secretary of State's Office. There had been a request in previous years to fund two FTEs for Records Management so the statutory issue could have been addressed. Arrangements were made for the committee to review Records Management by the Department of Administration.

Information Services Division

Computer Services

Lois Steinbeck, LFA, began review of the modifieds. EXHIBIT 9 (1-29-91) The department prepared the information requested. Armory Computer Upgrade EXHIBIT 1 Mr. Trevor said this \$200,000 will upgrade the computer at the Department of Justice located in the Armory. January is a peak time with vehicle registration. This computer was purchased in 1984 and is one of the oldest. Motor vehicle registration demanded more horsepower than anyone imagined.

Ms. Steinbeck referred to Growth in Workload. EXHIBIT 2 Mr. Trevor explained the growth ten-fold in processing on the mainframe since 1988. He referred to charts from the previous day's overview. EXHIBIT 3 He reviewed each department's anticipated growth. Labor and Industry predicts 300,000 per year in Job Service as it comes on the mainframe; plus Workers' Compensation Data Base implemented Jan 1992 will be another large system coming on.

Ms. Steinbeck referred to Network Services. Mr. Trevor said there was no handout on this. The three people are needed as proposed by the group that studied this.

Ms. Steinbeck referred to Data Processing Disaster Backup. EXHIBIT 4 Mr. Trevor said disaster recovery is a clear important responsibility. The armory will no longer suffice as a backup.

State Compensation Mutual Insurance Fund

REP. DRISCOLL said he understood this would be the first time the medical and benefit payments into the budget so consideration should perhaps be given to statutorily appropriating that. If they run out of spending authority, payments still have to be made. Also needed is authority to hire employees so they don't have trouble with the personal services budget. Before they only had 12 examiners who had a caseload of as high as 684 cases. The \$1 million is for outside legal defense and he questioned if that was needed.

Patrick Sweeney, President of the State Fund, gave an overview of the division.

Ms. Steinbeck gave an overview of the Fund's budget and comparison with the Executive. EXHIBITS 5 AND 6

Carla Smith, Vice President, State Fund, highlighted the issues as presented in the handout. **EXHIBIT 7** With the exception of the payroll tax which is soon transferred to the Department of Revenue, the State Fund is funded entirely out of proprietary funds, there is no general fund money in this budget.

Bill Mandeville, OBPP, commented on the base differences. The first area of 20% is due to corrections to FY90 attributable to changing the State Fund from an off-budget entity to on-budget, from a trust fund to an enterprise fund. When compiling this budget, OBPP, to represent current level services, used 1991 appropriation plus the decisions made by the Board or the management of the State Fund plus inflation.

There are two types of proprietary funds in the state's budgeting system: (1) internal services which are business services that state agencies provide other state agencies, example is ISD; (2) enterprise is services a state agency provides not only to other agencies but to the public/private sector as well, example is the State Fund.

Ms. Steinbeck reviewed the two budget modifications, additional FTE and the audit bureau.

Mr. Sweeney said they are here in support of the budget presented by the Board of Directors. With regard to the modifications, the 32.9 FTE were approved via the budget amendment in FY90, those people are on-board and they are starting to show some efficiencies as a result. The budget was prepared much earlier and does not reflect the new organizational structure.

Ms. Steinbeck pointed out the audit bureau modification, technically would have been handled as part of the reorganization between Labor and State Fund, however, it occurred too late in the budget process so the Executive includes it as a modified. It is not included in the Executive current level for Labor but brought over into the State Fund budget.

CHAIRMAN QUILICI said they need to check to make sure this isn't being covered in another subcommittee.

Mr. Sweeney stated their budget as presented is under the 10% level and approximately \$950,000 for FY92 under and in FY93 are approximately \$2.25 million less than the budget approved.

SEN. TVEIT inquired about claims fraud. The department said they would provide that before executive action.

EXECUTIVE ACTION

Ms. Steinbeck gave a brief summary of issues.

Department of Administration

Director's Office

Motion/Vote: REP. PETERSON moved to accept LFA's current level budget for the Director's Office of the Department of Administration. Motion CARRIED unanimously.

Motion/Vote: SEN. FRITZ moved to include \$100 each year to the LFA's current level for the Capital Finance Advisory Board and to remove \$1,418 in FY93 from the LFA budget. Motion CARRIED unanimously.

Motion/Vote: SEN. TVEIT moved to include Issue No. 1, the funding source for charging other programs for the time of 1.5 attorney FTE. Motion CARRIED unanimously.

Governor-Elect

Motion/Vote: SEN. FRITZ moved to accept the LFA's current level budget. Motion CARRIED unanimously.

Accounting and Management Support

Motion/Vote: SEN. FRITZ moved to accept the LFA's current level budget for Accounting in the Department of Administration. Motion CARRIED unanimously.

Ms. Steinbeck said later on, the subcommittee will consider that the Executive has one more FTE in current level than LFA. This FTE is made up of portions of other FTEs in other programs that you will also take executive action on prior to the central mail budget.

Motion/Vote: SEN. STIMATZ moved to adopt the \$9,899 for computer processing costs. Motion CARRIED with Sen. Fritz voting no.

Motion/Vote: SEN. TVEIT moved to accept Issue No. 5 for systems development. Motion FAILED with Sen. Fritz, Rep. Peterson and Rep. Quilici voting no.

Architecture & Engineering

Motion/Vote: REP. FRITZ moved to accept LFA's current level

HOUSE GENERAL GOVERNMENT & HIGHWAYS SUBCOMMITTEE

January 30, 1991

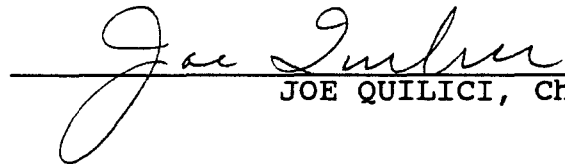
Page 6 of 6

budget for Architecture and Engineering. Motion **CARRIED** unanimously.

Motion/Vote: SEN. STIMATZ moved to accept Issues No. 1, 2, 3, and 4. Motion **CARRIED** unanimously.

ADJOURNMENT

Adjournment: 11:44 p.m.



JOE QUILICI, Chair

JQ/amc

HOUSE OF REPRESENTATIVES

GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE

ROLL CALL

DATE

January 30, 1991

NAME	PRESENT	ABSENT	EXCUSED
REP. JOE QUILICI, CHAIRMAN	✓		
SEN. LARRY STIMATZ, VICE-CHAIRMAN	✓		
REP. TOM ZOOK	✓		
SEN. LARRY TVEIT	✓		
REP. MARY LOU PETERSON	✓		
SEN. HARRY FRITZ	✓		

EXHIBIT 1DATE 1/30/91
Gen. Govt Sec

ARMORY COMPUTER UPGRADE

COMPUTER SERVICES PROPRIETARY FUND

EXPENSE CATEGORY	FY92	FY93
EQUIPMENT	\$100,000	\$100,000

JUSTIFICATION: The processing workload of the Department of Justice is growing at a rate which will exceed the capacity of the presently installed computer during the biennium. The existing processor is operating at 94% of capacity. The major applications supported by this computer include the Criminal Justice Information System (CJIN), and the State's Motor Vehicle Registration System. The division needs authority to enhance and expand its data processing equipment and related software to meet the growing needs of the Department of Justice.

COMPUTER SERVICE GROWTH

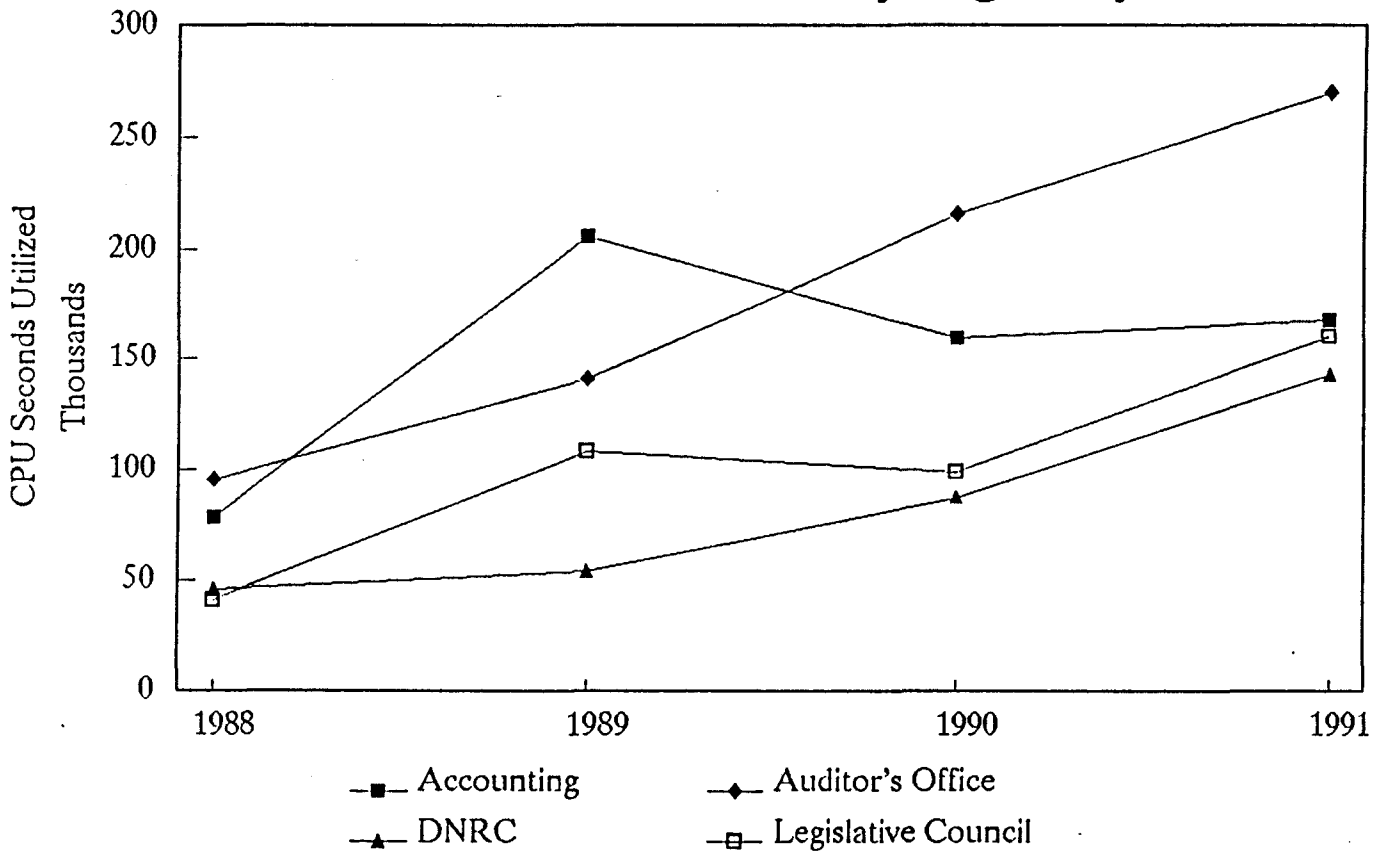
COMPUTER SERVICES PROPRIETARY FUND

EXPENSE CATEGORY	FY92	FY93
SOFTWARE	\$100,000	\$100,000
DEBT SERVICE (HARDWARE)	300,000	300,000
MAINTENANCE	50,000	50,000
SUPPLIES	<u>50,000</u>	<u>50,000</u>
TOTAL COSTS	\$500,000	\$500,000

JUSTIFICATION: Mainframe utilization has grown on average over the last nine years at a 17% level. During FY91 the rate accelerated to 41%. Additional funds are needed for operating expenses, maintenance, and hardware and software to accommodate the added workload. Several new major applications will be implemented during the biennium which will substantially increase the workload: System for Enforcement and Recovery of Child Support (SEARCHS); Job Service System; Family Services Management System; and the completion of TEAMS. Additionally, normal agency growth, additional processing due to increased access to the mainframe by more and more distributed users (PC's), and the need to manage electronic mail has increase utilization on the central processor and its peripheral equipment. FY91 mainframe rates will be reduced 11% and 19% in FY92 and FY93 respectively, as a result of this increased utilization and resulting economies of scale.

EXHIBIT *budget 3 by Jang.*
 DATE *1-30-91*
Mr. Gen. Gov. Sec.

CPU Seconds By Agency

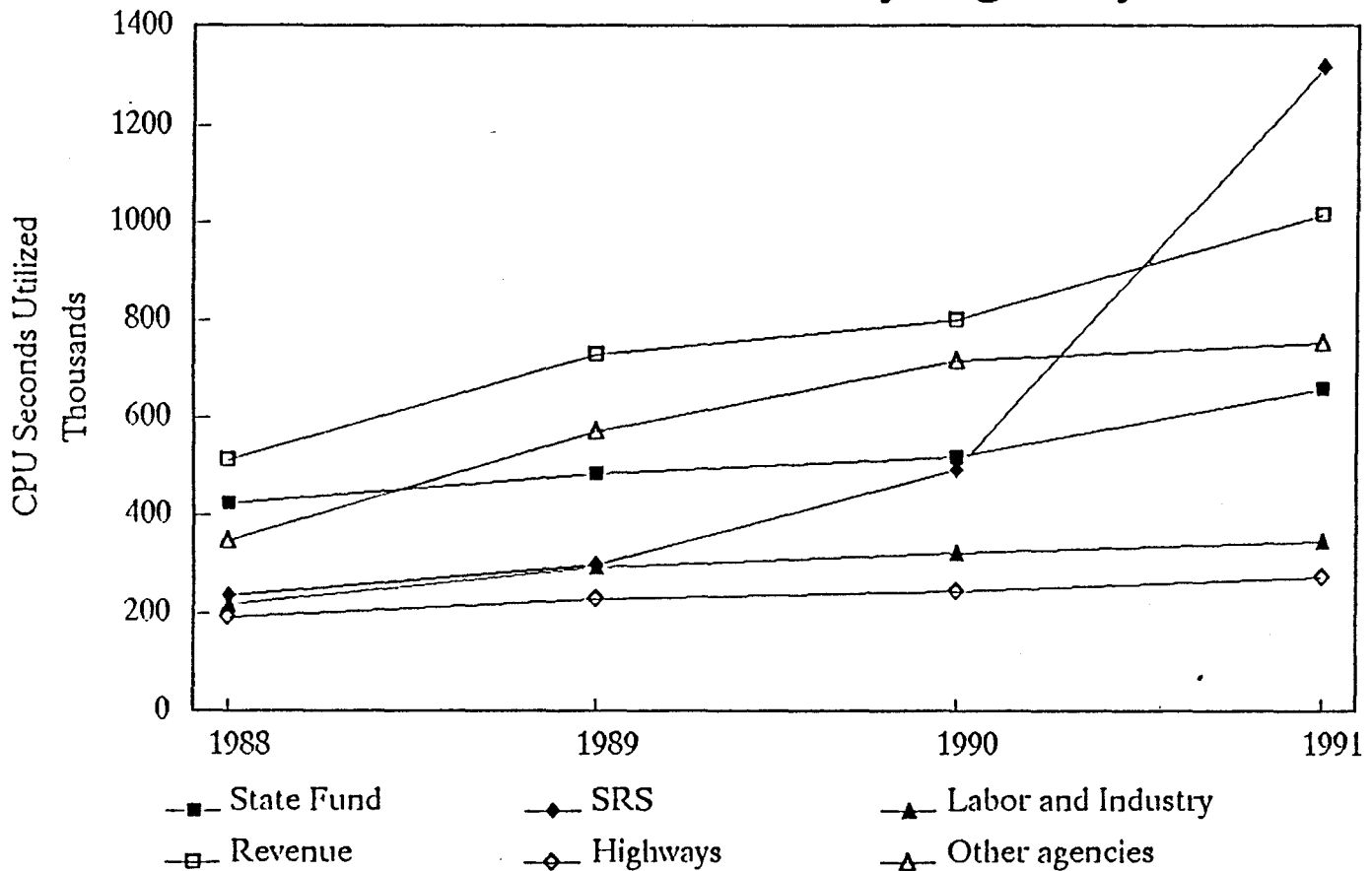


	1988	1989	1990	1991 *	Annual Growth		
					88-89	89-90	90-91
Accounting Division	78,291	205,897	159,481	167,407	163%	-23%	5%
Auditor's Office	95,259	140,581	215,959	269,886	48%	54%	25%
DNRC	45,958	53,956	87,112	142,331	17%	61%	63%
Legislative Council **	41,017	108,019	98,571	160,000	163%	-9%	62%
Totals - this page	260,524	508,453	561,122	739,624	95%	10%	32%

* Figures for 1991 are projected on the basis of utilization for the first six months of the year.

** Figures projected for the Legislative Council in 1991 were adjusted to account for a much higher utilization expected in the latter half of the year due to the legislative session.

CPU Seconds By Agency



	1988	1989	1990	1991	Annual Growth		
					88-89	89-90	90-91
State Fund	425,787	484,950	519,683	658,866	14%	7%	27%
SRS	236,584	298,655	492,481	1,317,487	26%	65%	168%
Labor and Industry	217,918	294,527	322,055	344,850	35%	9%	7%
Revenue	513,860	728,277	799,352	1,015,628	42%	10%	27%
Highways	190,990	226,863	242,238	272,307	19%	7%	12%
Other agencies	348,837	572,620	715,731	752,383	64%	25%	5%
Totals - this page	1,933,977	2,605,892	3,091,541	4,361,521	35%	19%	41%
Total from 4 agencies on second page	260,524	508,453	561,122	739,624	95%	10%	32%
Yearly totals for all agencies	2,194,501	3,114,345	3,652,663	5,101,145	42%	17%	40%

* Figures for 1991 are projected on the basis of utilization for the first six months of the year.

EXHIBIT 4
DATE 1-30-91
Gen. Govt + Sub

DISASTER BACKUP PROCESSING CAPABILITY

COMPUTER SERVICES PROPRIETARY FUND

EXPENSE CATEGORY	FY92	FY93
CONTRACTED SERVICES:	\$60,000	\$60,000
NETWORK EXPENSES:	55,000	55,000
TRAVEL/PERSONNEL EXPENSES:	30,000	20,000
DISASTER AVOIDANCE (MITCHELL IMPROVEMENTS)	29,000	0
SYSTEMS TESTS	<u>0</u>	<u>9,000</u>
TOTAL PROJECTED COSTS	\$179,000	\$144,000

JUSTIFICATION: This modification is for a contract and associated costs with a private firm to provide the division with a comparable data processing capability in the event of a disaster at the state data processing center. The need for this contingency plan is essential to the continued federal funding of certain application systems such as TEAMS. The data processing center is located in a basement which makes it unusually susceptible to water damage, as well as damage from fires and earthquakes. Furthermore, the Legislative Auditor recommends disaster contingencies be put in place as state government operations rely more and more on the central processor and networks. Security consultants Deloitte, Haskins and Sells estimated that a one month outage of twelve selected applications running in the data center would result in direct costs of \$9,375,600 in lost interest, extra expense and penalties. A hot site contract would avoid this exposure.

EXHIBIT 5
 DATE 1-30-91
Ben Gut Sue

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COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

STATE COMPENSATION MUTUAL INSURANCE FUND

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	175.00	174.00	171.00	170.00	4.00
Personal Services	4,417,074	4,390,364	4,323,404	4,296,848	187,186
Operating Expenses	3,662,851	3,609,397	2,701,475	2,677,511	1,893,262
Equipment	185,896	124,141	136,080	88,452	85,505
Benefits and Claims	110,953,000	118,060,000	110,953,000	118,060,000	0
Transfers	<u>2,941,701</u>	<u>2,959,054</u>	<u>2,921,506</u>	<u>2,938,859</u>	<u>40,390</u>
Total Agency	\$122,160,522	\$129,142,956	\$121,035,465	\$128,061,670	\$2,206,343
<u>Fund Sources</u>					
State Revenue Fund	26,570	0	26,025	0	545
Proprietary Fund	<u>122,133,952</u>	<u>129,142,956</u>	<u>121,009,440</u>	<u>128,061,670</u>	<u>2,205,798</u>
Total Funds	\$122,160,522	\$129,142,956	\$121,035,465	\$128,061,670	\$2,206,343

Executive Budget Comparison

The Executive Budget is \$2.2 million higher than the LFA current level. Most of the difference is due to use of different base years and inflation rates. The LFA current level budget includes \$176,712 more in inflationary adjustments than the Executive Budget, which includes a higher deflation factor for computer processing.

The Executive Budget is 4.0 FTE higher than the LFA current level because the LFA deletes 4.0 FTE that had been vacant for 15 consecutive months. The Executive Budget continues these positions, making its personal services costs about \$187,000 higher than the LFA current level.

Operating costs are significantly different in the two budgets. The Executive Budget is higher than the LFA in the following categories: contracted services (\$1.6 million); repair and maintenance (\$147,000); supplies and materials (\$120,000); travel (\$80,000); and communications (\$49,000). The LFA budget is based on fiscal 1990 actual expenditures in all the categories except contracted services (see "Contracted Services").

Equipment is \$85,505 higher in the Executive Budget, which includes more

computer and office equipment in both years of the 1993 biennium. The Executive Budget contains \$40,390 more in transfers than the LFA current level. Transfers include rent, payment for the Department of Social and Rehabilitation workers' compensation rehabilitation panels, and reimbursement for DOLI regulatory functions.

The Executive and LFA current level budgets are slightly different in state special revenue funds, as the Executive Budget includes more operating expenses to support the 1.0 employer's payroll tax FTE in fiscal 1992.

Benefits are based on the latest actuarial report. Benefits and claims are included in the budget request for the first time due to a change in generally accepted accounting principles requiring such expenditures to be included in the enterprise fund type.

Contracted Services

The most significant difference between the Executive and LFA current level budgets is in contracted services. The Executive Budget exceeds the LFA budget by the following biennial amounts: \$600,000 in legal fees and court costs; \$240,000 in premium refunds to firms that institute a safety program; and \$340,000 in computer processing costs. The LFA current level budget is based on

STATE COMPENSATION MUTUAL INSURANCE FUND

fiscal 1990 expenditures, with adjustments removing \$500,000 of one-time and nonrecurring expenditures. The LFA added an additional \$90,000 over the biennium to support increases in the cost of the actuarial contract, dues, and special reports from the National Council on Compensation Insurance, premium refunds to firms establishing safety programs, and a contract to evaluate the automated system in fiscal

1993. The Executive Budget removed the same one-time expenditures but included higher increases in the categories noted above.

Executive Budget Modifications

In addition to the \$251.3 million current level budget for the 1993 biennium, the Executive Budget includes \$2.5 million and 41.9 FTE in budget modifications. The budget modifications are discussed in the agency narrative.

STATE COMPENSATION MUTUAL INSURANCE FUND

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	176.00	175.50	171.00	170.00	-5.50
Personal Services	4,011,814	4,158,843	4,323,404	4,296,848	5.50%
Operating Expenses	3,167,095	2,729,226	2,701,475	2,677,511	-8.77%
Equipment	136,561	73,340	136,080	88,452	6.97%
Benefits and Claims	39,876,563	0	110,953,000	118,060,000	474.30%
Transfers	961,780	441,164	2,921,506	2,938,859	317.72%
Total Agency	\$48,153,813	\$7,402,573	\$121,035,465	\$128,061,670	348.37%
<u>Fund Sources</u>					
State Revenue Fund	3,349,713	7,376,047	26,025	0	-99.76%
Federal Revenue Fund	0	26,526	0	0	-100.00%
Proprietary Fund	44,804,100	0	121,009,440	128,061,670	455.91%
Total Funds	\$48,153,813	\$7,402,573	\$121,035,465	\$128,061,670	348.37%

Agency Description

The State Compensation Mutual Insurance Fund (State Fund), established January 1, 1990, provides liability insurance for workers' compensation and occupational disease. The State Fund may not refuse coverage to any employer (Section 39-71-431, MCA).

Effective July 1, 1990, the State Fund was divided into two businesses by the legislature. The old business is responsible for administration and payment of claims for injuries that occurred before July 1, 1990. The State Fund actuary estimates that these claims will total \$207 million. A tax of 0.28 percent was imposed on each employer's covered payroll to fund the old business. The new business is responsible for claims for injuries occurring on or after July 1, 1990. It is funded through premiums charged to employers purchasing workers' compensation insurance from the State Fund. Statutes require the State Fund to set premium rates at a level sufficient to fund the insurance program, including the costs of administration, benefits, and adequate reserves.

The State Fund is attached to the Department of Administration for administrative purposes. Management of

the State Fund is vested in a five-member board of directors appointed by the Governor. The State Fund is subject to laws governing state agencies, unless the State Fund is specifically exempted from compliance with that law.

Current Level Budget

The 1993 biennium budget for the State Fund is not comparable to the 1991 biennium budget because of two significant changes: budgeting for benefits and claims and change in fund types. In the 1991 biennium, benefits and claims were funded from the nonbudgeted expendable trust fund entity, which does not require a legislative appropriation. Due to a new standard in generally accepted accounting principles which requires that activities such as state insurance funds be budgeted in an enterprise fund, OBPP included benefits as a budgeted item and changed the fund type for the agency from state special revenue to proprietary funds.

Personal services increase 5.5 percent during the 1993 biennium, despite a reduction of 5.5 FTE. In fiscal 1991, a 0.5 FTE was transferred to the Department of Labor and Industry (DOLI) as part of the reorganization. Transfer of the employer's payroll tax collection to the Department of Revenue (DOR)

STATE COMPENSATION MUTUAL INSURANCE FUND

effective July 1, 1991, reduces FTE by 0.5 in fiscal 1992 and by 1.0 in fiscal 1993. Additional reductions are due to removal of 4.0 FTE vacant for 15 consecutive months.

Annual 1993 biennium personal services costs are higher than fiscal 1990 expenditures despite the reduction in FTE due to vacancies in fiscal 1990 and salary increases granted by the State Fund (see "Issues" section). The State Fund implemented pay raises averaging 6.9 percent in fiscal 1990.

Operating costs decline between fiscal 1990 and the annual 1993 biennium budgets due to removal of \$500,000 of one-time and discontinued costs. In fiscal 1990, the State Fund contracted with DOLI to audit employers and verify payroll amounts upon which premiums are assessed and paid. This \$300,000 cost will not occur in the 1993 biennium since the DOLI Audit Staff are transferred to the State Fund in a modified budget request in the Executive Budget. Insurance and bonds costs decrease \$200,000 from fiscal 1990 actual expenditures due to a change in generally accepted accounting principles which requires that reinsurance costs be offset against premium revenue rather than recorded as an expense.

Several operating cost increases are incorporated in the current level budget including: premium refunds to businesses that set up safety programs (\$10,000); the actuarial contract (\$20,000); dues and special reports from the National Council on Compensation Insurance (\$27,000); equipment maintenance (\$16,000); legal data bases (\$3,000); and a contract to evaluate the automated system (\$10,000 in fiscal 1993). The LFA current level budget also includes about \$30,000 each year for increased travel, training, and equipment maintenance, so that the State Fund can expand its marketing, audit, and safety programs and provide employees training.

The benefits and claims cost is based on the latest actuarial estimates of the 1993 biennium claims. These estimates anticipate the sunset of the freeze on the maximum compensation benefit (June

30, 1991) and medical fee schedule (December 31, 1991).

As part of the reorganization with DOLI, the fund type to support workers' compensation activity was changed to proprietary funds. The 1989 legislature appropriated state special revenue for operations of the WCD. Benefits and claims were paid from expendable trust funds, a nonbudgeted fund type. The change was made to comply with a revision to generally accepted accounting principles and is reflected in the 1993 biennium budget request.

State special revenue funds the 1.0 FTE and operating costs for collection of employer's payroll tax, transferred to the DOR beginning in fiscal 1992. Federal funds support a safety grant that has been transferred to DOLI as part of the reorganization.

Issues

Salary Increases

Senate Bill 428 of the 1989 session, which created the State Fund, exempted the executive director and employees of the State Fund from the state classification and pay matrices. In early 1990, the Board established salaries for the six executive staff, retroactive to January 1, 1990. The board based the new salaries on a survey of comparable positions in six states. The salary increase ranged from 25 to 70 percent. As a result of concerns expressed over the large increases, the board voted in mid-1990 to reduce salaries by \$3,000 for each position except the chief legal counsel.

In early 1990, the State Fund developed its own salary matrices for non-executive staff, based on a study of workers' compensation insurance programs in Arizona, Colorado, Idaho, Maryland, Minnesota, and Utah (the state programs that State Fund personnel felt were similar in size and operation to Montana's program). In March, these matrices were included in the union contract. During the payroll period ending June 1, 1990, employees were given raises implementing the new

6103 STAFF COMP. MUTUAL INS. FUND
01 ST. COMPENSATION MUTUAL INS. F
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DATE : 01/08/91
TIME : 21/29/24
CURRENT LEVEL COMPARISONS

EXHIBIT

DATE 1-30-91

See Exhibit

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	176.00	175.00	171.00	4.00	174.00	170.00	4.00
Personal Services	4,011,814	4,417,074	4,323,404	93,670	4,390,364	4,296,848	93,516
Operating Expenses	3,167,095	3,662,851	2,701,475	961,376	3,609,397	2,677,511	931,886
Equipment	136,561	185,896	136,080	49,816	124,141	88,452	35,689
Benefits and Claims	39,876,563	110,953,000	110,953,000	0	118,060,000	118,060,000	0
Transfers	961,780	2,941,701	2,921,506	20,195	2,959,054	2,938,859	20,195
Total Expend.	\$48,153,813	\$122,160,522	\$121,035,465	\$1,125,057	\$129,142,956	\$128,061,670	\$1,081,286

Fund Sources

State Revenue Fund	3,349,713	26,570	26,025	545	0	0	0
Proprietary Fund	44,804,100	122,133,952	121,009,440	1,124,512	129,142,956	128,061,670	1,081,286
Total Funds	\$48,153,813	\$122,160,522	\$121,035,465	\$1,125,057	\$129,142,956	\$128,061,670	\$1,081,286

Executive Over (Under) LFA

CURRENT LEVEL ISSUES

1. PERSONAL SERVICES. The LFA current level removes 4.00 FTE that were vacant all of fiscal 1990 and through the first quarter of fiscal 1991. Three of the FTE are associated with the medical deductible plan authorized in statute, but never implemented. The subcommittee may wish to include a language appropriation for these FTE should the agency be required to offer such a plan during the 1993 biennium.

2. CONTRACTED SERVICES. The LFA current level includes funds to continue actuarial contract, including a 25% increase; fully funds the agency request for membership in the National Council on Compensation Insurance, including a 5% increase each year of the biennium; fully funds the agency request for medical consultants; includes \$6,500 for Board member travel; and includes \$10,000 in fiscal 1992 to contract for an evaluation of the computer system. In addition to these contracts, the Executive includes funds for contracted services in the following areas:
Mainframe computer processing charges.
Systems development.
Consulting services.

3. COMMUNICATIONS. The Executive Budget includes a higher amount for postage expenses to publish a newsletter for policy holders.

4. TRAVEL. The LFA current level includes a 20% increase in travel to fund allow the program enhance certain functions including the audit, safety, and marketing programs. The Executive includes additional travel funds, increasing budgeted expenditures 39% over fiscal 1990 actual expenditures.

5. MAINTENANCE. The LFA current level includes increases for maintenance contracts above the fiscal 1990 level. The Executive Budget includes additional funds, primarily for buildings and grounds and computer terminals.

Executive Over (Under) LFA	FTE	FY92	FY93
4.00	\$93,625	\$93,516	
	175,830	175,830	
	102,621	102,621	
	86,770	86,770	
	24,360	24,360	
	40,019	39,915	
	84,707	62,632	

Handwritten notes and signatures at the top right of the page.

STATE FUND CONTINUED

6. SUBSCRIPTIONS, TRAINING, AND OTHER EXPENSES. The LFA current level funds increases training costs 100% over fiscal 1990 actual costs to provide staff training in operation of a mutual insurance fund. The Executive Budget has a higher amount.

7. EQUIPMENT. The LFA current level and Executive Budget include funds to purchase replacement vehicles and replacement office equipment, including some computer terminals. The Executive Budget funds a higher amount of replacement equipment and software.

8. TRANSFERS. The Executive Budget reflects the amount of funding requested by the Department of Social and Rehabilitation to operate rehabilitation panels. The LFA is based on preliminary program cost estimates.

9. CORRECTION TO FISCAL YEAR 1990 ACTUAL EXPENDITURES. Due to the manner in which contracted legal services and premium refunds to businesses were recorded in the accounting system, the LFA current level budget is lower than actual expenditures for some services than the Executive by the following amounts.

Legal services.
Premium refunds to businesses that institute safety programs.

10. BASE, INFLATION, NETWORK FEES, AND AUDIT COST DIFFERENCES.

Inflation.
Network fees.
Audit.
Base.

TOTAL CURRENT LEVEL DIFFERENCES

FUNDING ISSUE

1. EMPLOYER'S PAYROLL TAX. Administration of the employer's payroll tax is being transferred to the Department of Revenue. The Executive includes \$545 in additional authority during the phase out of tax administration from the State Fund in fiscal 1992, due to the use of different inflation factors.

EXECUTIVE BUDGET MODIFICATIONS

1. ADDITIONAL FTE. The Executive Budget includes a modified budget request to continue FTE and expenditure authority added by budget amendment in fiscal 1991. The modified request is described in detail on page A-150 of the LFA budget analysis.

2. AUDIT BUREAU. The audit function is being transferred to the State Fund from the Department of Labor and Industry. This part of the reorganization under Senate Bill 428 was not accomplished in time to be included in the Executive current level budget and is included as a modified budget request.

TOTAL MODIFIED BUDGET REQUESTS

7,091	7,091	
49,816	35,689	
20,195	20,195	
300,870	300,870	
102,566	102,566	
(82,905)	(93,807)	
46,526	46,526	
25,088	25,088	
47,878	51,424	
\$1,125,057	\$1,081,286	
=====	=====	
\$545		state special revenue
32.9	\$947,108	\$944,961
		proprietary funds
9.0	314,524	313,896
		proprietary funds
41.9	\$1,261,632	\$1,258,857
=====	=====	=====

EXHIBIT 7DATE 1-30-91
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STATE COMPENSATION MUTUAL INSURANCE FUND

FY 1992-93 BUDGET PRESENTATIONCurrent Level Issues

1. Personal Services

The LFA removed 4.00 FTE that were vacant during FY 1990, and they are still vacant.

One FTE was added to our budget through the fiscal note attached to SB 428 last session. At the time the fiscal note was prepared, staff anticipated the need for an Internal Auditor to report to the Board of Directors. Now that the Board has been in place for over a year, it appears the position will not be needed and we agree to removing it from the next biennium's budget.

The three remaining FTE's were also acquired through a fiscal note, this one dealing with a medical deductible insurance plan. At the present time, no medical deductible plan is in place, and accordingly, we have not used the FTE allocation. The LFA stated the committee may want to consider a language appropriation authorizing the FTE's in the event medical deductible plans are implemented. The State Fund supports this approach. Medical deductible plans are quite labor intensive, and we feel we need the flexibility to hire staff to support this type plan. By the way, a bill drafting request was submitted to the Legislative Council this session to mandate a \$500 workers' compensation medical deductible.

2. Contracted Services

The LFA is recommending a decrease of \$175,830 a year in mainframe computer processing charges. This funding level is not adequate to cover computer processing charges equal to the last six months of FY 1990 annualized.

The State Fund utilizes the state's mainframe computer operated by the Department of Administration. We have very limited control of these access cost charges. Without appropriate funding to use the state's mainframe computer, the Fund will be unable to perform even the most basic functions, such as pay compensation and medical benefits, collect premium, and write policies. The annual costs of computer processing charges in FY 1990, along with our request for FY 1992 and 1993, follows:

	<u>FY '90</u>	<u>FY '92</u>	<u>FY '93</u>
Payment of Comp. & Med. Benefits	\$188,060	\$188,060	\$188,060
Receipting Payroll & Premium	50,588	50,588	50,588
Administering Policies	70,430	70,430	70,430

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*The Board
has been very
generous -*

	<u>FY '90</u>	<u>FY '92</u>	<u>FY '93</u>
Actuarial & Mgmt. Reporting	22,232	25,000	25,000
Mail Identification	57,642	63,579	63,579
Reception Services	9,952	10,000	10,000
Loss Control	4,074	5,000	5,000
Files Management	2,512	14,740	14,740
Reserving <i>used in setting rates</i>	10,882	18,800	18,800
Programming & Systems Support <i>Had 3 adu</i>	90,308	100,000	100,000
New Functions:			
<u>Tiered Pricing</u>		\$ 22,982	\$ 22,982
Marketing		400	800
Insurance Accounting/Reporting		21,000	21,000
Claims Management <i>Automated</i>		60,000	60,000
Total <i>claimant -</i>	\$506,680	\$650,579	\$650,979
Less savings through purchase of systems printer to be used on-site		<u>(15,000)</u>	<u>(15,000)</u>
Total Budget Request	\$506,680	\$635,579	\$635,979

Over 60% of the annual computer processing budget is spent in paying benefits, collecting premium, and maintaining policies. These areas show no projected increase for '92 and '93.

We are requesting an increase in the areas of actuarial and management reporting and mail identification. The State Fund has been severely criticized for its lack of responsiveness to policyholders and claimants. Increasing computer processing costs will allow us to produce management information regarding location of important mail and efficiency of staff. We presently have limited automated capability in this area.

The Files Management area shows a substantial increase, largely due to the fact that an automated file archiving system was implemented in April, 1990, with processing costs of \$2,500. This will increase to \$10,000 on an annualized basis. The other \$4,700 increase is to support an automated file tracking system, which will reduce the need for file clerks to search office after office when a file is needed.

The reserving area shows an increase due to an improved method of setting case file reserves. In the past, one employee was responsible for annually reviewing each file on which compensation payments are made. The volume of files prohibited a more frequent review. The State Fund recently changed this process to allow each claims examiner to set reserves on his claims inventory. Not only does this allow the person intimately familiar with the details of

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the claim to determine the claim liability, but it will also allow for a claim to be updated as medical or legal events occur, thereby ensuring the State Fund is much better able to analyze its financial position at any given time. Reserves are used for ratemaking, and this provides additional assurance proper rates are set, ensuring the Fund remains actuarially sound.

Programming and systems support processing costs are increasing because the State Fund added three staff members in February and March, 1990; therefore, the FY 1990 annualized costs do not adequately reflect a full year's activity.

Senate Bill 428, the State Fund's enabling legislation, requires the State Fund to "implement variable pricing levels within individual rate classifications to reward an employer with a good safety record and penalize an employer with a poor safety record." The computer programs to support this new requirement are presently being written, but we must have an operational budget to cover the ongoing costs.

During FY 1990, the State Fund implemented a modest marketing program whose function is to recruit and retain policyholders. We are asking for a small budget to allow the marketing staff to target policyholders for contact and follow-up, as well as to produce mailing labels to selected policyholders.

As Mr. Sweeney previously discussed, Price Waterhouse recently conducted a review of the State Fund's operations, with the ensuing recommendation that accounting and financial reporting be completed in the same manner as an insurance company does. This will require substantial changes to our computer system. Our financial data on the Statewide Budget & Accounting System is presently in summary form. For example, all compensation and medical benefit payments made during a specific fiscal year are lumped together with no segregation into the years in which the accidents occurred. Statutory insurance accounting calls for a segregation by accident year for the last ten years. Our internal computer system feeds the statewide system and it must be changed, thereby resulting in increased ongoing computer processing charges. We are attempting to run the State Fund like an insurance business with proper reporting to the Board and management.

Currently, the only automated functions in the claims area are the payment of compensation and medical benefits and the reserving process. There is no automated claims management information, which requires a heavy dependency on the paper file. An examiner who receives a phone call from a claimant must request the paper file from central storage before responding to a claimant. Automation in the claims management area will greatly improve the State Fund's ability to provide prompt service to claimants and is the area needing the most concentration in the next biennium.

We intend to provide claims examiners with the capability to track medical reports, diary information for subsequent follow-up and review, and allow on-line narrative comments regarding the development of the case. In addition, the computer system will provide the examiners with an activity check list to ensure they perform certain required functions at specified points during the development of each claim, such as checking for potential social security offset or subrogation. Standard letters will be available, providing much needed assistance to overworked support staff and consistency in claimant communications. And finally, legal information associated with the case will be available on-line.

It is often difficult to associate specific dollar or FTE savings with computer development. However, we feel automation of the claims management area can clearly be tied to specific cost savings.

Prior to the reorganization of the State Fund on January 1, 1990, 22 claims examiners were authorized. These examiners had a support staff of 14 file clerks. We added eleven examiners and are requesting three more. Using the same support staff ratio as has been funded in the past, addition of the 14 examiners would have called for an additional nine file clerks. We are asking for only two. We feel the benefits to be gained through automation of the claims management area will relieve greatly the demand for the paper file, and therefore, support staff will not need to be increased in relationship to examiners. We project the annual cost of seven file clerks to be \$112,500, as compared to an annual increase in computer processing charges for claims management of \$60,000. While this is not a reduction in current level budget, in other words no present staff will be laid off, it is certainly cost beneficial when compared with expected costs without automation. We feel this is a far better use of funds. Not only is there a cost savings, but customer service will be greatly improved.

The LFA proposes to reduce contracted systems development by \$102,621 per year. *3 FTE staff in Ex on LFA*

As Mr. Sweeney stated, until FY 1990 the State Fund contracted with the Department of Administration for systems development services. We terminated the contract and hired three staff. We felt it of paramount importance to have control of our own data processing staff with the State Fund so heavily computer dependent.

Contracting for systems development work costs over \$30 an hour. We pay our staff an average of \$16.87 an hour, including benefits. I previously referred to the tiered pricing computer system being developed, which we estimate will take 1,500 man hours. To contract this would cost \$46,500, but our staff will complete it for \$25,311, or just slightly more than half the contracted cost.

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To further illustrate the improved efficiency as well as cost savings, during FY 1988, 5.7 maintenance requests a month were completed, and in FY 1989, 8.1 requests a month while the contract relationship existed. During the last half of FY 1990, using in-house staff, an average of 21 requests a month were completed, more than doubling productivity.

The State Fund data processing staff currently has a backlog of over 200 maintenance requests, which using present staff can be completed in less than a year, while it would take over two years under the contract relationship. Please bear in mind we are not trying to criticize the quality of work produced by the Department of Administration. The significant increase in productivity through the use of in-house staff is because in-house staff is always knowledgeable in State Fund business. When we contracted with the Department of Administration, we rarely had the same analyst assigned to us for a long period of time. Therefore, each time an analyst was assigned, there was a significant training period just in learning the workers' compensation field.

When our budget request was submitted to the Office of Budget & Program Planning, we were not authorized the three FTE's, but we were authorized to request the money in contracted services and later move it to personal services through an operational plan change. We are requesting the committee to delete our entire systems development budget of \$162,716 in FY 1992, and \$162,891 in FY 1993, and authorize 3 FTE's and \$103,610 in '92 and \$103,372 in '93 in personal services.

We feel the computer processing charges and three data processing FTE's are vital to the State Fund's ability not only to carry out very basic functions, but to improve customer service substantially. I hope we have demonstrated the need for these budget items. Not funding them at the requested level would cause serious setbacks to the State Fund, setbacks we cannot risk.

The last area of contracted services I would like to discuss is consultant and professional services, targeted for reduction by the LFA.

The major consulting contract in the budget request is for the National Council on Compensation Insurance. The State Fund is required by statute to belong to a national rating organization. The NCCI is responsible for developing and publishing manuals of classifications, rules, rates, rating plans, policy forms, and endorsements with respect to workers' compensation insurance. As a rating organization, its goal is to provide a broad and general use of common statistical plans, classifications of risks, rating plans, and policy provisions. The annual premium paid by the State Fund is based upon the State Fund's market share of premiums paid for

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workers' compensation coverage in Montana. This charge will fluctuate as the State Fund's market share changes. The FY 1992-93 budget is based on a 5% increase per year, and this was agreeable with the LFA.

On January 1st of this year, the State Fund retained a new actuary to set rates and to perform an annual actuarial analysis. As was expected, we could not retain a new firm at the same level as the prior contract. Therefore, an extra \$15,000 a year has been requested in the budget. In addition, we are asking for \$10,000 a year to cover actuarial services not included in the basic contract. Any work completed by the actuary in addition to the basic contract services is billed separately. During the last special session of the legislature, for example, an actuarial analysis of proposed legislation was required, which resulted in additional costs. Costs of this nature are frequently incurred, and we need the money in the budget for special analysis.

State Fund Board members are reimbursed at the rate of \$50 for each day they pursue Board business. During the course of the last year, the Board has become more and more interested in furthering their knowledge of the workers' compensation field. Therefore, we increased the budget \$1,500 a year to provide additional reimbursement of Board activities.

We are asking for \$50,000 a year which will allow the Board to contract for outside consultants. This is the only budget assigned to the Board of Directors. The recent Price Waterhouse report pointed out areas in which the State Fund needs outside expertise in improving its insurance products offered and increased staff efficiencies. For example, Price Waterhouse recommended implementation of an internal claims review function. The Board could hire a consultant to set up this function for staff to carry out. In addition, consultants to provide expertise on new insurance products such as retrospective rating plans, retention plans, and scheduled rating plans could be hired. A more precise pay and classification study should be conducted which evaluates actual job responsibilities, compensation ranges and quartiles, and relative value between positions and which identifies specific organizations, public or private, against which the State Fund competes for human resources. In addition, other State Funds have offered to send their Board members to Montana to meet with our Board members to communicate ideas for improvements to the operation. We feel we should have the flexibility to at least pay their travel costs for this type of assistance. These are but a few of the projects which could be undertaken, but we must have a budget for contracting.

Why not LFD
We have requested \$20,000 in FY 1992 to retain a consultant to make recommendations for future computer hardware and software improvements. Any computer system has a projected life expectancy

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of five to seven years. The State Fund's systems will have been in place eight to ten years by 1992. I believe the LFA cut our request for a consultant in half. In 1981, we contracted with Arthur Anderson to evaluate computer hardware bids only. This contract cost \$11,000. Now, eleven years later, we hope to retain a consultant to evaluate both hardware and software requirements for only \$9,000 more. This evaluation will be designed to provide the Board with sufficient information to make important long-term plans regarding the future of automation of the Fund.

The State Fund also contracts with a medical, chiropractic, and physical therapy consultant to provide medical expertise concerning claims filed with the State Fund. This cost of \$39,270 is included in the LFA recommendation.

The State Fund hopes to contract with an industrial hygienist to conduct lab tests of air, water, and chemical samples present in the work environment of certain employers. This is an important aspect of the safety program being conducted by the Underwriting Department. When the State Fund was removed from the Department of Labor & Industry, the budget for this service remained with the Department. We are asking \$7,500 a year.

There are many other areas in contracted services, such as janitorial, audit, payroll fees, insurance, microfilm, and printing, but I believe the Executive and LFA budgets agree, so I won't go into them in detail.

3. Communications

The LFA proposes to reduce the postage budget by \$24,360 a year. The increase in postage represents the cost to mail a quarterly employer newsletter to our 26,000 insureds. This is a high Board priority and will commence within the next two months. We therefore ask approval of the Executive Budget for communications.

4. Travel

Could Cut Here

The LFA budget provides a 20% increase in travel costs over FY '90 actual to fund additional State Fund travel related to new programs instituted such as expanded audit, safety, and marketing programs. While this is less than the Executive Budget, we could probably get by with this decrease if the Committee feels it is necessary.

5. Maintenance

The LFA recommendation for repairs and maintenance is over \$147,000 less for the biennium than the Executive Budget recommendation.

This is largely attributable to two major areas.

When the Division of Workers' Compensation was dissolved, the Workers' Compensation Building, which we occupy, was declared the property of the State of Montana, not the State Fund. However, under an agreement with the Department of Administration, the State Fund is solely responsible for all building maintenance.

During FY '90, building maintenance costs for items such as filters, light bulbs, minor repairs, and grounds maintenance were \$11,570. In '92 and '93, we are asking for an increase of \$6,075 to rebuild the air handler motor, rebuild three water circulating pumps, replace hot water heaters, rebuild the air conditioner condenser, replace the air conditioner chase to prevent noisy pipe vibration, and treat the boiler system water to prevent mineral buildup in the pipes. In addition, at the direction of the Department of Administration, we must install ladders in the elevator pits. Also, due to unusually high radon gas levels, we must repair cracks and seal the basement floor.

Look at the Bldg.

We are also proposing to recarpet two floors of the building each year for a total of \$88,000. The building has been occupied now for seven years. High traffic areas are showing severe wear.

The other area showing a major budget increase is maintenance contracts. The chart shows actual FY '90 expenditures and proposed '92 and '93 expenditures.

	<u>FY '90</u>	<u>FY '92</u>	<u>FY '93</u>
101 computer terminals	\$ 16,461	\$ 16,461	\$ 16,461
2 CPU's and peripherals	47,526	47,526	47,526
18 printers	8,928	8,928	8,928
Software	7,032	7,032	7,032
Snow removal	810	2,500	2,500
Elevator maintenance	2,388	2,700	2,700
Mail Room equipment	4,087	4,555	4,555
Fire detection	449	449	449
Photocopiers	9,635	9,100	9,100
Additional:			
30 terminals, 8 printers acquired from DOL		10,755	10,755
Additional software		6,500	6,500
2 Laser printers		2,592	2,592
24 terminals		6,420	6,420
Systems printer		1,200	1,200
Uninterruptable power supply		1,680	1,680
Heating/air conditioning systems		2,250	2,250
Emergency generator		1,250	1,250

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	<u>FY '90</u>	<u>FY '92</u>	<u>FY '93</u>
Disk drive	<u> </u>	<u>1,646</u>	<u>1,646</u>
Total	\$ 97,316	\$133,544	\$133,544

6. Training Costs

The LFA budget is \$7,091 a year lower than the Executive Budget. Our request contains \$100 a year per FTE for training. Even though the LFA recommendation is a 100% increase over FY '90 costs, we urge you to grant the Executive Budget recommendation. During each of the past several legislative sessions, we have unsuccessfully attempted to increase our training budget. We desperately need to provide our employees with insurance-specific training. This is supported by the Price Waterhouse report.

7. Equipment

Our request: *14 Vehicles*
100,000

Vehicles (6)(6)	\$ 67,380	\$ 69,456
Systems Printer <i>Print at own Bldg.</i>	30,000	
Alternative Cooling System <i>for Mini Computers</i>	10,000	<i>H y l Priority</i>
Disk Drive		8,000
Dial Up Capability		7,500
Terminals (8) <i>Now have.</i>	15,631	
Laser Printer <i>also better</i>	10,000	
Dictaphones (8)(8)	3,800	3,800
Typewriters (3)	3,600	
Calculators (17)(16) <i>cost</i>	2,550	2,400
Hand-held Dictaphones (5)(5)	1,000	1,000
2-drawer file cabinets (3)(2)	420	280
4-drawer file cabinets (5)(5)	950	950
Microfiche reader-printer		9,500

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Mail Room Equipment:

Mailing Machine	7,200
Folding Machine	6,800
Electronic Scale	4,200
Mailer for Insertamax	4,750

Cameras (6)	1,075
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Legal Books	<u>555</u>	<u>555</u>
	<u>\$169,911</u>	<u>\$103,441</u>

Software:

Extended Security Package	\$ 6,500	\$
Computer-based Training	6,000	
Systems Utility Upgrades		10,000
WP Plus		8,000
Multi-User Software		2,700
Nodes	1,885	

Wordperfect/Retro Rating	<i>Equip</i> <i>Strike over capability</i> 1,600	
	<u>\$ 15,985</u>	<u>\$ 20,700</u>

	<u>OBPP</u>	<u>LFA</u>	<u>DIFF.</u>	<u>OBPP</u>	<u>LFA</u>	<u>DIFF.</u>
Equipment	\$169,911	\$136,080	\$33,831	\$103,441	\$88,452	\$14,989
Software	15,985	-0-	15,985	20,700	-0-	20,700

The LFA recommendation for equipment and software is \$85,505 less for the biennium than the Executive Budget recommendation. At the time we prepared our request, we included only those items vitally necessary to the operation.

We are requesting the replacement of six vehicles per year. As the chart indicates, each of these cars will have over 100,000 miles in the year in which they are replaced. It is our understanding the State Motor Pool replaces vehicles at 75,000, but we take a more conservative approach. However, these high-mileage vehicles become less dependable and incur higher maintenance costs as the mileage increases. Our vehicles are used by employees whose sole responsibility is traveling the State of Montana investigating accidents and providing safety services to policyholders.

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We are asking for \$71,131 in computer equipment for the biennium. Included in this category is a systems printer which will allow for printing of computer output at our office instead of by the Department of Administration. This printer will cost \$30,000 but will reduce our computer processing charges accordingly, as the printer is cost justifiable in two years.

We need to replace two disk drives. These data storage devices are currently over seven years old and are consistently producing read-write errors. These disk drives store critical payment information and word processing documents. Disk drive failure will severely cripple these two vital functions. We are also seeking authority to purchase equipment which will allow field staff to access data contained on the computer through a telephone dial-up capability, providing for improved information for claimants and employers.

In addition, we are requesting eight computer terminals.

The Legal Department desperately needs a laser printer which can process 25,000 pages per month at a high rate of speed. With the enormous amount of paperwork that must be generated in order to meet filing deadlines with the court, a fast, heavy-duty laser printer is essential.

We are requesting \$10,000 for replacement of the air conditioner in the computer room. We presently operate two mini-computers on site, which requires constant air temperature. The current air conditioner is inadequate and fails often. As recently as last week, the air conditioner malfunctioned and caused the computer system to be down most of one day. Because many of our staff spend 100% of their time either entering or accessing computerized data, valuable time is lost when the air conditioner fails.

When the State Fund moved to its present location seven years ago, new mail processing equipment was purchased. This equipment has far exceeded volume specifications provided by the vendor but needs to be replaced in FY 1992. We need to replace two mailing machines, a folding machine, and an electronic scale. The State Fund mail room staff processes nearly two million documents a year. Replacement of mail room equipment will allow for improved staff efficiency, and we therefore do not need to request additional FTE's. Pitney Bowes has warned us they may no longer provide maintenance of our mail room equipment because of its condition and potential non-availability of parts.

Much of the State Fund's historical data, as well as financial data, is contained on microfiche to save valuable storage space. When this data needs to be accessed and printed on paper, a microfiche

reader-printer is utilized. The State Fund's one reader-printer is aging and is used by employees on all four floors. We feel the addition of one reader-printer is necessary in FY 1993.

Our legal staff relies on various reference materials for legal research. We are asking the continuance of \$555 a year in this category.

Also included in our budget request is the replacement of various dictaphones, calculators, typewriters, and the purchase of file cabinets. The equipment to be replaced has exceeded the life expectancy established in the state's fixed asset policy.

The LFA has recommended no computer software either year of the next biennium. Our request was for \$36,685 for the biennium. The last several legislative audits of State Fund operations have noted deficiencies in computer system security. We responded we would improve this area if funding is provided. Included in this budget request is \$6,500 for an extended security package to allow us to comply with the audit recommendation.

The present word processing software was installed in 1984. We want to replace the present version with upgraded software. This software includes improved security, unlimited libraries, easier administration, and more functional flexibility.

Software used on personal computers must be licensed individually. The State Fund recently networked many users together, allowing the sharing of software at a greatly reduced cost. For example, if 25 users needed a spreadsheet package, it may have cost \$358 each, or \$8,950. By purchasing one network version of the spreadsheet package for \$436, and 24 licenses for \$213 each, we realize a savings of \$3,402. This is but one example of the savings that can be realized. We are requesting \$4,585 over the biennium for this type software.

State Fund clerical staff in the Legal Department need WorkPerfect software. Present word processing software is not conducive to legal documents. For example, legal secretaries frequently use the strike-through function in lengthy legal documents. Our staff must manually take a pen and ruler and draw lines through data. We are also requesting a software analysis package to assist in developing retrospective rating plans for policyholders. Because of current data processing limitations, this product is unavailable to policyholders. Purchase of this software could result in the State Fund's acquisition of policyholders who might otherwise be insured elsewhere.

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If the Committee feels it necessary to reduce our software request, we would take out the computer-based training software for \$6,000 in FY '92 and the systems utility upgrades in '93 for \$10,000. However, we still feel the software is necessary.

8. Transfers

The State Fund pays a portion of the cost of SRS rehabilitation panels. SRS provided us with their cost after the initial budget was submitted, and as stated by Ms. Steinbeck, this technical adjustment of \$20,195 needs to be made.

9. Correction to Fiscal Year 1990 Actual Expenditures

During FY 1990, upon implementation of the new organization, a major accounting change was mandated. The State Fund's financial activity for the year is recorded in two different agencies and fund types. With the movement to the new Enterprise Fund, many costs not previously budgeted must now be budgeted. Most notably, benefit payments, legal fees, and safety incentive refunds to businesses that institute safety programs must now be funded through the appropriation process.

This accounting change and the resulting confusion caused \$300,870 a year in legal fees and \$102,566 a year in premium refunds to be omitted from the LFA recommendation. As Ms. Steinbeck noted, these technical adjustments need to be included in our budget.

In closing, I would like to quote from the Price Waterhouse report, as follows:

"Overall, we found the State Fund guided by individuals knowledgeable in workers' compensation insurance. While their initiatives to comply with legislative intent and new operating goals have resulted in a large number of operating changes, the thrust of these changes is in the right direction. Their goal is to improve management control, future profitability, policy and claim services, and overall operating effectiveness and efficiency."

As previously stated, the cost of all Executive Budget recommendations, along with the other additions we have requested, still falls below the 10% limitation imposed by our Board of Directors. Even though we said we could forego certain items as we presented the budget details, I urge your approval of a total budget of \$123,923,008 in FY '92, and \$131,106,626 in FY '93. We are a new organization trying desperately to improve the service we provide while maintaining an actuarially sound operation. In order to make these improvements, we need an adequate operating budget, a budget that allows some flexibility to deal with changes as they need to be made.