

**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES  
53rd LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON APPROPRIATIONS**

**Call to Order:** By SENATOR JUDY JACOBSON, on January 5, 1993, at  
7:00 a.m.

**ROLL CALL**

**Members Present:**

Rep. Tom Zook, Chair (R)  
Rep. Ed Grady, Vice Chair (R)  
Rep. Francis Bardanouve (D)  
Rep. Ernest Bergsagel (R)  
Rep. John Cobb (R)  
Rep. Roger DeBruycker (R)  
Rep. Marj Fisher (R)  
Rep. John Johnson (D)  
Rep. Royal Johnson (R)  
Rep. Mike Kadas (D)  
Rep. Betty Lou Kasten (R)  
Rep. Red Menahan (D)  
Rep. Linda Nelson (D)  
Rep. Ray Peck (D)  
Rep. Mary Lou Peterson (R)  
Rep. Joe Quilici (D)  
Rep. Dave Wanzenried (D)  
Rep. Bill Wiseman (R)

**Members Excused:** None

**Members Absent:** None

**SENATORS PRESENT:**

Sen. Judy Jacobson  
Sen. Harry Fritz  
Sen. Gary Forester  
Sen. Larry Tveit  
Sen. Mignon Waterman  
Sen. Chris Christiaens  
Sen. Thomas Keating  
Sen. Cecil Weeding  
Sen. Gary Devlin  
Sen. Greg Jergeson  
Sen. Eve Franklin  
Sen. Gary Aklestad  
Sen. Tom Beck  
Sen. Don Bianchi  
Sen. Dennis Nathe  
Sen. Chuck Swysgood  
Sen. Bob Hockett

Sen. Ethel Harding  
Sen. Eleanor Vaughn

**Staff Present:** Terry Cohea, Legislative Fiscal Analyst  
Mary Lou Schmitz, Committee Secretary

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

**Committee Business Summary:**

Hearing: Joint Meeting of the House  
Appropriations and Senate Finance and  
Claims Committee

**Ms. Terry Cohea, Legislative Fiscal Analyst,** discussed Budget Basics, Table 4, Fixed Costs Included in Current Level Budgets, **EXHIBIT 1.** She mentioned three issues concerning these in an effort to give them an overview. She referred to pages 132 and 133 in the Budget Analysis Book and second page of the Blue Handout, **EXHIBIT 1.** Her Office worked with the Budget Office to determine all the inflation and deflation factors that were applied to the FY 92 actual expenditures. She explained Table 5, Expenditure Item Category and the Expenditure Codes. **Ms. Cohea** explained the factor that was applied to the 1992 base to get to the 1994 cost, as an example. Take the 1992 expenditure for canned goods for the agency and multiply, or increase, that by 5.4 percent. To get to the 1995 price, the 1992 base is used with an 8.8 increase.

There are also some substantial deflation factors, which is an important concept as the committee members go through the agency budgets. **Ms. Cohea** referred to the Department of Administration ISD, Computer Processing (expenditure code 2172). The 1992 base is actually reduced by 30% and then 1992 to 1995 by 38%. Agencies that have a large amount of data processing will notice this significantly reduces expenditures as we move into the 1995 Biennium. She referred to pages 133 and 134 of the gray sheets and then the next page of the blue sheets and explained how these factors are determined.

**Executive Action:** REP. BARDANOUVE moved to adopt the fixed costs throughout all budgets. **MOTION CARRIED.**

**Discussion:** SEN. AKLESTAD asked what is so magic about the inflationary figures 5.4% and 8.8%. **Ms. Cohea** used the example of the food category and said the 5.4 and 8.8 were based on the Implicit Price Deflator, a federal index described the paragraph on the following page. OBPP and LFA also talked to the agencies, got their best guess on what they have to buy and what it will cost. National index projections were used for what inflation would be. For utility costs, the utility companies were called and asked what they felt the price increases would be. Essentially, this is LFA and Budget Office's best guess what inflation will be for these items for 1994 and 1995. No general

inflation factor was applied. When times were better (for state revenues) there were often general inflation factors applied to every item in state agency budgets. Since 1986, the Legislature has not been doing that. Staff has been directed to pick only those items that will appear to have very significant increases or decreases and concentrate on those. If a general inflation factor was applied, it would substantially increase the cost of agency operations. From the agency perspective, because there is not a general inflation factor, they are actually not receiving as much as they will have to pay out in the future.

**Ms. Cohea** directed the committee's attention to the three fixed costs areas in which there are issues they may want to discuss. The first is the State Auditor's warrant writing and payroll fees.

**Clayton Schenck**, office of the Legislative Fiscal Analyst, presented the issues on Page A-65, Volume I, Budget Analysis, 1995 Biennium. An Agency estimates what the costs are for operating particular functions and then they allocate the charge. In the case of Non-General Fund Agencies, his office determines the percentage of those checks that are issued and then those Agencies are allocated at cost. What is at issue is the amount that is used to estimate that cost and the Agency does this in advance of the actual budget presentation and they estimate those costs. He referred to Table A, Page A-66 which shows what the Agency requested initially for these two activities for the two fiscal groups. For both of these programs, these fees will result in approximately \$210,000 in overcharges that will simply sit in the state's special revenue account until next biennium. The committees might want to discuss whether these fees are appropriate or whether they should be lower to more closely reflect the current level budget. Since there is a big difference between the LFA current level and the Executive Budget regarding warrant writing it is somewhat complicated until the Subcommittees and Appropriation Committee decide which level they are going to recommend.

**REP. COBB** asked **Mr. Schenck** if they should wait until the Subcommittee makes its decision or make that decision now? **SEN. JACOBSON** said they could ask the Subcommittee to address this first as they begin their work but right now they want to hear from the Agencies.

**Dave Hunter, Deputy State Auditor**, said they would be happy to work with the Committee and said the issue is a couple of Modifieds the Agencies requested that would change the budget. Maybe the best way to proceed is to ask the Subcommittees to deal with it first.

**SEN. JACOBSON** asked **REP. PETERSON** if she had any problem with taking this issue up first in her Subcommittee so the Committee can adjust? **REP. PETERSON** said they can do it now.

Roger Lloyd from the Fiscal Analyst Office presented the issue on the Fish, Wildlife and Parks capitol grounds maintenance fees, Page C-15, **EXHIBIT 1**. He discussed two issues concerning capitol grounds fixed costs. The first issue is the larger expenditure level for the program in the executive budget than is in the LFA current level. Because of this, the agencies are charged a higher capitol grounds maintenance fee in the executive budget than would be sufficient to fund the LFA current level. These fees proposed by the executive are included at the higher level in the LFA budget for all agencies. This larger executive budget involves three factors: 1) the LFA has approved half of the FTE and \$21,000 of expenditures from a budget modification that was approved by the 1991 legislature. This budget modification provides staff to replace trees and shrubs killed by the 1988 winter. This modification was presented as a one-time expense to be eliminated once all the trees and shrubs were replaced. The executive budget contains these expenditures in FTE in its current level: 2) The LFA has removed \$2300 of expenditures that were used for emergency snow removal. These are continued in the executive budget current level: 3) The executive budget includes an increase of approximately \$28,000 this year for the Department's administrative costs. This is a new expense for the program. The 1991 legislature directed the Department to redo methods for allocating administrative costs to the state's special revenue accounts.

The second issue concerning capitol grounds maintenance is a change in the method of allocating fees to the various agencies to fund this program. Currently, for the 1993 Biennium, only agencies within the capitol complex are charged fees based on square footage office space. Under the executive budget, these agencies again are charged a fee based on square footage, but an amount needed to generate only 1/2 of the program's costs. The other half of the program's cost would be generated from the fee to all agencies based on FTE. An analysis of this method of allocation compared to the current method is that the executive level of expenditures would have a \$54,000 General Fund impact for the biennium.

**REP. COBB** asked if other agencies maintain their own grounds. If they are out of town and not in the capitol complex do they have to pay for the grounds maintenance on the complex? **Mr. Lloyd** said agencies outside the capitol complex will pay half the costs, based on FTE's.

**SEN. FRITZ** asked if the University system, whose plants maintain building and grounds operations and keep up the shrubs and plants on their own campuses are now going to be paying to keep up the shrubs and plants on the capitol complex? Roger said that is correct.

**Pat Graham, Department of Fish, Wildlife and Parks**, addressed the Tree and Shrub Replacement and requested this issue remain in the budget for two more years. The emergency snow removal program

cannot anticipate an average cost for an extreme year. To spend money out of that emergency account requires approval from the Governor's office. It is only used for contract shoveling, repairs and supplies. The issue is to protect public employees as well as public access with concern over liability issues. These issues are not add-ons but part of the base budget.

**Dave Mott, Department of Fish, Wildlife and Parks**, said the Appropriation Subcommittee struggled two years ago with the issue of how to help the administrative costs in their Agency. When there are one or two funding sources, that generally isn't a problem. For the past five or six years, the Department has taken on several programs that need funding sources. The Subcommittee along with the Agency thought it would be appropriate to look at how they allocate all the costs now and try to come up with a better and more equitable system to do that. Their intent was not to look at just a few of the programs they have but develop a system for the Agency. The \$28,000 in the LFA report represents what they view as a fair assessment for administrative costs that relate to the building and grounds program.

**SEN. BECK** asked if the department is continuing to use license dollars? **Mr. Mott** said yes.

**SEN. AKLESTAD** asked why the subcommittee did not deal with this prior to this. **CHAIR JACOBSON** said the reason they are bringing it before the committee today is because it affects every budget in every subcommittee. When fees are charged the so the University system for the first time is going to be paying for Capitol grounds fees to maintain the Capitol complex. It is important that all the subcommittees are aware of what will happen if that is adopted in that particular subcommittee. It will come back and affect all budgets. She is not suggesting this committee has to make a decision but if the subcommittee is making that decision then every other subcommittee ought to know how it is affecting their budget.

**SEN. WEEDING** said he recalls having the same problem with the Department of Agriculture last session and treated them the same way. They administer a number of programs and bear all of the administrative costs from their general fund appropriation. They instructed them to investigate, at least, the possibility of allocating those costs to whatever these outside programs were.

**SEN. BIANCHI** asked to make a few comments as far as the overhead assessment is concerned. If, in fact, these are hunting and fishing license dollars that are used that is a diversion of funds and that could affect future funding of the federal monies of the department. It should not be the responsibility of hunters and fishermen to pay for removing the snow or whatever is done on Capitol grounds. He feels 10% overhead is a justifiable expense and not unreasonable for this type of program. He asked **Mr. Mott** how they can justify charging the University system, for

example, based on the FTEs, for cleaning the Capitol grounds when they are not even here. Could it not be corrected so it is fair? **Mr. Mott** said their budget is around \$300,000 per year. This allocation results in about \$35,000 per year for the University systems and about \$20,000 per year to the Department of Transportation.

**REP. KADAS** asked **Mr. Mott** if he was concerned about the Fish and Game dollars why did he not ask for General Fund dollars to displace this rather than assessing everyone? If it is really a common area it should come out of the General Fund. **Mr. Mott** said not all the dollars are General Fund. Buildings and grounds are also funded in other agency budgets.

**REP. COBB** said maybe they could allow the subcommittees to take up the issues about expenditures between executive and LFA but as to a policy issue whether they should charge other agencies outside the Capitol complex, they should decide that right now.

**Executive Action: Motion: REP. COBB** moved to allow the subcommittees to decide the issue of expenditures, (whether LFA or Executive), but not to adopt the executive budget suggestion for the fees based on FTE's and simply go back to the old method, (square footage).

**SEN. KEATING** asked if it is necessary to do the accounting this way. **CHAIR JACOBSON** said this is the same question **REP. KADAS** asked and if they do it that way will end up with just General Fund money and won't pick up Federal and State special. This is a judgement this committee has to make.

**SEN. KEATING** said what will happen next is they will work these programs just the way they do Vacancy Savings. They will start what they are charging departments and filter money back into little pots so they can scrape the cream off with a Supplemental.

**REP. FISHER** asked would they lose federal funding if they don't break it into these small items? **CHAIR JACOBSON** said they don't lose them but they don't use them on this.

**Vote: MOTION CARRIED.**

**EXECUTIVE ACTION: Motion: SEN. BIANCHI** moved that a policy statement should be made from these committees that they do not allow any diversion of any hunting and fishing license funds for the maintenance of the Capitol grounds.

**Ms. Cohea** asked for a clarification from **SEN. BIANCHI** concerning the motion. Would that mean that Fish and Game would not pay a fee based on square footage like other agencies in the Capitol or would this deal more with making sure that the 10% administrative costs were in the base that is allocated? As long as you leave the 10% administrative costs in the formula, then there is not the diversion of fish and game fees. **SEN. BIANCHI** said yes, that

was the intent of the motion.

REP. JOHNSON said the last motion decided that point as they turned it back to the committee. CHAIR JACOBSON said they did but SEN. BIANCHI was looking for a little comfort level. SEN. WEEDING said the Fish and Game is not the only one that has monies within a diversion. Agriculture has some substantial amounts. He did not see a need for this motion.

Vote: Motion failed.

SPEAKER MERCER said the House of Representatives would like to try to get to the issue of the Budget sooner and are taking four members from the Tax committee and four members from the Appropriation committee right away and try to agree on the amount of projected general fund deficit and try to come up with some allocations between the reduction side and the Revenue increase side. This committee would try to set some targets for the subcommittees. It is simple experiment to try to force them to look at the big picture sooner instead of waiting until the last minute.

ADJOURNMENT

Adjournment: 8:00 A.M.

  
SENATOR JUDY JACOBSON, Chair

  
MARY LOU SCHMITZ, Secretary

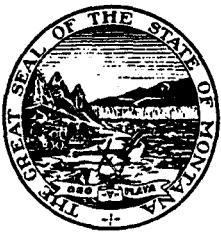
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ROLL CALL - HOUSE APPROPRIATIONS  
SENATE FINANCE AND CLAIMS

Representative	Mary Lou Peterson
"	Marjorie Fisher
"	Joe Quilici
"	John Cobb
"	Betty Lou Kasten
"	David Wanzenried
"	Roger DeBruycker
"	John Johnson
"	William Wiseman
"	Ed Grady
"	Wm. "Red" Menahan
"	Linda Nelson
"	Royal Johnson
"	Mike Kadas
"	Ray Peck
"	Ernest Bergsagel
"	Francis Bardanouve
"	Tom Zook

Senator	Judy Jacobson
"	Harry Fritz
"	Gary Forrester
"	Larry Tveit
"	Mignon Waterman
"	Chris Christiaens
"	Thomas Keating
"	Cecil Weeding
"	Gary Devlin
"	Greg Jergeson
"	Eve Franklin
"	Gary Aklestad
"	Tom Beck
"	J. D. Lynch
"	Don Bianchi
"	Dennis Nathe
"	Chuck Swysgood
"	Bob Hockett
"	Ethel Harding
"	Eleanor Vaughn





STATE OF MONTANA

*Office of the Legislative Fiscal Analyst*

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-2986

TERESA OLCOTT COHEA  
LEGISLATIVE FISCAL ANALYST

TENTATIVE AGENDA  
JOINT MEETING OF THE HOUSE APPROPRIATIONS AND  
SENATE FINANCE AND CLAIMS COMMITTEE  
Tuesday, January 5, 7:00 AM  
Room 312-2

- I. Call to order and roll call
- II. Introductory remarks--Senator Jacobson, Representative Zook
- III. Fixed costs
  - A. General overview--LFA and OBPP staff
  - B. Issues concerning
    - 1) State Auditors' warrant writing and payroll fees
    - 2) DFWP capitol grounds maintenance fee
    - 3) DofA's tort claims insurance premiums
- IV. Policy issues
  - A. Vacancy savings
  - B. 5% FTE restorations
  - C. Handling FTE changes
- V. Adjournment

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## BUDGET BASICS

percent. In the January and July special sessions, it reduced some agencies' vacancy savings and increased vacancy savings for other agencies. In addition, it imposed general budget reductions, which many agencies met by holding positions vacant.

Neither the Executive Budget nor the LFA current level contains vacancy savings in the 1995 biennium. The Legislative Finance Committee directed the LFA staff to prepare the LFA current level budgets without vacancy savings, in order to provide the legislature with information on the full cost of funding authorized FTE in the 1995 biennium. Based on this information, the legislature can decide during the appropriation process at what level (if any) to impose vacancy savings.

### Fixed Costs

Agencies are charged fees (called fixed costs) for a variety of services purchased from other state agencies. The executive and LFA current level use the same fixed costs for the following services: DofA insurance and bonds (2104), State Auditor warrant writing fees (2113), State Auditor payroll service fees (2114), Legislative Auditor audit costs (2122), DofA network fees (2174), messenger services (2307), DofA rent (2527), and capitol complex grounds maintenance (2770). As Table 4 shows, these fixed costs total \$27.7 million during the 1995 biennium.

Concerns about the warrant writing fees and payroll service fees are discussed in the State Auditor agency narrative. Concerns about the capitol complex grounds maintenance fee are discussed in the Department of Fish, Wildlife, and Parks agency narrative.

Table 4  
Fixed Costs Included in Current Level Budgets  
1995 Biennium

<u>Agency Providing Service</u>	<u>Service</u>	<u>(Millions)</u>
Administration	Insurance and bonds	\$10.6
	Network services	5.4
	Messenger services	0.3
	Rent	6.2
State Auditor	Warrant writing fees	1.1
	Payroll service fees	0.7
Legislative Auditor	Audits	2.8
Fish, Wildlife, & Parks	Grounds maintenance	0.6
Total		\$27.7

### Inflation Factors

Neither the Executive Budget nor the LFA current level includes a general inflation factor for all operating expenses. Instead, both apply inflation (or deflation) factors to specific expenditure items.

OBPP and LFA staff agreed on inflation/deflation factors for all expenditure items. Table 5 shows the inflation/deflation factors used in both budgets. Following the table is a summary of the data used in preparing the inflation/deflation factors.

## BUDGET BASICS

Table 5  
Inflation/Deflation Factors

<u>Expenditure Item Category</u>	<u>Expenditure Code</u>	<u>FY 1992 to FY 1994</u>	<u>FY 92 to FY 1995</u>
Food	2117,2145,2205,2251,2252,2253,2254 2264,2275,2277,2278,2279,2288,2289 2291,2292	1.0540	1.0880
Energy, Gasoline & Oil	2216,2242,2294,2297,2602,2604,2607 2716,2724,2725,2726,2730,2731	1.0430	1.0910
Medical Care & Supplies	2106,2109,2116,2118,2119,2170,2208 2209,2222,2265	1.1150	1.1820
Misc Government Purchases	Various	1.0330	1.0650
Dept of Administration - ISD			
Computer Processing	2172	0.7000	0.6200
Information Central Services - Training	2177	1.1400	1.2100
Operational Support	2183	1.1500	1.1500
Telephone Equipment	2370	0.7900	0.7400
Telephone/Add/Move/Change	2372	1.0900	1.1400
Telephone Equipment Maintenance	2373	1.1000	1.1500
Local Voice Circuits	2376	1.0700	1.0900
Voice Circuit/Add/Move/Change	2378	1.0600	1.0800
Long Distance Charge	2385	0.9000	0.8600
Dept of Administration - Central Stores			
Coarse Paper	2211	1.0739	1.0542
Fine Paper	2226	1.0564	1.0455
Forms	2219	0.9943	0.9653
Office Supplies	2236	1.0813	1.0399
Janitorial	2256	0.9995	0.9856
Computer Paper	2296	1.0726	1.0708
Software	3403	1.2469	1.2469
Dept of Admin-Publication and Graphics			
Photocopy Pool Services	2193	1.0000	1.2000
Printing P & G	2190	1.1200	1.1300
Travel			
In-State Motor Pool	2404,2415	0.9057	0.9070
Other In-State/Out of State	2401,2411,2414	1.0330	1.0650
Postage & Mailing	2304	1.0360	1.0340
Non-Department of Administration Items			
Printing / Other Provider	2191	1.1500	1.1900
Printing	2214	1.1200	1.1300
Telephone Equipment Charge	2371	1.0400	1.0600
Long Distance Charge	2386	1.0200	1.0400
Electricity - MPC	2601	1.0765	1.1365
Electricity - MDU	2601	1.1007	1.1305
Natural Gas - MPC	2603	1.1460	1.1610
Natural Gas - MDU	2603	1.0401	1.0257
Water & Sewage	2605	0.9300	0.9300

## BUDGET BASICS

### Implicit Price Deflator

The Implicit Price Deflator (IPD) measures the increase or decrease in prices of goods and services included in U.S. Gross Domestic Product. A unique measure of the IPD can be derived for each category of good and service. Food items were inflated by the IPD for food and beverages. Gasoline and oil products were inflated by the IPD for energy, gasoline and oil. Medical care and drugs were inflated by the IPD for medical care. Miscellaneous government purchases were inflated by the IPD for state and local noncompensatory government expenditures.

### Department of Administration

#### *ISD Computer and Telephone Costs*

The Information Services Division (ISD) reduced computer processing rates for fiscal 1993 by 5 percent, and continued reductions are expected in fiscal 1994 and fiscal 1995. Mainframe computer processing costs will be reduced 30 percent below fiscal 1992 rates in fiscal 1994 and 38 percent in fiscal 1995. These reductions are possible due to technological enhancements that improve the price/performance of computers and growth in mainframe utilization, both of which drive down the per unit cost of processing. Moving the driver's license and motor vehicle registration from the computer at the Department of Justice to the state mainframe and full implementation of the Economic Assistance Management System (TEAMS) are responsible for a large part of the utilization growth.

End user support and training costs increase 14 percent over fiscal 1992 rates in fiscal 1994 and 21 percent in fiscal 1995.

Rates decrease for DofA-owned telephone equipment charges and DofA contracted long distance service. Equipment charges decline as payments to the equipment lease-purchase reserve have been completed in fiscal 1992. Long distance charges decline due to anticipated competition among vendors and increased volume of calls.

Other communications expenses (2300 series) will increase. Private vendors provide these services and

DofA passes costs through to users. These rate increases are determined by private vendors.

#### *Central Stores*

Central Stores purchases, sells and delivers office supplies, paper, forms, janitorial supplies and computer software. While the cost of forms and janitorial supplies decreases, the cost of coarse paper, computer paper/fine paper, office supplies, and computer software increases, due to anticipated vendor price changes and allocation of central stores overhead.

#### *Publication and Graphics.*

DofA will increase rates by: 1) 12 percent in Publication and Graphics' printing rates in fiscal 1994 and 13 percent in fiscal 1995; 2) 15 percent in pass-through printing in fiscal 1994 and 19 percent in fiscal 1995; and 3) 20 percent in photocopy pool rates in fiscal 1995.

Cost increases are driven by anticipated increased costs in printing and copying supplies and in contracted printing and photocopy pool prices. DofA estimates that some increase is due to House Bill 160, passed by the 1991 Legislature, that requires the department to use recycled paper, which costs more than regular paper.

#### *Postage and Mailing*

Central mail rates increase 3.6 percent in fiscal 1994 and 3.4 percent in fiscal 1995. These rates reflect changes for several services: 1) pickup, delivery, presort, and meter mail for most agencies; 2) mail delivery (deadhead) among state agencies; 3) operation of a U.S. Postal Office; and 4) UPS and express mail service. Each of these services has rate changes that are combined to form the aggregate change. Deadhead (internal) mail rates will decrease 36 percent due to increased volume.

### Other Expenditure Items

#### *Utilities*

Inflation rates for electricity and natural gas were based on surveys of Montana Power Company (MPC) and Montana-Dakota Union Power Company (MDU). MPC projects that rates will be 7.65 percent higher in fiscal

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## BUDGET BASICS

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1994 and 13.65 percent higher in fiscal 1995 than in fiscal 1992. MDU projects electrical rates will be 10 percent higher in fiscal 1994 and 13.05 percent higher in fiscal 1995 than in fiscal 1992.

MPC's staff anticipate natural gas rates will increase substantially in the 1995 biennium due mainly to increased natural gas costs. The MPC inflation factors for natural gas are 14.46 percent increase in fiscal 1994 and 16.1 percent in fiscal 1995. MDU staff project a small increase in the cost of natural gas in 1994 and a decline in natural gas prices in fiscal 1995, which is reflected in MDU inflation factors.

### *Travel*

The Department of Transportation plans to decrease in-state motor pool rates an average 9.43 percent between

fiscal 1992 and fiscal 1994 for all vehicle types and make only a slight upward adjustment in fiscal 1995. The reduction in fiscal 1994 is due to the final payment at the end of fiscal 1993 of a 1989 loan for replacement vehicles.

Rates for other in-state and out-of-state travel are inflated by the IPD for state and local government expenditures.

### *Water & Sewage Rates*

Water rates will decline during the 1995 biennium, primarily due to reductions in the Helena area resulting from retirement of revenue bonds for the construction of the Ten Mile Creek facility.

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State Auditor's Office

Elected Officials Budget Modifications							
State Auditor Budget Modification	P G	Fiscal 1994			Fiscal 1995		
		FTE	General Fund	Total Funds	FTE	General Fund	Total Funds
1 Restore 5% Reductions	03	1.00	\$35,934	\$35,934	1.00	\$35,977	\$35,977
2 Restore 5% Reductions	04	1.00	33,056	33,056	1.00	33,106	33,106
3 Restore 5% Reductions	10	<u>0.33</u>	<u>6,520</u>	<u>6,520</u>	<u>0.33</u>	<u>6,520</u>	<u>6,520</u>
Totals		2.33	\$75,510	\$75,510	2.33	\$75,603	\$75,603

would require reassignment of a criminal investigator to these duties, with a 50 percent reduction in criminal investigations.

3) Restore 5% Reduction - This budget modification would restore a 0.33 FTE administrative clerk removed from the Fiscal Control and Management program in accordance with section 13 of House Bill 2. The position processes lost, destroyed, forged, returned, canceled, and stale-dated warrants.

Funding for all of these positions is included in LFA current level.

## Issue

### Fixed Cost Fee Allocations

The State Auditor's Office provides two services to state agencies that are funded by fees charged to customer agencies -- the state payroll and the state warrant writing systems. Fees are allocated to agencies based upon an estimated program cost base, and the allocation is included in the user agency budget requests. The executive develops the cost allocation plan and approves the fee allocation to be charged to agencies. To allow easier comparison between the executive and LFA current level budgets in the agencies, the LFA current level uses the same estimated costs for the 1995 biennium for both the payroll and warrant writing services. However, the LFA did not review the reasonableness of the plans prior to inclusion in agency budgets.

Table A compares the cost allocation base used for the agency request and LFA current level for each system. As shown, the cost allocation base used to determine agency fees was higher than either of the proposed current level bases. This results in an over-assessment of fees to non-general fund customers when compared to the percent of services provided.

Table A shows the total fees that are included in agency budgets ("Executive Allocation Plan") for the 1995 biennium. If all of the state special revenues generated are appropriated in the 1995 biennium, non-general fund sources will pay a higher percentage of the cost of the services for both systems than they receive.

**Table A**  
**Fixed Cost Fee Allocations**  
 1995 Biennium

Description	-- Payroll System --		Warrant Writing System	
	Fiscal 1994	Fiscal 1995	Fiscal 1994	Fiscal 1995
<u>System Cost Base:</u>				
Agency Budget Request (Current & Modified Level)	\$531,416	\$532,990	\$690,308	\$680,088
LFA Current Level	593,458	533,830	698,581	675,732
Executive Allocation Plan (Assessment to Agencies)	643,448	645,955	761,623	781,199
<u>Non-General Fund Support:</u>				
Percent of Services Provided to Non-Gen. Fund Pgms	55.50%	55.50%	71.35%	71.56%
Fees Generated by Executive Allocation Plan	\$357,087	\$358,812	\$543,390	\$559,035
LFA Current Level (SSR Funds)	<u>329,369</u>	<u>296,276</u>	<u>499,485</u>	<u>483,148</u>
Excess Fee Collections	\$27,718	\$62,536	\$43,905	\$75,887

LFA current level prorates the funding for both systems at the level of services received as determined in the cost allocation plan. Therefore, state special revenue funds 55.5 percent of the state payroll system and 71.35 percent of the warrant writing system. Utilizing this method of funding results in an accumulation of over \$90,000 in excess state payroll service fees and nearly \$120,000 of excess warrant writing fees during the 1995 biennium. These excess fee collections would remain in the agency's state special revenue account if the legislative appropriation approximates LFA current level.

Reduction of the agency fees allocation for these systems to match the appropriation for the 1995 biennium would result in a \$210,000 reduction in agency budgets from all fund sources.

26) 1993 Appraisal Cycle - The Executive Budget includes \$182,347 general fund over the biennium for costs associated with property appraisal and tax appeals to the State and County Tax Appeal boards. The executive anticipates appeals will increase at the end of the current reappraisal cycle, December 1992. Most of the funds are requested in fiscal 1994. In comparison, the agency spent about \$346,000 more for appeals costs in fiscal 1987 than in 1986 at the end of the last reappraisal cycle, and about 121,000 more in fiscal 1988 than in fiscal 1986 (the second year after completion of the reappraisal cycle).

## Issues

### Risk Management and Tort Defense Insurance Rates

The state of Montana is self-insured for general liability and automobile coverage (\$3.125 million in premiums in fiscal 1992), and purchases commercial insurance for property, aircraft, and other risks (\$837,867 in premiums in fiscal 1992). Both the Executive Budget and LFA current level include a \$2.4 million increase in self-insurance and commercial insurance premiums for the 1995 biennium, 29 percent more than premiums charged in the 1993 biennium. In addition to funding ongoing operating expenses, the increase would support: 1) \$760,000 for a deductible reserve; 2) a 5.0 percent increase in the cost of commercial insurance premiums (about \$87,400 each year); 3) a \$300,000 budget modification for contracted legal services; and 4) a \$30,000 budget modification for appraising state buildings. The deductible reserve would fund property insurance deductibles of \$100,000 per occurrence. The cost of deductibles has not been included in insurance premiums before. RMTD has paid deductibles from the self-insurance fund balance.

Even with a \$2.4 million premium increase over the biennium, the cash balance of the self-insurance fund is estimated to decline by nearly \$1.59 million over the 1995 biennium. Annual premium income does not cover projected claims and operating costs in either fiscal 1994 or 1995. Table B shows the actual cash balance of the self-insurance fund for fiscal years 1987 through 1992 and the projected cash balance through fiscal 1995. The projected cash balance of the fund in fiscal 1995 (\$497,190) is below the statutory limit of \$750,000 liability for a single claim and below the amount that RMTD would like to set aside for a deductible reserve (\$780,000). Premium income in Table B includes premium payments for commercially purchased policies as well as the self-insurance premiums for automobile and general liability coverage.



**Table B**  
**Actual and Estimated Self-Insurance Cash Balance**  
 Fiscal Year 1987 through Fiscal Year 1995

Year	Beginning Balance	-----Revenue-----		Interest Earnings	-----Expenditures-----		Operating Costs	Ending Balance	Annual Increase (Decrease)
		Premiums	Insurance Proceeds**		Claims***	Loss Adj. Expenses			
1987	\$8,003,971	\$2,997,010	0	\$639,668	\$5,423,718	\$167,367	\$1,178,495	\$4,871,069	(\$3,132,902)
1988	4,871,069	3,492,277	0	548,812	2,329,460	194,950	943,318	5,444,430	573,361
1989	5,444,430	3,282,854	612,128	578,549	2,608,783	390,146	1,374,222	5,544,810	100,380
1990	5,544,810	3,699,927	2,296	516,399	1,429,083	1,551,054	1,207,966	5,575,329	30,519
1991	5,575,329	3,750,342	141,466	595,004	3,301,918	1,249,749	1,100,013	4,410,461	(1,164,868)
1992	4,410,461	3,981,486	294,946	461,565	2,856,445	1,353,058	1,215,019	3,723,936	(686,525)
1993*	3,723,936	4,213,193	0	425,485	3,574,615	1,450,000	1,248,708	2,089,291	(1,634,645)
1994*	2,089,291	4,777,021	0	238,716	3,301,292	1,503,058	1,446,732	853,946	(1,235,345)
1995*	853,946	5,827,966	0	97,569	3,301,292	1,503,058	1,477,941	497,190	(356,756)

\*Estimated

\*\*Insurance proceeds are unpredictable and are not estimated for FY 93-FY 95. Insurance proceeds, received from commercial insurance carriers, are deposited in the self-insurance fund and applied directly to payment of the loss.

\*\*\*Claims expenditures are for lawsuits and pro se claims paid from the self-insurance fund.

Source: Department of Administration and the Executive Budget

Actuarial reviews of the self-insurance program concluded that it has an unfunded liability (cash assets will not cover potential losses). A 1986 actuarial report estimated total liability at \$38 million. Estimated total liability for the self-insurance fund has declined in each of a series of actuarial reviews over the last several years. The most recent review (March 1992) placed total projected losses for fiscal 1981 through fiscal 1992 at \$15 million (\$18 million through fiscal 1993).<sup>1</sup>

The actuarial reports attribute the decline in total liability to statutory changes limiting state liability to \$750,000 for each claim and \$1.5 million for each occurrence (section 2-9-108, MCA). Division personnel also attribute the improvement to: 1) more timely response to claims and lawsuits filed against the state and 2) the administrative philosophy of resolving claims that have merit and aggressively defending and litigating all other cases.

Total premium payments in fiscal 1992 were \$4.0 million--\$3.125 for self-insured risks and about \$838,000 for commercial coverage. If the executive were to fund current level operating costs and the minimum actuarially-estimated discounted losses in fiscal 1994, premium income would need to be raised by about \$2.5 million (59 percent) above fiscal 1992 budgeted premiums. Fiscal 1995 premium income would need to increase about \$3.0 million (67 percent) above fiscal 1992 budgeted premiums. The proposed premium rates for self-insurance are \$3.7 million lower than the amount estimated to fund minimum discounted losses.

In addition to rate increases, agency budgets for insurance costs are changing due to the allocation of self-insurance premium among agencies. Table C compares insurance premiums charged to agencies in the

<sup>1</sup>These estimates represent the lowest of a range of three actuarial projections of discounted losses. Discounted estimates assume cash is set aside to pay future claims and that set aside funds earn 6.0 percent interest compounded annually. The lowest undiscounted estimate of projected losses through fiscal 1993 is \$22 million.

1993 biennium to those proposed for the 1995 biennium. Premium differences are due to: 1) a change in method of allocating insurance premiums; and 2) the \$2.4 million proposed premium increase.

Table C  
Budgeted and Proposed Insurance Premiums  
(Including Commercial Insurance)

Agency	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995	Biennial Change Amount	Percent	94 to 95
Administration	\$191,776	\$205,871	\$169,081	\$187,102	(\$41,463)	(10.43)	10.658
Agriculture	8,803	9,181	21,517	27,143	30,676	170.58	26.144
Arts Council	425	450	1,419	1,804	2,348	268.32	27.139
Board of Education	731	774	613	784	(108)	(7.19)	27.795
Board of Crime Control	1,468	1,554	1,943	2,482	1,403	46.43	27.766
Commerce	62,043	64,115	66,969	84,569	25,380	20.12	26.282
Comm. Pol. Practices	326	344	508	645	483	72.03	27.089
Consumer Council	399	423	602	767	547	66.58	27.485
Corrections and Human Services	328,980	347,765	370,592	449,407	143,255	21.17	21.267
Environ. Quality Counc.	260	274	1,087	1,378	1,931	361.53	26.738
Family Services	72,401	75,377	164,572	196,134	212,928	144.09	19.179
Fish, Wildlife, & Parks	441,671	464,460	220,215	273,395	(412,521)	(45.53)	24.149
Governor's Office	8,847	9,087	13,596	16,306	11,967	66.73	19.932
Health	29,393	31,013	52,675	67,475	59,745	98.91	28.097
Highway Traffic Safety	635	671	1,458	1,863	2,015	154.30	27.793
Historical Society	21,414	21,713	61,271	64,068	82,212	190.63	4.565
Justice	109,776	112,804	130,954	166,470	74,845	33.63	27.121
Lands	110,204	111,785	163,544	203,733	145,289	65.45	24.574
Labor and Industry	64,498	68,100	104,694	132,794	104,890	79.10	26.840
Legislative Auditor	2,467	2,594	9,136	11,623	15,698	310.18	27.221
Legislative Council	2,387	2,517	8,106	10,339	13,541	276.12	27.540
Legis. Fiscal Analyst	725	767	2,653	3,395	4,555	305.32	27.958
Library Commission	1,414	1,495	5,362	6,855	9,308	319.99	27.839
Livestock	19,002	19,347	41,190	49,479	52,320	136.43	20.125
Military Affairs	69,140	73,737	45,567	51,545	(45,765)	(32.03)	13.119
Natural Resources	44,185	45,504	69,829	83,797	63,936	71.29	20.003
Public Employees' Ret.	1,490	1,610	3,344	4,185	4,429	142.87	25.157
Public Instruction	29,435	30,896	28,498	35,435	3,602	5.97	24.341
Public Service Comm.	3,421	3,559	9,808	12,338	15,166	217.28	25.791
Revenue	91,748	95,514	131,992	165,918	110,647	59.09	25.703
School for Deaf & Blind	8,826	9,460	20,274	24,515	26,503	144.94	20.923
Secretary of State	1,363	1,434	4,682	5,857	7,741	276.77	25.097
Social & Rehab. Services	214,350	226,344	123,106	155,085	(162,503)	(36.87)	25.977
State Auditor	5,347	5,634	11,900	15,032	15,951	145.26	26.321
State Fund	62,374	65,997	37,945	47,043	(43,383)	(33.80)	23.977
Supreme Court	15,332	15,876	20,184	24,920	13,897	44.53	23.462
Teachers' Retirement	465	491	1,809	2,309	3,162	330.71	27.660
Transportation	996,618	1,041,962	1,660,426	2,106,886	1,728,732	84.80	26.888
University System	975,332	1,042,583	993,432	1,132,492	108,008	5.35	13.998
Vo-Tech Council	105	111	468	597	849	392.98	27.530
Total	\$3,999,576	\$4,213,193	\$4,777,021	\$5,827,966	\$2,392,218	29.13	22.000

SOURCE: "Actuarial Report to State of Montana Risk Management and Tort Defense Division Self-Insurance Fund"; Martin A. Lewis; Tillinghast; Denver, Colorado; March 17, 1992.

A number of years ago, RMTD staff developed a five-factor formula that was used to distribute self-insurance premium among agencies. After reviewing the formula, the RMTD actuary recommended a different allocation method based on the previous three years actual loss experience for an agency and the

number of FTE and vehicles in an agency relative to total state FTE and vehicles. These variables were designed to more closely associate premium allocation with loss experience and exposure.

The Department of Transportation (DOT) experiences the largest increase from fiscal 1992 to 1994 (\$1.7 million) because it has the highest loss experience of all agencies, accounting for 67 percent of all state losses over the three previous years and it also has the highest estimated exposure (25 percent of total FTE and vehicles). Other agencies experiencing large dollar increases are: departments of Family Services; State Lands; Corrections and Human Services; and Revenue. Other agencies experience decreases in the self-insurance premium allocation between biennia even though there is a \$2.4 million increase in total premium to be collected. These agencies are: departments of Fish, Wildlife, and Parks; Social and Rehabilitation Services; Administration; Military Affairs; State Fund; and the Board of Public Education.

Although the dollar changes are smaller, some agencies experience shifts that are comparatively larger than those experienced by DOT. For instance the Vocational Education Advisory Council, Environmental Quality Council, the Legislative Auditor, Library Commission, Legislative Fiscal Analyst, and Teachers' Retirement Division all experience premium increases proportionally higher than DOT. RMTD attributes these shifts more to the allocation methodology than the premium increase.

#### Establishing Self-Insurance Rates

The most recent actuarial report recommended that a reserve (surplus) account be established for RMTD. As noted earlier, the self-insurance fund is projected to have an ending cash balance of \$497,190 at the end of fiscal 1995. The unfunded liability of the self-insurance fund is estimated to be \$13.0 million (\$15 million total liability less \$2.0 million projected ending cash balance) as of the end of fiscal 1992.

The issue that the legislature faces in establishing rates to fund the self-insurance program is large premium increases to achieve actuarial soundness versus adopting premiums that support a "pay as you go" fund balance. The rates in the Executive Budget reflect a "pay as you go" concept. The danger in maintaining too low a fund balance is that more claims may come due than anticipated, necessitating a supplemental appropriation. The supplemental would be complicated if funds were recouped from all sources that pay insurance premiums. On the other hand, maintaining large surpluses may have an influence on the size of state liability established in lawsuits. The legislature will need to evaluate whether the rates recommended in the Executive Budget establish an acceptable cash and self-insurance fund balance for the 1995 biennium.

#### Subsidies Among Computer and Telecommunications Services

The 1991 Legislature approved funds for all agencies to pay a new fee to fund data network services. Agency budgets were adjusted to include authority to pay a monthly fee of \$40 per personal computer and \$30 per "dumb" terminal, adding about \$3.2 million to agency budgets over the 1993 biennium. However, part of the increase was offset by \$1.5 million in rate decreases for other computer services that had been supporting expanding network services. The network fee funded installation of a buried fiber optic cable in the capitol complex and continued purchase of equipment and software necessary to connect personal computers to the statewide data network and to local area networks. The statewide data network connects agency personal computers to the state mainframe and, via the mainframe, to personal computers in other agencies.

Even with the network rate increase, the department testified during the 1991 session that network services would need a subsidy from mainframe computer revenue of about \$600,000 in fiscal 1992 and about \$100,000 in fiscal 1993. However, the department anticipated that growth in the numbers of

Department of Fish, Wildlife, and Parks

Summary

3. In previous sessions, the legislature has added language in the general appropriations act concerning LCA:

The appropriation for the legislative contract authority in items ... is subject to the following provisions:

- 1) Legislative contract authority applies only to federal and private funds.
- 2) Legislative contract authority expenditures must be reported on state accounting records. The records must be separate from current level operations.
- 3) A report must be submitted by the department to the legislative fiscal analyst following the end of each fiscal year of the biennium. The report must include a listing of projects, with the related amount of expenditures for each project.

The legislature may wish to include additional language requiring LCA to adhere to the same statutory criteria as budget amendments and requesting the department to report quarterly to the Legislative Finance Committee.

4. The Executive Budget includes \$8.3 million of LCA for the 1995 biennium, a 38 percent increase from the 1993 biennium appropriation. In a departure from previous biennia, \$3.9 million is requested in state special revenue from private sources. In the past, all LCA was appropriated as federal special revenue.

Capitol Grounds Maintenance

1. For the 1993 biennium, the legislature approved a budget modification of \$21,765 to hire a temporary 0.5 FTE and replace plants damaged in the winter of 1988-1989. Department staff testified during the 1991 session that if the plants were replaced, expenditures from this appropriation would not be included in its 1995 biennium budget. The Executive Budget includes the 0.5 FTE and \$21,061 of expenditures from this budget modification. The LFA current level does not.

2. Currently, agencies with office space in the capitol complex pay a set fee based on square footage of office space. Table B shows, based on this methodology, the type and amount of funding which supports the program.

Table B Capitol Grounds Maintenance Funding Fiscal Years 1991 and 1992				
Revenue Type	---Fiscal 1991---		---Fiscal 1992---	
	Amount	Percent	Amount	Percent
General Fund	\$78,584	57.7	\$73,096	44.2
State Special Revenue	22,821	16.8	44,059	26.6
Federal Special Revenue	12,323	9.0	17,326	10.5
Prioprietary	20,662	15.2	28,831	17.4
Expendable Trust	277	0.2	280	0.2
Non-Expendable Trust	<u>1,528</u>	<u>1.1</u>	<u>1,762</u>	<u>1.1</u>
TOTAL	\$136,195	100.0	\$165,354	100.0

For the 1995 biennium, the Executive Budget includes a different method for allocating capitol grounds maintenance costs to state agencies. In addition to a square footage fee for agencies within the capitol complex, all agencies will pay a fee based on the number of FTE. One-half of the revenue for the program would be generated from the square footage fee, while the other half would be generated from

the FTE fee. This new allocation method results in a biennial general fund increase of approximately \$100,000 (Table C). As Table C illustrates, the new allocation formula results in large fee increases for some agencies outside the capitol complex (such as the university system and the Department of Transportation), which previously paid no ground maintenance fees.

Section/Agency	Fiscal 1992 Fee	Fiscal 1993 Fee	Fiscal 1994 Fee	Fiscal 1995 Fee	Estimated Biennial Difference	Estimated Biennial GF Impact
<b>Section A</b>						
Legislative Auditor	\$2,062	\$2,062	\$1,975	\$1,991	(\$158)	(\$75)
Legislative Fiscal Analyst	874	874	739	745	(264)	(264)
Legislative Council	2,529	2,529	2,121	2,138	(799)	(565)
Environmental Quality Council	0	0	70	70	140	133
Consumer Counsel	0	0	42	43	85	0
Judiciary	13,708	13,708	9,725	9,803	(7,888)	(7,453)
Governor's Office	5,659	5,659	4,367	4,402	(2,549)	(2,055)
Secretary of State	2,597	2,597	2,661	2,682	149	96
Commissioner of Political Practice	287	287	217	219	(138)	(138)
State Auditor	4,145	4,145	3,262	3,389	(1,539)	(1,161)
Crime Control Division	1,835	1,835	180	181	(3,309)	(329)
Highway Traffic Safety	860	860	85	85	(1,550)	(244)
Justice	13,608	13,608	17,318	17,455	7,557	3,073
Transportation	243	243	20,221	20,383	40,118	0
Revenue	15,376	15,376	16,383	17,028	2,169	1,899
Administration	24,951	24,951	19,396	19,553	(10,953)	(820)
State Fund	0	0	2,178	2,195	4,373	0
Public Employee's Retirement Bd	0	0	199	201	400	0
Teacher's Retirement Board	1,762	1,762	1,247	1,257	(1,020)	0
Military Affairs	0	0	995	1,003	1,998	684
<b>Total</b>	<b>\$90,996</b>	<b>\$90,996</b>	<b>\$103,991</b>	<b>\$104,823</b>	<b>\$26,822</b>	<b>(\$7,220)</b>
<b>Section B</b>						
Health & Environmental Sci.	\$26,620	\$26,620	\$21,478	\$21,650	(\$10,112)	(\$640)
Labor & Industry	16,243	16,243	16,811	16,945	1,270	21
Social & Rehabilitation Services	15,529	15,529	17,928	18,072	4,942	1,219
Family Services	456	456	6,113	6,162	11,363	6,787
<b>Total</b>	<b>\$58,848</b>	<b>\$58,848</b>	<b>\$62,330</b>	<b>\$62,829</b>	<b>\$7,463</b>	<b>\$7,386</b>
<b>Section C</b>						
Public Service Regulation	\$0	\$0	\$469	\$472	\$941	\$921
Fish, Wildlife and Parks	8,585	8,585	11,033	11,121	4,984	55
State Lands	0	0	3,621	3,650	7,271	3,024
Livestock	4,647	4,647	4,170	4,203	(921)	(114)
Natural Resources & Conser.	20,724	20,724	15,333	16,060	(9,455)	(2,279)
Agriculture	4,354	4,354	3,798	3,817	(1,105)	(168)
Commerce	11,741	11,741	10,145	10,228	(3,111)	(181)
<b>Total</b>	<b>\$50,051</b>	<b>\$50,051</b>	<b>\$49,157</b>	<b>\$49,549</b>	<b>(\$1,396)</b>	<b>\$1,277</b>
<b>Section D</b>						
Montana Arts Council	\$0	\$0	\$79	\$80	\$159	\$15
Library Commission	10,380	10,380	6,965	7,021	(6,774)	(2,513)
Historical Society	7,767	7,767	5,469	5,513	(4,552)	(2,195)
Corrections & Human Services	6,295	6,295	24,650	24,847	36,907	31,176
<b>Total</b>	<b>\$24,442</b>	<b>\$24,442</b>	<b>\$37,163</b>	<b>\$37,461</b>	<b>\$25,740</b>	<b>\$26,484</b>
<b>Section E</b>						
Board of Public Education	\$0	\$0	\$40	\$40	\$80	\$46
School for the Deaf & Blind	0	0	851	858	1,709	1,499
Office of Public Instruction	8,102	8,102	6,341	6,392	(3,471)	(2,825)
Commissioner of Higher Ed.	0	0	36,823	37,118	73,941	73,941
Vocational-Technical System	0	0	0	0	0	0
Six University Units	0	0	0	0	0	0
Agricultural Experiment Station	0	0	0	0	0	0
Cooperative Extension Service	0	0	0	0	0	0
Forestry & Con. Experiment Sta.	0	0	0	0	0	0
Bureau of Mines	0	0	0	0	0	0
Montana Council of Voc. Ed.	0	0	0	0	0	0
Fire Services Training School	0	0	0	0	0	0
<b>Total</b>	<b>\$8,102</b>	<b>\$8,102</b>	<b>\$44,055</b>	<b>\$44,408</b>	<b>\$72,259</b>	<b>\$72,661</b>
<b>TOTAL</b>	<b>\$232,439</b>	<b>\$232,439</b>	<b>\$296,696</b>	<b>\$299,070</b>	<b>\$130,888</b>	<b>\$100,588</b>

Department of Fish, Wildlife, and Parks

Summary

The increased fees will generate \$130,888 more in the 1995 biennium than in the current biennium, resulting in a fund balance in the program's proprietary account. As proposed by the Executive Budget, fees paid by agencies in the 1995 biennium for the capitol grounds maintenance program will be \$595,766 or \$21,562 more than proposed program expenditures. This over-billing is an impact to all agencies including those funded with general fund. Under the proposed fee schedule and LFA current level, it is estimated that the cash balance in the account at the end of fiscal 1995 will be \$148,137.

Administrative Cost Proposal

Of the department's 26 state special revenue accounts, only 6 currently help fund administrative costs of the department. The 1991 Legislature added language to House Bill 2 directing the department to explore alternatives of funding administrative costs from other state special revenue accounts, resulting in a more equitable method for allocating administrative expenses. During the interim, the department recommended allocating administrative costs by developing two rates, one for operating expenditures and one capital expenditures. Rate determination for both relies on the ratio of actual administrative costs to actual direct costs for the previous fiscal year. As proposed by the department, actual department-wide administrative costs associated with both operations and capital would be determined and divided by the actual direct costs of the department.

The department's proposal raises two concerns. First, although directed by House Bill 2 to study state special revenue accounts only, the department has included an assessment against the capitol grounds maintenance proprietary account. Since this account is funded through a fixed cost charged to all state agencies, general fund would pay a portion of the administrative costs. In addition, general fund appropriated for the Parks Division will also be assessed the charge, resulting in less funds available for the program. Second, the department's proposal includes two percent of the value of all department buildings (excluding those financed with bond proceeds) as "building depreciation" in its operations and capital administrative costs. However, depreciation is not an administrative expense that is currently appropriated to the department. Inclusion of depreciation in the rate determination (approximately \$120,000) results in a higher rate charged to the accounts.

The Executive Budget does not contain the department's proposal for reallocation of administrative costs, but continues to fund administrative costs entirely by the general license account and federal indirect allowances. However, the Executive Budget includes \$56,123 in authority for the biennium from the capitol grounds maintenance proprietary account to pay a 10.4 percent administrative cost assessment. Department staff state they plan to present an administrative cost allocation plan to the appropriations subcommittee. In that plan, not only will the capitol grounds maintenance account be assessed (resulting in a general fund impact), but any general fund appropriation to the department will also be assessed administrative costs.

Parks Division Funding

Due to approval of a large number of long-range building projects, the Parks Division's second largest funding source (accounting entity 02411 - parks miscellaneous account) has insufficient funds available to fund current level operations in the 1995 biennium. While both the Executive Budget and LFA current level reduce the program by 4.99 FTE and associated operating expenses, the parks miscellaneous account will have a projected \$240,000 deficit by the end of fiscal 1995. Funding remaining authority from Long Range Planning appropriations in previous biennia does not leave enough funds available in this account to fund current level. Authority for previously approved Long Range Planning projects may need to be



## BUDGET BASICS

Table 3  
Elected Officials/Board of Regents Budget Modifications  
1995 Biennium

<u>Agency</u>	<u>FTE</u>	<u>General Fund</u>	<u>Total Funds</u>
Secretary of State	1.00	\$154,350	\$154,350
State Auditor	2.33	151,113	151,113
Public Instruction	2.00	26,067,103	26,067,103
Justice	26.90	1,259,680	2,199,168
Public Service Commission	4.00	301,379	301,379
Board of Regents	<u>2.00</u>	<u>32,768,505</u>	<u>37,195,161</u>
Total	38.23	60,702,130	66,068,274

### Personal Services "Snapshot"

Personal services costs comprise almost 50 percent of total agency expenditures (excluding capital outlay, grants and benefits, and transfers). The Executive Budget and LFA current level used the same method for projecting personal services costs for the 1995 biennium. As a result, projected costs for most programs are identical in the two budgets.

Both budgets are based on a "snapshot" of actual salaries for authorized FTE as they existed on June 26, 1992. OBPP and LFA then adjusted this "snapshot" for all upgrades to positions through September 30, 1992.

Both budgets reflect the scheduled increase in employee contributions to the Public Employees' Retirement System (PERS) from 6.55 percent in fiscal 1993 to 6.70 percent in fiscal 1994 and fiscal 1995.

Workers' Compensation and Unemployment Insurance rates vary from agency to agency. Each agency has a different rate based on its own experience. Fiscal 1993 rates were adjusted to project fiscal 1994 and fiscal 1995 levels based on advice provided by representatives of the State Mutual Insurance Compensation Fund and the Department of Labor and Industry. Since providing that advice, the State Fund has increased rates five percent for fiscal 1993 and indicated its intention to adopt additional increases for fiscal 1994 and fiscal

1995. Due to timing, these additional increases were not added to current level. Additional information on the impacts of this increase will be presented to the 1993 Legislature.

### Vacancy Savings

Vacancy savings is the difference between the full cost and the actual cost of authorized positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures that are lower than the amounts appropriated.

The 1989 Legislature did not apply a vacancy savings factor for the 1991 biennium budgets. Instead, it included language in House Bill 100 prohibiting agencies from expending funds appropriated for personal services in any other category (with certain limited exceptions). Although OBPP did not establish any procedure to monitor and verify the expenditure of personal services funds, it estimates that \$6 million of general fund appropriated for personal services was reverted in fiscal 1990.

During the 1991 regular session, the legislature applied vacancy savings rates for agencies ranging from 0 percent (for agencies with 20 or fewer FTE and university and vocational-technical center faculty) to 4



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## PERSONAL SERVICES COST INCREASES

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In addition, the FTE totals on pages S27-S28 of the Executive Budget do not include 28.8 additional FTE that would be added as a result of the executive policy initiative to make county assessors and deputies state employees (page A78 of the Executive Budget).

### 5% Reductions

During the July 1992 special session, the legislature added language to House Bill 2 requiring state agencies to submit their current level budget requests for the 1995 biennium with FTE and personal services reductions equivalent to 5 percent of their fiscal 1993 personal services appropriation, as amended through the January 1992 special session. This requirement applies to executive and legislative branch agencies and the Office of the Commissioner of Higher Education. It does not apply to: 1) agencies with 20 or fewer FTE and agencies allocated to a department for administrative purposes only; and 2) per diem compensation paid to board members, council members, commission members, or legislators.

While most agencies removed the required 5 percent from their current level budget requests, many requested that these funds and the related FTE be restored as budget modifications. In most instances, the Executive Budget adopted the agency request. As Table 9 shows, 570.52 FTE and \$31.4 million of biennial personal services costs were eliminated in the current level budgets submitted by these agencies. The Executive Budget restores 344.37 of these FTE or 60 percent in budget modifications.

In six agencies, the executive restored all FTE eliminated in the current level budget request: Governor's Office, Secretary of State, Library Commission, Historical Society, Livestock, and Transportation. The Office of the Commissioner of Higher Education did not submit its budget request with the 5 percent reduction, and the executive did not reduce FTE in this agency. In another eleven agencies the executive included a portion of the eliminated FTE in budget modifications.

In the remaining nine agencies, none of the eliminated FTE are included in executive budget modifications. Seven of these agencies did not request the executive to restore the FTE: Legislative Council, Legislative Auditor, Commerce, Military Affairs, Agriculture, Natural Resources and Conservation, and Corrections, and Human Services (DCHS). In DCHS, the reduced FTE reflect the executive proposal to close the nursing home and hospital at Galen.

The executive denied requests to restore the deleted FTE in two agencies: State Auditor's Office and Public Service Commission. These agencies, as well as the Department of Justice, are submitting elected official budget modifications to restore a portion of eliminated FTE.

Table 9 shows the executive calculations for the 5 percent requirement for each agency, the amount submitted by the agency, and the amount restored in the Executive Budget.

## PERSONAL SERVICES COST INCREASES

**Table 9**  
**Executive Response to 5% Reductions**  
1995 Biennium

Agency	Target Biennial Reduction*	--- Submitted ---		Restored in the - Executive Budget -	
		FTE	Amount	FTE	Amount
Transportation	\$6,565,072	136.25	\$6,580,149	136.25	\$6,579,304
Corrections & Human Services	5,961,686	102.15	5,661,686	0.00	0
Social & Rehabilitation Services	2,518,302	49.32	2,521,503	37.57	1,916,169
Justice	2,036,124	30.50	1,910,836	1.10	138,935
Labor & Industry	1,838,222	32.25	1,811,342	31.35	1,761,624
Revenue	1,762,604	34.90	1,742,412	30.11	1,520,250
Family Services	1,725,462	29.85	1,687,202	26.85	1,506,194
Fish, Wildlife and Parks	1,691,422	25.40	1,693,835	20.41	1,682,363
Health & Environmental Sciences	1,245,566	20.09	1,251,004	19.59	1,177,893
State Lands	1,059,034	17.84	1,056,122	10.46	564,924
Administration	1,001,490	15.38	997,016	11.73	643,212
Commerce	896,216	16.00	907,480	0.00	0
Natural Resources & Conservation	754,980	12.78	754,980	0.00	0
Office of Public Instruction	463,796	6.00	463,796	2.50	216,114
Livestock	365,704	4.00	271,335	4.00	271,335
Agriculture	295,140	5.00	322,788	0.00	0
School for the Deaf & Blind	261,394	3.70	261,394	2.92	179,232
Military Affairs	229,836	5.25	238,718	0.00	0
Legislative Auditor	228,900	4.00	231,144	0.00	0
Commissioner of Higher Education	226,820	0.00	0	0.00	0
Governor's Office	214,166	3.25	218,143	3.25	222,654
State Auditor	190,084	3.33	95,042	0.00	0
Legislative Council	170,084	4.20	230,466	0.00	0
Public Service Regulation	164,334	2.80	164,404	0.00	0
Historical Society	140,458	2.59	128,117	2.59	133,002
Secretary of State	90,476	1.95	85,970	1.95	85,970
Library Commission	<u>83,338</u>	<u>1.74</u>	<u>74,860</u>	<u>1.74</u>	<u>78,880</u>
<b>TOTAL</b>	<b>\$32,180,710</b>	<b>570.52</b>	<b>\$31,361,744</b>	<b>344.37</b>	<b>\$18,678,055</b>

\* As calculated in Executive Budget instructions

CAPITAL GROUNDS MAINTENANCE  
EXPENDITURE COMPARISON

EXHIBIT 2  
DATE 1-5-93  
HB                     

	<u>LFA</u> <u>FY 1994</u>	<u>Executive</u> <u>FY1994</u>	<u>Difference</u>	<u>LFA</u> <u>FY1995</u>	<u>Executive</u> <u>FY1995</u>	<u>Difference</u>
1000 Personal Services	\$58,265	\$65,320	(\$7,055)	\$58,602	\$65,699	(\$7,097)
2000 Operations	\$158,517	\$209,944	(\$51,427)	\$162,506	\$214,041	(\$51,535)
3000 Equipment	\$19,200	\$19,200	\$0		\$0	\$0
GRAND TOTAL	\$235,982	\$294,464	(\$58,482)	\$221,108	\$279,740	(\$58,632)

EXPLANATION OF DIFFERENCES

Tree and Shrub Replacement	\$28,196	\$28,346
Snow Removal	\$2,336	\$2,336
Overhead Assessment	\$27,950	\$27,950
TOTAL	\$58,482	\$58,632

## Briefing Notes

### Tree Replacement Account

EXHIBIT 3  
DATE 1-5-93  
HB

- In the winter of 1988/89 a winter storm inversion hit
  - ▶ Damaged 500 capital grounds trees
  - ▶ Killed between 60-100 mature trees
  - ▶ Killed 90% of all Juniper (48 truck loads)
  - ▶ Killed many other plants
- Estimated materials replacement cost - \$60,000; multi-year program
- The 1991 Legislature funded at .5 FTE and \$15,000 materials assuming a 4 year replacement program for just these damaged plants.
- Tree replacement is on schedule, about 50% completed using department employees (.50 FTE and regular staff) and \$15,000 for plant materials per year.
- List of progress and needs.

COMPLETED	WILL BE COMPLETED IN SPRING OF 93	TO BE COMPLETED IF FUNDED IN 94 & 95
Capitol Square Museum Mitchell	Cogswell	Capitol Park Teachers Retirement Scott-Hart Capitol Parking Lot Labor and Industry OBH Parking Lot Governor's Mansion

HOUSE OF REPRESENTATIVES  
VISITOR REGISTER

EXHIBIT 4  
DATE 1-5-93  
HB                     

\_\_\_\_\_  
DATE \_\_\_\_\_ COMMITTEE \_\_\_\_\_ BILL NO. \_\_\_\_\_  
SPONSOR(S) \_\_\_\_\_

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Pat Graham	FWRP		
Dave Math	FWRP		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS  
ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.