MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By **REPRESENTATIVE MARY LOU PETERSON, CHAIRMAN,** on January 7, 1993, at 8:19 AM.

ROLL CALL

Members Present:
Rep. Mary Lou Peterson, Chair (R)
Sen. Harry Fritz, Vice Chair (D)
Rep. Marjorie Fisher (R)
Sen. Gary Forrester (D)
Rep. Joe Quilici (D)
Sen. Larry Tveit (R)

Members Excused: None

Members Absent: None

Staff Present: Jon Moe, Legislative Fiscal Analyst
Clayton Schenck, Legislative Fiscal Analyst
John Patrick, Office of Budget & Program Planning
Elaine Benedict, Committee Secretary

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

Committee Business Summary:
Hearing: STATE AUDITOR; AND SECRETARY OF STATE
Executive Action: STATE AUDITOR

HEARING ON STATE AUDITOR

Tape No. 1:A:000

Informational Testimony:

Mr. Clayton Schenck, Legislative Fiscal Analyst, gave an overview of the budget for the Warrant Writing and the State Payroll portions of the State Auditor's functions. **EXHIBIT 1**

Questions, Responses and Discussion:

REP. QUILICI expressed concern about the 6% increase in warrant writing.

Mr. Scott Secat, Legislative Auditor, addressed the concern over expenditures as shown on page A65 of the LFA Budget Analysis.

He recommended that there be an agreed upon base level of expenditures for the PPP system and the warrant writing system. He said that after arriving at an agreed upon base, the Federal Government should have no concern about over or under-collection, as long as a system exists to monitor and recapture increased or decreased cost. He said the subcommittee should estimate the best cost base for the expenditures and allocate accordingly.

Informational Testimony:

Mr. Mark O'Keefe, State Auditor, presented testimony concerning the Office of State Auditor. **EXHIBIT 2**

Questions, Responses and Discussion:

Mr. David Hunter, Deputy Auditor, stated that he agreed with the language proposed by Mr. Schenck which would state that if the agency over-allocates or collects more money than necessary, the excess money would be considered in the cost allocation plan in the following biennium and the rate reduced accordingly. He argued that slightly over-allocating funds is beneficial because it accounts for supplementals, or unexpected expenditure increases, such as postal rate or necessary Warrant Writers, which otherwise would have to come from the general fund. Mr. Hunter then addressed the positions of personal secretary and data processor. The previous State Auditor took a position out of Payroll and made that position her personal secretary. However, she continued to fund this position from Payroll. Mr. Hunter requested that this position be transferred to the Central Management Division of the Auditor's Office and that it be paid for with general funds. He stated that the previous State Auditor also used a data processing position in PPP and Payroll in order to automate her office, allowing only one-fourth of the position's time to be used for its original purpose. The cost for the position was allocated against the original program. Mr. Hunter requested that the appropriate amount be allocated against fiscal, one-fourth of the amount against Payroll, and the rest from general fund.

Informational Testimony:

Mr. Schenck gave a brief overview of the budget for Fiscal Control and Management. **EXHIBITS 3, 4 and 5**

Questions, Responses and Discussion:

Mr. Hunter addressed **REP. QUILICI'S** concern about the increase in the number of warrants written. He explained that services requiring warrants, such as refunds for distribution of Fish and Game licenses, paying of Worker's Compensation claims, and claims for benefits from Medicade and SRS, are increasing. The number of warrants reflects an increase in the activity of other agencies and an increase in population, rather than just the size of government.

SEN. HARRY FRITZ said he had heard that one of the benefits of the new warrant writing system was that it would consolidate payments to the payee and asked if this had been done. **Ms. Shirley Adkins** answered that the agency had not had the money to enhance this program.

SEN. GARY FORRESTER asked what the cost of enhancement would be. **Ms. Adkins** answered that the cost would be tremendous.

Mr. Schenck asked if an analysis had been done to see if the cost of enhancing the program would be offset by the savings in reduced postage and number of warrants sent out. **Mr. Thomas Crosser, Deputy of Fiscal Control,** answered that there has been no thorough analyses, but believed that long-term implementation might prove cost effective.

REP. JOE QUILICI said that he agreed that cost allocations should go against the proper services and that allocation should be provided for unforeseen problems. He asked if the numbers were accurate. **Mr. Crosser** answered that the numbers were derived by analyzing the number of warrants issued the past by each agency and dividing this number by the total number of warrants issued. He feels this is a good method of deriving the numbers and asserted that the number required in the future cannot accurately be predicted and that adjustments must be made for the differences.

REP. QUILICI asked what effect the vacant position would have on the agency. **Mr. Crosser** explained that the previous action removed the position of Collection Technician in the Bad Debt Collection Program. The program is funded by revenue generated by collecting bad debts for other state agencies. The money collected (minus the administrative portion) goes back to the agency for whom it is collected, or to the general fund.

SEN. FRITZ asked, on behalf of Mr. David Senn, why the warrant writing fee for the Teachers' Retirement System has increased from $2,00 to $37,000 in one year. **Mr. Crosser** answered that the fees were based on warrants issued the previous year and that, in the past, other agencies have not paid the true cost, or not paid anything for warrant writing. The total warrant growth and processing costs were also factored into the new cost.

REP. QUILICI asked if the increase was made by the present or the previous auditor. **Mr. Crosser** answered that it was the direction of this committee to create a system which would charge the cost of warrant writing to the agencies, rather than to the general fund as had been done in the past. **Mr. Hunter** added that the plan had been submitted by Auditor Bennett, but that it is being adhered to by the current auditor. He also accounted for the increase in cost to the Teacher's Retirement Program by saying that, in the past, the program had paid for only the paper, and that the cost of postage comprises the additional cost.

Mr. David Senn, of the Teacher's Retirement System, explained that his agency is billed separately for the additional cost of postage.

REP. QUILICI suggested that the process of allocation be examined more thoroughly. **Mr. Crosser** explained that the costs associated with warrant writing that have not been allocated in the past are the costs of his salary and DP costs and he believes that the allocation system is correct.

Mr. Schenck and **Mr. John Patrick, Office of Budget and Program Planning,** agreed with the fairness of the method of figuring cost and said that the additional cost is a new fee, rather than an increase.

Mr. Schenck presented three options, on which the subcommittee could vote. **EXHIBIT 6.** He said that the Legislative Auditor deemed option A least appropriate in terms of liability for a Federal Audit. Also that option C allows for incorporation of the State Payroll in this procedure.

EXECUTIVE ACTION ON STATE AUDITOR

Tape No. 1:B

BUDGET ITEMS WARRANT WRITING AND PAYROLL:

Motion: **REP. QUILICI** moved to accept option C, **EXHIBIT 6,** and include suggested language for both Warrant Writing and Payroll.

Discussion:

SEN. FRITZ agreed and asked that the entire allocation system be reviewed and the raise in rate be justified and possibly decreased.

Mr. Crosser stated that the system would be examined. He said that the language considered should rectify any errors and that any over-allocation would be used to reduce warrant writer fees.

Vote: A roll call vote was made. **EXHIBIT 7.** **THE MOTION CARRIED UNANIMOUSLY.**

HEARING ON STATE AUDITOR

Tape No. 1:B

Informational Testimony:

Mr. Schenck gave an overview of the State Payroll portion the budget. **EXHIBITS 8 and 9**

Ms. Donna Warner, Deputy Director of State Payroll, gave a presentation on the Payroll Personnel Position Control (PPP) Division. She said that the increased cost to the system was because of the growth of the division and the "ripple effect"

caused by the growth. She requested the .5 FTE not be eliminated because, in addition to previous duties, this position now handles 1099 miscellaneous forms as well as levies and garnishments for state wages. She requested a new microfiche system, stating that the current system has surpassed its 10 year life span and requires the use of more expensive silver paper, as compared with the inexpensive white paper used by more modern machinery. She stated that the office calculators are also over 10 years old and do not perform accurately. Ms. Warner explained that she had estimated Current System Development costs to raise $1/hr. in 1994 and another $1/hr. in 1995, when in fact the cost will raise $2/hr. in 1994 and then remain at that level in 1995. She, therefore, still requires the requested funding.

Mr. Schenck and **Mr. Patrick** agreed that this funding is still necessary under this estimate.

HEARING ON SECRETARY OF STATE

Tape No. 2:A:065

Informational Testimony:

Mr. Jon Moe, Legislative Fiscal Analyst, gave an overview of the Secretary of State budget. **EXHIBITS 10, 11 and 12.** He pointed out that the LFA budget does not show an increase in fees for Corporate Filing. However, these fees were raised.

Mr. Mike Cooney, Secretary of State, presented testimony. **EXHIBIT 13**

Mr. Doug Mitchell, Chief Deputy, Secretary of State, presented testimony. **EXHIBIT 14.** He distributed a booklet and the "Proposal to Change Funding Structure." **EXHIBITS 15 and 16**

Questions, Responses and Discussion:

SEN. FRITZ asked if the proposal intended to eliminate the entire general fund, including the salary of the Secretary of State. **Mr. Mitchell** answered yes.

SEN. FRITZ asked the difference in what the Secretary of State contributes to the general fund compared to what is taken from the general fund. **Mr. Mitchell** answered that program would cost the general fund a net amount of approximately $100,000 the first year and $0.00 after that. He stated that state law requires that the Secretary of State's Office not make a profit. He suggested that the subcommittee decide to contradict this decision. If this were done, it would be possible for the Sec. of State's Office to regain the $100,000 by placing a $15 minimum on service fees. A second option would be to allow the agency to provide more service and therefore earn more money.

SEN. FORRESTER asked if the agency would have the ability to

request a supplemental if business were to drop. **Mr. Mitchell** answered that this would not be likely but that his agency would do what was necessary to maintain business.

SEN. FORRESTER asked if the Sec. of State intended to lay-off individuals whose services were not needed. **Sec. Cooney** answered that he would, stating that his decisions were business rather than politically motivated.

REP. QUILICI asked if a statute change would be required to change from general funds to an enterprise account. **Mr. Mitchell** answered yes, that the agency would utilize language created for other enterprise accounts to insure that the excess money would go the general fund.

REP. QUILICI asked if this statute would leave the budgeting process under the control of the Legislature, insuring that if more funds were generated, the funds would be allocated by the legislature and not the agency. **Mr. Mitchell** assured him that the statute would in no way undermine the need for legislative approval of expenditures.

Mr. Moe explained that although the Secretary of State is proposing one proprietary fund, the agency actually falls under two portions of this fund--internal and external. **Mr. Mitchell** recognized the issue and stated that if it is the desire of the subcommittee to change the way the agency is currently funded, the agency will concede to the change.

Mr. Schenck although agreeing with the value of an enterprise account, cited drawbacks. Having the state-wide budget ear-marked for a large number of expenditures renders it more difficult to administer; if the budget is "tied-up" in statute, the money is more difficult to obtain. **Mr. Mitchell** stated that the funds are from customers and not general fund.

SEN. FRITZ asked how the Legislature would reduce the agency's budget, if necessary, if the proposed plan were implemented. **Mr. Mitchell** answered that it would be done with the same method used now, but that this would make the general fund suffer and that the Legislature would be more likely to ask the agency to increase customer fees.

SEN. FRITZ ask if the Legislature would still control the way the money was to be spent. **Mr. Mitchell** answered that it would.

REP. QUILICI asked if the Legislature could take the agency's reserve fund if necessary. **Mr. Mitchell** answered that it could and that his agency has supported this action before.

SEN. FRITZ asked if the $15 minimum would apply to every fee charged by the agency. **Mr. Mitchell** answered no, that the increase would only be made if the Legislature believes that the agency should cease being a "break-even" operation.

ADJOURNMENT

Adjournment: 11:35 AM

Mary Lou Peterson
REP. MARY LOU PETERSON, Chair

Elaine Benedict
ELAINE BENEDICT, Secretary

MLP/EB

HOUSE OF REPRESENTATIVES

Gen. Gov. & Hwys. **SUB-COMMITTEE**

ROLL CALL **DATE** 1/7/93

NAME	PRESENT	ABSENT	EXCUSED
Rep. Mary Lou Peterson Chair	X		
Sen. Harry Fritz Vice Chair	X		
Rep. Marjorie Fisher	X		
Sen. Gary Forrester	X		
Rep. Joe Quilici	X		
Sen. Larry Tveit	X		

EX7

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HOUSE OF REPRESENTATIVES

Gen. Gov. & Hwys. **SUB-COMMITTEE**

ROLL CALL VOTE

DATE 1/7/93 **BILL NO.** _____ **NUMBER** _____

MOTION: FIXED COST FEE ALLOCATION - STATE AUDITORS OFFICE - WARRENT WRITING AND PAYROLL DIV. - OPTION C EXHIBIT 6

NAME	AYE	NO
Rep. Mary Lou Peterson-Chair	X	
Sen. Harry Fritz-Vice Chair	X	
Rep. Marjorie Fisher	X	
Sen. Gary Forrester	X	
Rep. Joe Quilici	X	
Sen. Larry Tveit	X	

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EX 1

3202 01 00000

COMMISSIONER OF POLITICAL PRACTICES Administration

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	3.25	3.25	3.25	3.25	3.25	3.25	3.25	0.00
Personal Services	94,008	92,859	93,761	97,576	97,697	97,901	98,021	4,717
Operating Expenses	38,172	38,175	26,212	27,859	31,315	24,774	29,135	(10,316)
Equipment	531	532	2,108	1,535	1,525	1,300	1,564	1,003
Debt Service	1,176	1,176	0	232	232	0	0	(944)
Total Costs	$133,888	$132,742	$122,081	$127,202	$130,769	$123,975	$128,720	($5,540)
Fund Sources								
General Fund	133,888	132,742	122,081	127,202	130,769	123,975	128,720	(5,540)
Total Funds	$133,888	$132,742	$122,081	$127,202	$130,769	$123,975	$128,720	($5,540)

Program Description

The Office of the Commissioner of Political Practices was created in 1975 to monitor disclosures of financial contributions to and expenditures made by Montana political committees and candidates and to oversee and enforce the campaign practices law in Title 13, Chapters 35 through 37, MCA. The responsibilities of the office were expanded in 1980 by Initiative 85 to include the registration of lobbyists, the filing of their principals' financial reports, and the disclosure of elected officials' business and ownership interests.

LFA Current Level

The agency's fiscal 1994 budget decreases from adjusted fiscal 1992 expenditures primarily because of the elimination of one-time expenditures.

Personal services increase due to the annualization of the fiscal 1993 pay plan increase and vacancy savings experienced in fiscal 1992.

Operating expenses decrease due to the net of: 1) elimination of $15,525 of legal fee and court cost expenditures associated with three campaign practice investigations, two of which have been resolved; 2) the addition of $3,500 to review, edit, and print the accounting manual and related forms for candidates and political committees; and 3) an additional $1,743 for ongoing legal costs.

In fiscal 1995, the agency will publish the campaign finance report and related forms at a cost of approximately $4,000. The agency is required by law to charge a fee for the campaign finance report commensurate with the cost of publishing it, with funds received from such sales deposited in the general fund. The agency estimates revenue from sales will amount to $5,625 during the 1995 biennium.

Equipment includes replacement of a laser printer and an "A" drive, and upgrades for a recently purchased used computer.

Debt service represents the final payment on a photocopier.

Funding

Funding for the agency is from the general fund.

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OFFICE OF THE STATE AUDITOR

Agency Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	Biennial Difference Exec.-LFA
FTE	70.00	70.00	70.00	68.50	66.67	68.50	66.67	(1.83)
Personal Services	1,831,586	1,826,939	1,816,592	2,079,487	2,015,228	2,083,925	2,019,645	(128,539)
Operating Expenses	1,049,580	968,068	885,073	1,103,359	1,142,274	1,013,990	1,046,211	71,136
Equipment	79,802	3,332	13,551	16,616	25,437			8,821
Local Assistance	16,636,962							
Total Costs	$19,597,931	$2,798,339	$2,715,216	$3,199,462	$3,182,939	$3,097,915	$3,065,856	($48,582)
Fund Sources								
General Fund	2,293,214	2,135,578	2,005,191	2,168,349	2,140,424	2,117,349	2,016,997	(128,277)
State Revenue Fund	8,037,844	509,726	559,208	870,704	882,102	821,274	889,562	79,686
Federal Revenue Fund	9,108,842							
Proprietary Fund	158,029	153,035	150,817	160,409	160,413	159,292	159,297	9
Total Funds	$19,597,931	$2,798,339	$2,715,216	$3,199,462	$3,182,939	$3,097,915	$3,065,856	($48,582)

Agency Description

The Office of the State Auditor, established by Article VI, Section 1 of the Montana Constitution, has statutory responsibility to superintend the fiscal duties of the state and to keep an account of all state warrants. The auditor is both ex-officio commissioner of insurance and ex-officio commissioner of securities. The auditor is charged with the duties of: 1) licensing and regulating insurance companies and agents within the state; and 2) regulating and registering securities dealers. The auditor is director of the state employee payroll system, warrant writing system, and administers the state bad debt collection function.

Adjustments to Actual Expenditures

	Actual Fiscal 1992	Approp. Transfer	Budget Amendment	One Time Approp.	Language Approp.	Non-Budget Expenditures	Statutory Approp.	All Other Approp.	Current Lvl Fiscal 1992
FTE	70.00								70.00
Expenditure	19,597,932	57,000		100,643		4,996	16,636,963		2,798,330

		General Fund	State Special Fund	Federal Fund	Cap. Projects Fund	Proprietary Fund	Other Fund	Current Unrestricted	
Funding	19,597,932	157,643	7,528,120	9,108,843		4,996			2,798,330

Adjustments to Actual Expenditures

Only $2.8 million of the $19.6 million expended by the State Auditor's Office in fiscal 1992 was included in the adjusted current level budget base. The difference between actual expenditures and the current level base for fiscal 1992 is primarily due to statutory expenditures for the transfer of funds collected by the State Auditor to other activities. These include the transfer of a portion of insurance premium collections to firefighter and police pension funds, and the distribution of forest reserve funds to counties. Other adjustments to fiscal 1992 current level include: 1) a transfer of $57,000 general fund appropriation authority from fiscal 1993 to fiscal 1992 for increased postage costs of the state warrant writing system; 2) $4,996 in non-budgeted expenditures resulting from accruals for compensated absences and depreciation;

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of reducing general fund support for the program. The Executive Budget funds the Insurance program entirely with general fund.

Supplemental

The Executive Budget includes a supplemental fiscal 1993 request of $155,000 general fund in the Fiscal Management and Control program for postage costs of mailing state warrants. The request cites a 6 percent growth in the volume of warrants processed above the anticipated level. The request includes the amount needed to cover a $57,000 appropriation transfer from fiscal 1993 to fiscal 1992. In developing the 1995 biennium budget, both the Executive Budget and the LFA current level included funding for the increased postage in the supplemental in current level.

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Executive Budget Modifications

State Auditor's Office		Fiscal 1994			Fiscal 1995		
Budget Modification	P G	FTE	General Fund	Total Funds	FTE	General Fund	Total Funds
1 Warrant System Postage	10		$7,378	$25,753		$11,241	$39,526
2 Bad Debts Expansion	10	1.00		37,494	1.00		37,494
Totals		1.00	$7,378	$63,247	1.00	$11,241	$77,020

Executive Budget Modifications

1) Warrant System Postage - This budget modification is included in the Executive Budget in anticipation of a 5 percent annual growth in postage costs due to the increased volume of state warrants mailed by the State Auditor's Office. These costs will be funded approximately 29 percent by general fund and the remainder from the warrant writing state special revenue account, at a biennial cost of $65,279. Funding for this budget modification is already included in the LFA current level, as the costs are considered to be essential to provide current level services.

2) Bad Debts Expansion - The Executive Budget includes a budget modification for an expansion in the Bad Debts program by adding 1.0 FTE and corresponding operating costs. This expansion began in fiscal 1993 by budget amendment. The additional FTE would process bad debts in current income tax receivables, and the executive estimates the expansion will increase debt collections for the general fund by $500,000 each year. Funding is from the bad debts collection proprietary fund account.

Elected Officials Budget Modifications

1) Restore 5% Reduction - This budget modification would restore a 1.0 FTE insurance investigator removed from the Insurance program in accordance with section 13 of House Bill 2. The position is one of three investigators in the division. The agency states that additional revenue from fines generated by the investigator will more than cover the cost of the position.

2) Restore 5% Reduction - This budget modification would restore a 1.0 FTE investment examiner removed from the Securities program in accordance with section 13 of House Bill 2. The position reviews all securities products proposed to be registered in Montana. The agency states that loss of the position

and 3) budget modifications for equipment purchases, including $97,674 for a computer replacement system and $2,969 for office equipment.

The 70.0 FTE in fiscal 1992 current level was reduced to 68.5 in LFA current level for the 1995 biennium as a result of the P/P/P on-line conversion in the State Payroll program.

The difference in the current level total shown in this table and the table above is due to rounding.

Executive Budget Comparison

The Executive Budget has 1.83 fewer FTE and is over $48,000 lower than LFA current level for the biennium, primarily due to the 5 percent personal services reduction. The Executive Budget eliminates 3.33 FTE and $190,232 in personal services as a result of the July special session requirement that agencies with more than 20 FTE include a 5 percent FTE reduction in their budget request for the 1995 biennium. The Executive Budget has not included budget modifications to restore any of these FTE, but the State Auditor has submitted an elected official budget modification to restore 2.33 of the 3.33 FTE. The LFA current level includes funding for all FTE authorized by the 1991 Legislature, minus 1.5 FTE. The LFA current level eliminated 1.5 FTE and $61,693 in personal services costs as a result of efficiencies gained in the State Payroll program from conversion of the P/P/P system to an on-line process.

The Executive Budget current level operating expenses are $71,136 higher than the LFA current level. Differences occur because:

1) The executive provides $119,618 more funding for increased data processing and supplies costs from an anticipated increase in the volume of warrants processed in the Fiscal Control and Management program. The LFA current level for those costs is at the amount included in the agency budget request.

2) The LFA current level provides $65,279 more funding for increased postage costs from the anticipated increase in the volume of warrants processed in the Fiscal Control and Management program. The Executive Budget includes this increase in a budget modification.

3) The Executive Budget includes $8,584 more in current level for dues. The LFA current level reduced dues to a 3-year average since fiscal 1992 dues costs were exceptionally high.

4) The Executive Budget includes $5,820 more than LFA current level for contract hearings officers for insurance cases.

5) Other minor differences result in a net $2,393 lower LFA current level.

The Executive Budget for equipment is higher because it includes $16,471 for a forms burster for the warrant writing system that is not included in LFA current level. This higher executive equipment allowance is partially offset by the inclusion of $7,650 in LFA current level for office equipment in the State Payroll, Insurance, and Fiscal Control and Management programs that is not included in the Executive Budget.

Differences in funding include the allocation of $163,386 more state special revenue (and correspondingly less general fund) in the Executive Budget for the state payroll and warrant writing systems (for further discussion, see the "Issues" section). This difference in state special revenue funding is partially offset by the inclusion in LFA current level of $83,700 state special revenue funds in the Insurance program supported by revenues from collection of non-resident insurance producer license fees. The state special revenue account was established by the January 1992 special session beginning in fiscal 1993, as a means

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Elected Officials Budget Modifications

State Auditor Budget Modification	P G	Fiscal 1994 FTE	Fiscal 1994 General Fund	Fiscal 1994 Total Funds	Fiscal 1995 FTE	Fiscal 1995 General Fund	Fiscal 1995 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	0.33	6,520	6,520	0.33	6,520	6,520
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.

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Table A Fixed Cost Fee Allocations 1995 Biennium				
	- - Payroll System - -		Warrant Writing System	
Description	Fiscal 1994	Fiscal 1995	Fiscal 1994	Fiscal 1995
System Cost Base:				
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
Non-General Fund Support:				
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)	329,369	296,276	499,485	483,148
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.

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Ex 2

STATE AUDITOR
STATE OF MONTANA

Mark O'Keefe
STATE AUDITOR

COMMISSIONER OF INSURANCE
COMMISSIONER OF SECURITIES

Testimony of State Auditor Mark O'Keefe before the General Government and Highways Subcommittee of the House Appropriations and Senate Finance and Claims Committee, January 7, 1992

Madame Chairwoman and members of the committee, I am Mark O'Keefe, state auditor and insurance and securities commissioner. I have come here this morning to start off the budget presentation.

I know my predecessor did not have the best attendance record at legislative hearings. That is one of the first things I want to change.

We have some problems in the agency budget. I want to be honest with you about those problems and ask for your help in fixing these problems.

My predecessor left the agency with some very major budget problems. They include:

* Filling positions against the recommendation of her own staff to a level that significantly overspent the budget.
* Increasing the amount of her personal travel and that of her staff.
* Her being served with $60,000 in judgments for violating federal labor law for comp time.

And, of course, I made the problem worse by not retaining all of her political appointees, and therefore have had to pay their severance pay.

Tomorrow I will announce significant layoffs at the State Auditor's office. Even with those layoffs, I will come back to this committee asking for supplemental appropriations. Now is not the time to discuss those matters, but I would ask that you give me the courtesy of allowing me to personally notify those who will lose their jobs before they read about it in the paper. I expect we can have a full discussion of those issues at the scheduled hearing on January 25.

The Legislative Audit Committee has proposed legislation to transfer PPP, payroll, warrant writing, and bad debt collection to the Department of Administration. Those functions represent 22 FTE from a total of 70. As a first act as a newly elected official, considering giving up a quarter of your agency is an interesting proposition.

I think there is a good government reason to have PPP and payroll under the control of one agency instead of the current

(more)

Mitchell Building/PO Box 4009/Helena, Montana 59604-4009/(406) 444-2040/1-800-332-6148/FAX: (406) 444-3497

EXHIBIT 2
DATE 1/7/93
~~HB~~

three. And I think it is reasonable for the Personnel Division to manage that function. I've instructed my staff to work with the Department of Administration to see to it that legislation that both agencies can agree to is drafted and submitted. Obviously, you need to consider the probability of that transfer to DOA as you draft the Appropriations Act.

I will not support the transfer of warrant writing and bad debt collection. I think there is not a compelling good government agreement for that transfer, and I will oppose that part of the legislation.

My predecessor has, in my opinion, improperly allocated the costs of her personal secretary and the agency's Data Processing person to the Payroll Division. I am surprised that it has not been raised as an audit exception. It is a problem we need to correct. I've asked my staff to discuss the details with you later this morning. I think it is reasonable for an elected official to have one personal secretary. I think it is reasonable for an agency to have one data processing professional to support an office that is automated.

The State Auditor's Office is not doing its job to protect consumers in the insurance or securities area. We are causing problems for the industries because we can't license agents or insurance and securities products in a timely fashion -- and I think that both industry and consumer groups will agree with that assessment.

I also appreciate the magnitude of the problem this Legislature faces. I am working with the industry to bring in legislation that will pay for the staff and services that I think are necessary with new or increased fees. I do not expect and I will not ask for increased general fund support for the '94-'95 biennium. I will ask, and I believe the industry and consumer groups will ask, for fees to support those services.

(END)

EXHIBIT 3
DATE 1/7/93
~~HB~~

EX 3

3491 10 00000
STATE AUDITOR'S OFFICE — Fiscal Control And Management
Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	13.00	13.00	13.00	13.00	12.67	13.00	12.67	0.00
Personal Services	300,566	295,920	293,221	338,123	331,598	338,891	332,356	42,203
Operating Expenses	473,333	415,984	338,169	515,081	544,623	496,133	517,133	99,097
Equipment	3,047	3,048	300	5,786	21,807	0	0	2,738
Total Costs	$776,946	$714,952	$631,690	$858,990	$898,028	$835,024	$849,489	$144,038
Fund Sources								
General Fund	471,918	414,918	334,041	199,096	212,600	192,584	159,442	(215,822)
State Revenue Fund	146,999	146,999	146,832	499,485	525,015	483,148	530,750	352,486
Proprietary Fund	158,029	153,035	150,817	160,409	160,413	159,292	159,297	7,374
Total Funds	$776,946	$714,952	$631,690	$858,990	$898,028	$835,024	$849,489	$144,038

Program Description

The Fiscal Control and Management Division is responsible for the issuance, control, and recording of claims and warrant payments for the State of Montana. In addition, the division is responsible for collecting and recording bad debts for the state.

LFA Current Level

The division's fiscal 1994 budget increases over $144,000 compared to the fiscal 1992 current level base, primarily due to increases in personal services and large increases in systems development and postage and mailing costs for the division's warrant writing system.

Personal services increase over $42,000 due to the 1993 biennium pay plan increases and vacancy savings in fiscal 1992.

Operating expenses increase over $101,000 for the state warrant writing system, partially offset by reductions of $1,700 in operating costs for the state bad debts collection system. Adjustments in the warrant writing system current level operating costs include: 1) a $28,000 adjustment in the allocation of fixed costs for state services provided by other agencies; 2) a $14,000 increase in systems development costs (to allow necessary system improvements), which were well below normal in fiscal 1992 due to budget reductions; 3) a $1,560 increase for equipment maintenance contracts; 4) a $34,000 reduction in computer processing rates charged by the Department of Administration; 5) inflationary adjustments of $9,000; and 6) an increase of $82,750 for postage and mailing costs. The increase in postage and mailing costs reflects a steady increase of approximately 6 percent per year in the volume of warrants processed annually by the division during the past two biennia. The division transferred $57,000 from the fiscal 1993 appropriation to cover postage and mailing increases in fiscal 1992. The fiscal 1994 current level budget includes the $57,000 supplemental increase as well as an allowance for an anticipated 5 percent annual increase in the volume of warrants from fiscal 1992 to fiscal 1994.

Operating expenses are nearly $19,000 lower in fiscal 1995 due to the biennial appropriation for audit fees of $25,316 in fiscal 1994 only and an additional $9,000 reduction in computer processing rates, partially offset by a $14,000 increase in postage and mailing costs due to expected warrant volume increases.

EXHIBIT
DATE 1/7/93
HB

3401 04 00000

STATE AUDITOR'S OFFICE — Securities

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	9.00	9.00	9.00	9.00	8.00	9.00	8.00	0.00
Personal Services	259,197	259,197	252,939	288,108	255,051	288,514	255,407	28,911
Operating Expenses	40,196	40,197	42,260	47,675	47,882	44,871	45,152	7,478
Equipment	140	0	0	0	0	0	0	0
Total Costs	$299,534	$299,394	$295,199	$335,783	$302,933	$333,385	$300,559	$36,389
Fund Sources								
General Fund	299,534	299,394	295,199	335,783	302,933	333,385	300,559	36,389
Total Funds	$299,534	$299,394	$295,199	$335,783	$302,933	$333,385	$300,559	$36,389

Program Description

The Securities Department is responsible for the administration and enforcement of the Securities Act of Montana as provided in Title 30, Chapter 10, MCA. The department is responsible for the registration of securities issuers, salesmen, broker-dealers, investment advisers, investment adviser representatives, and investigation of unregistered and fraudulent securities transactions.

LFA Current Level

The division's fiscal 1994 personal services budget increases nearly $29,000 compared to the fiscal 1992 current level base due to the 1993 biennium pay plan increases and vacancy savings in fiscal 1992.

Operating expenses increase primarily due to adjustments in the allocation of fixed costs to this program for rent and other services. An increase of $2,300 was included for contracted hearing officers to prosecute administrative actions against alleged violators of the Securities Act of Montana. Expenditures for hearings officers in the fiscal 1992 base year were well below normal.

Funding

The division is supported by general fund. All securities fees and fines collected by the division are deposited in the general fund. In fiscal 1992, the division collected $2.2 million in fees and fines, compared to program expenditures of $0.3 million.

EXHIBIT 4
DATE 1/7/93
HB

EX4

34G1 02 00000
STATE AUDITORS OFFICE
Program Summary

State Payroll

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	9.00	9.00	8.00	7.50	0.50	8.00	7.50	0.50
Personal Services	239,921	238,324	250,162	238,904	11,258	250,820	239,482	11,338
Operating Expenses	346,961	304,100	350,054	350,054	0	296,450	294,348	2,102
Equipment	0	0	0	4,500	(4,500)	0	0	0
Total Costs	$586,882	$542,424	$600,216	$593,458	$6,758	$547,270	$533,830	$13,440
Fund Sources								
General Fund	224,155	171,898	243,129	264,089	(20,960)	188,458	237,554	(49,096)
State Revenue Fund	362,726	370,526	357,087	329,369	27,718	358,812	296,276	62,536
Total Funds	$586,882	$542,424	$600,216	$593,458	$6,758	$547,270	$533,830	$13,440

Page References

LFA Budget Analysis (Vol. I), A68-69
Stephens' Executive Budget, A35

Current Level Differences

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
ELIMINATION OF FTE – The Executive Budget eliminated 1.0 FTE as part of the 5 percent personal services reduction. The LFA current level eliminated the same 1.0 FTE plus an additional 0.5 FTE due to savings that were anticipated by the legislature as a result of funding the conversion of the P/P/P system to an on-line system. The State Auditor stated during the 1991 session that at least 1.5 additional FTE could be eliminated when the P/P/P conversion was completed.	11,258	11,338
SYSTEMS DEVELOPMENT COSTS – The Executive Budget includes more funding for ISD systems development costs in fiscal 1995 than LFA current level, due to an expected fee increase. The fee increase occurs in fiscal 1994, and there is no additional increase in fiscal 1995.	0	2,078
EQUIPMENT – The LFA current level is higher in equipment as it allows funds for the purchase of office equipment requested by the agency but not included in the Executive Budget.	(4,500)	0
MINOR DIFFERENCES (NET)	0	24
FUNDING – As discussed under "Issues" below, the executive allocation plan for payroll service fees "overharges" user agencies for non-general fund payroll services. The LFA current level funds the program at the level of services received as calculated by the agency (44.5 percent general fund/55.5 percent state special revenue fund), with the "overcharge" remaining in the account for carryover to the next biennium. The executive funds the program at an average 37.6 percent general fund/62.4 percent state special revenue fund, applying the full "overcharge" to offset general fund in the 1993 biennium.	—	—
TOTAL CURRENT LEVEL DIFFERENCES	6,758	13,440

Budget Modifications

None

Language and Other Issues

FIXED COST FEE ALLOCATION – The fixed cost allocation for payroll service fees charged to non-general fund agencies will result in an overcharge due to an overestimation of the costs to operate the program (see discussion in LFA Budget Analysis, Vol I, A65-66). The Joint House Appropriations/Senate Finance and Claims Committee has asked the General Govt. and Transportation Subcommittee to determine current level for the program so that the proper fee allocation plan can be adopted for all agencies.

Cost allocation plan options:

A. Take no action. Leave the fee schedules for user agencies as presented in the Executive Budget.
B. Establish current level and reduce allocations to generate only enough funds to operate the program.
C. Allocate funding in the program budget at 55.5 percent general fund/44.5 percent state special revenue, allow "overcharges" to accumulate in the account, carry-over to next biennium. Include

language in House Bill 2 requiring the State Auditor to use the carry-over fund balance to reduce fees charged to non-general fund agencies for the 1997 biennium. Suggested language:

"The department shall develop and submit a cost recovery plan for the state payroll program (and the warrant writing system) to the office of budget and program planning and the legislative fiscal analyst by August 1, 1994. The total program cost estimate used to allocate the fees shall be reduced by the estimated amount of the state special revenue fund balance for each program that will carry over from the 1995 biennium."

POLICY INITIATIVE: TRANSFER PROGRAM TO DEPARTMENT OF ADMINISTRATION – The Executive Budget recommends in a policy initiative that the State Payroll Program (and the Fiscal Management and Control Program) in the State Auditor's Office be transferred to the Department of Administration. A bill will be introduced to accomplish this transfer. See the Stephens' Executive Budget, Page A80.

EXHIBIT 4
DATE 1/7/93

3401 10 00000
STATE AUDITORS OFFICE ~~HB~~ Fiscal Control And Management
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	13.00	13.00	12.67	13.00	(0.33)	12.67	13.00	(0.33)
Personal Services	295,921	293,221	331,598	338,123	(6,525)	332,356	338,891	(6,535)
Operating Expenses	415,982	338,169	544,623	515,081	29,542	517,133	496,133	21,000
Equipment	3,047	300	21,807	5,786	16,021	0	0	0
Total Costs	$714,950	$631,690	$898,028	$858,990	$39,038	$849,489	$835,024	$14,465
Fund Sources								
General Fund	414,918	334,041	212,600	199,096	13,504	159,442	192,584	(33,142)
State Revenue Fund	146,999	146,832	525,015	499,485	25,530	530,750	483,148	47,602
Proprietary Fund	153,033	150,817	160,413	160,409	4	159,297	159,292	5
Total Funds	$714,950	$631,690	$898,028	$858,990	$39,038	$849,489	$835,024	$14,465

Page References

LFA Budget Analysis (Vol. I), A73-74
Stephens' Executive Budget, A38-39

Current Level Differences

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
5 PERCENT PERSONAL SERVICES REDUCTION–The executive eliminated 0.33 FTE as a result of the requirement that the agency include a 5 percent personal services reduction in their 1995 biennium budget. The position is included in LFA current level. The joint House Appropriations and Senate Finance and Claims Committee has directed that the 5 percent FTE reductions be eliminated from the budget.	(6,525)	(6,535)
INCREASED OPERATING COSTS–The executive provides additional funding for increased data processing due to an increase in the volume of warrants, new warrant stock for the new State Auditor, and higher system development costs. These costs were not included in the original agency request but were identified by the agency and added to the current level base for the Executive Budget.	73,344	86,844
INCREASED POSTAGE COSTS–The LFA current level provides more funding for increased postage costs from an anticipated increase in the volume of warrants processed by the department. The executive includes this increase in the budget modification discussed below.	(25,753)	(39,526)
EQUIPMENT MAINTENANCE CONTRACTS–The Executive Budget provides less funding for equipment maintenance contracts due to the anticipated purchase of new equipment included in the Executive Budget that will replace high maintenance old equipment.	(2,250)	(1,547)
INFLATION DIFFERENCES	(15,799)	(24,771)
EQUIPMENT–The LFA current level is lower for equipment as it does not include the replacement of a large piece of equipment for the warrant writing system (forms burster) requested by the agency and included in the Executive Budget.	16,021	0
FUNDING–As discussed under "Issues" below, the executive allocation plan for warrant writing service fees "overcharges" user agencies for non-general fund warrant writing services. The LFA current level funds the warrant writing program at the level of services received as calculated by the agency (approximately 28.5 percent general fund/71.5 percent state special revenue fund), with the "overcharge" remaining in the account for carry-over to the next biennium. The executive funds the warrant writing system at at average 26 percent general fund/74 percent state special revenue fund, applying the full "overcharge" to offset general fund in the 1993 biennium.	—	—
TOTAL CURRENT LEVEL DIFFERENCES	39,038	14,465

Budget Modifications

Executive Budget Modifications:

WARRANT SYSTEM POSTAGE–The Executive Budget includes this modification in anticipation of a 5 percent annual growth in postage costs due to the increased number of state warrants mailed by the	25,753	39,526

department. The increase is funded by 29 percent general fund and 71 percent state special revenue fund. Funding for this modification is already included in LFA current level, as costs are considered essential to provide current level services. See LFA Vol. I, page A64.

BAD DEBTS EXPANSION—The Executive Budget recommends an expansion in the Bad Debts program by adding 1.0 FTE and related operating costs. This expansion began in a budget amendment in fiscal 1993, and is expected to increase bad debts collections by $500,000 each year. Funding is from a proprietary account. See LFA Vol. I, page A64. 37,494 37,494

Elected Official Budget Modification:

RESTORE % PERCENT REDUCTION—The State Auditor requests restoration of an 0.33 FTE administrative clerk removed from this program as part of the 5 percent personal services reductions. See the discussion above under "Current Level Differences" and LFA Vol. I, page A65. 6,520 6,520

Language and Other Issues

FIXED COST FEE ALLOCATION—The fixed cost allocation for warrant writing fees charged to non-general fund agencies will result in an overcharge due to an over-estimation of the costs to operate the warrant writing system (see the discussion in the LFA Budget Analysis, Vol I, A65-66. The Joint House Appropriations and Senate Finance and Claims Committees have asked the General Government and Transportation Subcommittee to determine current level for the program so that the proper fee allocation can be adopted for all agences.

Cost allocation plan options:

A. Take no action. Leave the fee schedules for user agencies as presented in the Executive Budget.
B. Establish current level and reduce allocations to generate only enough funds to operate the program.
C. Allocate funding in the program budget at 28.5 percent general fund/71.5 percent state special revenue fund for the warrant writing system, allowing "overcharges" to accumulate in the account and carry-over to the next biennium. Include language in House Bill 2 requiring the State Auditor to use the carry-over fund balance to reduce fees charged to non-general fund agencies for the 1997 biennium. Suggested language:

"The department shall develop and submit a cost recovery plan for the (state payroll program) and the warrant writing system to the office of budget and program planning and the legislative fiscal analyst by August 1, 1994. The total program cost estimate used to allocate the fees shall be reduced by the estimated amount of the state special revenue fund balance for each program that will carry over from the 1995 biennium."

POLICY INITIATIVE: TRANSFER PROGRAM TO THE DEPARTMENT OF ADMINISTRATION—
The Executive Budget recommends in a policy initiative that the Fiscal Control and Managment Program, including the warrant writing and bad debts collection functions (and the State Payroll Program) in the State Auditor's Office be transferred to the Department of Administration. A bill will be introduced to accomplish this transfer. See the Stephens' Executive Budget, Page A80.

ELIMINATION OF VACANT POSITION— A 1.0 FTE collection technician in the Bad Debts funcition was eliminated by the joint House Appropriations and Senate Finance and Claims committees action to eliminate vacant positions as of December, 1992. See the attached vacant postions summary.

EXHIBIT 5
DATE 1/7/93
~~HB~~

STATE AUDITOR

Positions Removed by Joint Committee Action
House Appropriations & Senate Finance and Claims
January 6, 1993

Position #	Position Description	Total Personal Services Fiscal 1994	Total Personal Services Fiscal 1995	FTE Removed by 5% Reduction	FTE Removed by Being Vacant	Total FTE Removed	Non-Approp. FTE
General Fund Positions							
Central Management Division:							
00004	Admin. Assistant II	$22,542	$22,575	0.00	1.00	1.00	
State Payroll Program:							
* 00025	Pay Benefits Clerk	8,789	8,802	0.45	0.00	0.45	
Insurance Division:							
00032	Personal Staff	35,874	35,929	0.00	1.00	1.00	
00045	Personal Staff	43,362	43,415	0.00	1.00	1.00	
00069	Insurance Investigator	35,934	35,977	1.00	0.00	1.00	
	Sub-Total	$146,501	$146,698	1.45	3.00	4.45	0.00
Non-General Fund Positions							
State Payroll Program:							
* 00025	Pay Benefits Clerk	10,743	10,758	0.55		0.55	
Fiscal Mgt. and Control (Bad Debts):							
60503	Collection Technician	23,411	23,577	0.00	1.00	1.00	
	Sub-Total	$34,154	$34,335	0.55	1.00	1.55	0.00
	TOTAL	$180,655	$181,033	2.00	4.00	6.00	0.00

* Already eliminated in the LFA current level.

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EXHIBIT
DATE 1/7/93
HB

department. The increase is funded by 29 percent general fund and 71 percent state special revenue fund. Funding for this modification is already included in LFA current level, as costs are considered essential to provide current level services. See LFA Vol. I, page A64.

BAD DEBTS EXPANSION – The Executive Budget recommends an expansion in the Bad Debts program by adding 1.0 FTE and related operating costs. This expansion began in a budget amendment in fiscal 1993, and is expected to increase bad debts collections by $500,000 each year. Funding is from a proprietary account. See LFA Vol. I, page A64.	37,494	37,494

Elected Official Budget Modification:

RESTORE % PERCENT REDUCTION – The State Auditor requests restoration of an 0.33 FTE administrative clerk removed from this program as part of the 5 percent personal services reductions. See the discussion above under "Current Level Differences" and LFA Vol. I, page A65.	6,520	6,520

Language and Other Issues

FIXED COST FEE ALLOCATION – The fixed cost allocation for warrant writing fees charged to non-general fund agencies will result in an overcharge due to an over-estimation of the costs to operate the warrant writing system (see the discussion in the LFA Budget Analysis, Vol I, A65-66. The Joint House Appropriations and Senate Finance and Claims Committees have asked the General Government and Transportation Subcommittee to determine current level for the program so that the proper fee allocation can be adopted for all agences.

Cost allocation plan options:

A. Take no action. Leave the fee schedules for user agencies as presented in the Executive Budget.
B. Establish current level and reduce allocations to generate only enough funds to operate the program.
C. Allocate funding in the program budget at 28.5 percent general fund/71.5 percent state special revenue fund for the warrant writing system, allowing "overcharges" to accumulate in the account and carry-over to the next biennium. Include language in House Bill 2 requiring the State Auditor to use the carry-over fund balance to reduce fees charged to non-general fund agencies for the 1997 biennium. Suggested language:

"The department shall develop and submit a cost recovery plan for the (state payroll program) and the warrant writing system to the office of budget and program planning and the legislative fiscal analyst by August 1, 1994. The total program cost estimate used to allocate the fees shall be reduced by the estimated amount of the state special revenue fund balance for each program that will carry over from the 1995 biennium."

POLICY INITIATIVE: TRANSFER PROGRAM TO THE DEPARTMENT OF ADMINISTRATION – The Executive Budget recommends in a policy initiative that the Fiscal Control and Managment Program, including the warrant writing and bad debts collection functions (and the State Payroll Program) in the State Auditor's Office be transferred to the Department of Administration. A bill will be introduced to accomplish this transfer. See the Stephens' Executive Budget, Page A80.

ELIMINATION OF VACANT POSITION – A 1.0 FTE collection technician in the Bad Debts funcition was eliminated by the joint House Appropriations and Senate Finance and Claims committees action to eliminate vacant positions as of December, 1992. See the attached vacant postions summary.

EXHIBIT #7
DATE 1/7/93
~~B~~

HOUSE OF REPRESENTATIVES

Gen. Gov. & Hwys. **SUB-COMMITTEE**

ROLL CALL VOTE

DATE 1/7/93 **BILL NO.** _____ **NUMBER** _____

MOTION: FIXED COST FEE ALLOCATION - STATE AUDITORS OFFICE - WARRENT WRITING AND PAYROLL DIV. - OPTION C EXHIBIT 6

NAME	AYE	NO
Rep. Mary Lou Peterson-Chair	X	
Sen. Harry Fritz-Vice Chair	X	
Rep. Marjorie Fisher	X	
Sen. Gary Forrester	X	
Rep. Joe Quilici	X	
Sen. Larry Tveit	X	

EXHIBIT A
DATE 1/7/93
HB

3401 02 00000

STATE AUDITOR'S OFFICE — State Payroll

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	9.00	9.00	9.00	7.50	8.00	7.50	8.00	(1.50)
Personal Services	239,921	239,921	238,324	238,904	250,162	239,482	250,820	(1,017)
Operating Expenses	346,961	346,962	304,100	350,054	350,054	294,348	296,450	3,092
Equipment	0	0	0	4,500	0	0	0	4,500
Total Costs	$586,882	$586,883	$542,424	$593,458	$600,216	$533,830	$547,270	$6,575
Fund Sources								
General Fund	224,155	224,156	171,898	264,089	243,129	237,554	188,458	39,933
State Revenue Fund	362,726	362,727	370,526	329,369	357,087	296,276	358,812	(33,358)
Total Funds	$586,882	$586,883	$542,424	$593,458	$600,216	$533,830	$547,270	$6,575

Program Description

The State Payroll Division is responsible for preparing the state payroll for state agencies on a biweekly basis. In addition, the division is responsible for maintaining the data base for the state Payroll/Personnel/Position Control (P/P/P) System, which is an integrated data base system incorporating all the requirements and data elements of three systems: payroll, personnel, and position control.

LFA Current Level

The division's fiscal 1994 budget increases only slightly as compared to the fiscal 1992 current level base, although there were several offsetting adjustments to the base.

Personal services decrease nearly $30,000 due to the elimination of 1.5 FTE as a result of the P/P/P on-line conversion, but the decrease is almost completely offset by the 1993 biennium pay plan increases and vacancy savings in fiscal 1992. When the agency requested funding for the P/P/P conversion in the 1991 biennium, it estimated that up to 1.75 FTE payroll clerks could be eliminated upon its completion. The 1991 legislature eliminated 0.5 FTE for the 1993 biennium as a result of the conversion, but the agency asked to defer further reductions until the project was fully implemented, stating that even more FTE than originally estimated would be eliminated.

Operating expenses are budgeted at the level appropriated by the January 1992 special session, except for increases in the allocation of fixed costs and systems development costs (due to an increase in the ISD hourly rate). These increases were nearly offset by a reduction in the computer processing rates charged by the Department of Administration. Operating expenses are nearly $56,000 lower in fiscal 1995 due to the biennial appropriation for audit fees of $44,955 in fiscal 1992 only and a reduction of over $11,000 in computer processing fees for this program in fiscal 1993.

Equipment includes replacement of a microfiche reader-printer, calculators, and minor office equipment.

Funding

State special revenue funds are derived from payroll service fees charged to agency non-general fund operations, representing 55.5 percent of total services. There is a direct appropriation from the general fund of 44.5 percent of total program costs for payroll services to general funded employees. There is an

increase in general fund and a corresponding reduction in state special revenue support as an existing fund balance of $12,500 from the Central Payroll Account was used to offset general fund in fiscal 1992. The state special revenue appropriation in fiscal 1992 was higher than in the 1995 biennium because the final program appropriation was less than the estimates used to establish the payroll fee charged to non-general fund programs.

DATE 1/7/93

3401 02 00000
STATE AUDITORS OFFICE HB State Payroll
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	9.00	9.00	8.00	7.50	0.50	8.00	7.50	0.50
Personal Services	239,921	238,324	250,162	238,904	11,258	250,820	239,482	11,338
Operating Expenses	346,961	304,100	350,054	350,054	0	296,450	294,348	2,102
Equipment	0	0	0	4,500	(4,500)	0	0	0
Total Costs	$586,882	$542,424	$600,216	$593,458	$6,758	$547,270	$533,830	$13,440
Fund Sources								
General Fund	224,155	171,898	243,129	264,089	(20,960)	188,458	237,554	(49,096)
State Revenue Fund	362,726	370,526	357,087	329,369	27,718	358,812	296,276	62,536
Total Funds	$586,882	$542,424	$600,216	$593,458	$6,758	$547,270	$533,830	$13,440

Page References

	Exec. Over(Under) LFA Fiscal 1994	Fiscal 1995

LFA Budget Analysis (Vol. I), A68-69
Stephens' Executive Budget, A35

Current Level Differences

ELIMINATION OF FTE – The Executive Budget eliminated 1.0 FTE as part of the 5 percent personal services reduction. The LFA current level eliminated the same 1.0 FTE plus an additional 0.5 FTE due to savings that were anticipated by the legislature as a result of funding the conversion of the P/P/P system to an on-line system. The State Auditor stated during the 1991 session that at least 1.5 additional FTE could be eliminated when the P/P/P conversion was completed.	11,258	11,338
SYSTEMS DEVELOPMENT COSTS – The Executive Budget includes more funding for ISD systems development costs in fiscal 1995 than LFA current level, due to an expected fee increase. The fee increase occurs in fiscal 1994, and there is no additional increase in fiscal 1995.	0	2,078
EQUIPMENT – The LFA current level is higher in equipment as it allows funds for the purchase of office equipment requested by the agency but not included in the Executive Budget.	(4,500)	0
MINOR DIFFERENCES (NET)	0	24
FUNDING – As discussed under "Issues" below, the executive allocation plan for payroll service fees "overharges" user agencies for non-general fund payroll services. The LFA current level funds the program at the level of services received as calculated by the agency (44.5 percent general fund/55.5 percent state special revenue fund), with the "overcharge" remaining in the account for carryover to the next biennium. The executive funds the program at an average 37.6 percent general fund/62.4 percent state special revenue fund, applying the full "overcharge" to offset general fund in the 1993 biennium.	—	—
TOTAL CURRENT LEVEL DIFFERENCES	6,758	13,440

Budget Modifications

None

Language and Other Issues

FIXED COST FEE ALLOCATION – The fixed cost allocation for payroll service fees charged to non-general fund agencies will result in an overcharge due to an overestimation of the costs to operate the program (see discussion in LFA Budget Analysis, Vol I, A65-66). The Joint House Appropriations/Senate Finance and Claims Committee has asked the General Govt. and Transportation Subcommittee to determine current level for the program so that the proper fee allocation plan can be adopted for all agencies.

Cost allocation plan options:

A. Take no action. Leave the fee schedules for user agencies as presented in the Executive Budget.
B. Establish current level and reduce allocations to generate only enough funds to operate the program.
C. Allocate funding in the program budget at 55.5 percent general fund/44.5 percent state special revenue, allow "overcharges" to accumulate in the account, carry-over to next biennium. Include

language in House Bill 2 requiring the State Auditor to use the carry-over fund balance to reduce fees charged to non-general fund agencies for the 1997 biennium. Suggested language:

"The department shall develop and submit a cost recovery plan for the state payroll program (and the warrant writing system) to the office of budget and program planning and the legislative fiscal analyst by August 1, 1994. The total program cost estimate used to allocate the fees shall be reduced by the estimated amount of the state special revenue fund balance for each program that will carry over from the 1995 biennium."

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POLICY INITIATIVE: TRANSFER PROGRAM TO DEPARTMENT OF ADMINISTRATION – The Executive Budget recommends in a policy initiative that the State Payroll Program (and the Fiscal Management and Control Program) in the State Auditor's Office be transferred to the Department of Administration. A bill will be introduced to accomplish this transfer. See the Stephens' Executive Budget, Page A80.

EXHIBIT 10
DATE 1/7/93
~~HB~~

3201 00 00000

OFFICE OF THE SECRETARY OF STATE

Agency Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	Biennial Difference Exec.-LFA
FTE	35.25	35.25	35.25	35.25	33.30	35.25	33.30	(1.95)
Personal Services	872,587	860,343	866,715	902,708	877,638	904,811	879,718	(50,163)
Operating Expenses	573,450	543,846	606,196	543,906	599,373	558,859	637,674	134,282
Equipment	15,668	15,669	19,153	28,239	37,622	17,012	32,412	24,783
Total Costs	$1,461,706	$1,419,858	$1,492,064	$1,474,853	$1,514,633	$1,480,682	$1,549,804	$108,902
Fund Sources								
General Fund	938,543	911,734	950,943	928,346	932,612	937,174	980,554	47,646
State Revenue Fund	182,804	180,009	181,835	197,208	216,347	195,547	202,863	26,455
Proprietary Fund	340,358	328,115	359,286	349,299	365,674	347,961	366,387	34,801
Total Funds	$1,461,706	$1,419,858	$1,492,064	$1,474,853	$1,514,633	$1,480,682	$1,549,804	$108,902

Agency Description

The Office of the Secretary of State is established by Article VI, Section 1 of the Montana Constitution and its duties are set forth in section 2-15-401, MCA. The office reviews, maintains, and distributes records of business and non-profit organizations; files and maintains records of secured financial transactions; and maintains the official records of the executive branch and the acts of the legislature. As the chief election officer of the state, the Secretary of State is responsible for the application, operation, and interpretation of election laws except those pertaining to campaign finance. The office publishes the Administrative Rules of Montana and the Montana Administrative Register.

The 1991 legislature transferred State Agency Records Management to the Office of the Secretary of State from the Department of Administration. The office administers state agency records management functions including: establishing guidelines for inventorying, cataloguing, retaining and transferring all public records of state agencies; establishing and operating the state records center for the purpose of storing and servicing public records not retained in office space; and operating a central microfilm unit on a cost recovery basis (section 2-6-203, MCA).

Adjustments to Actual Expenditures

	Actual Fiscal 1992	Approp. Transfer	Budget Amendment	One Time Approp.	Language Approp.	Non-Budget Expenditures	Statutory Approp.	All Other Approp.	Current Lvl Fiscal 1992
FTE	35.25								35.25
Expenditure	1,461,706	2,800		26,813		12,243			1,419,850

		General Fund	State Special Fund	Federal Fund	Cap. Projects Fund	Proprietary Fund	Other Fund	Current Unrestricted	
Funding	1,461,706	26,813	2,800			12,243			1,419,850

Adjustments to Actual Expenditures

Three adjustments were made to fiscal 1992 expenditures to arrive at the adjusted current level base. In fiscal 1992, $2,800 was transferred from the fiscal 1993 appropriation to the 1992 appropriation to cover

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3201 01 00000

SECRETARY OF STATE — Business & Government Services

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	22.50	22.50	22.50	22.50	21.25	22.50	21.25	0.00
Personal Services	543,308	543,307	536,669	563,795	552,725	565,183	554,103	20,488
Operating Expenses	387,921	361,113	406,713	346,124	366,117	364,934	419,394	(14,989)
Equipment	7,313	7,314	7,561	18,427	13,770	7,057	7,057	11,113
Total Costs	$938,543	$911,734	$950,943	$928,346	$932,612	$937,174	$980,554	$16,612
Fund Sources								
General Fund	938,543	911,734	950,943	928,346	932,612	937,174	980,554	16,612
Total Funds	$938,543	$911,734	$950,943	$928,346	$932,612	$937,174	$980,554	$16,612

Program Description

The Business and Government Services Program is the custodian of all official acts of the executive and legislative branches of Montana state government. In addition, the program, responsible for insuring uniform application of election laws, assists local officials in the operation of all elections; publishes and maintains official canvass results; and publishes and disseminates voter information. The program also administers the Agricultural Lien Program, a centralized filing and access system for security interests covering agricultural products and property.

LFA Current Level

Personal services costs increase by $20,488 due to annualization of the 1993 biennium pay plan and vacancy savings experienced in fiscal 1992.

Operating costs decrease from fiscal 1992 to fiscal 1994 due to the net of: 1) a $6,606 increase in fixed costs allocated to the agency; 2) approximately $6,800 in printing for required publications and ballot issues which must be printed each general election year; and 3) $27,475 for deflationary adjustments, primarily in computer processing.

Equipment includes: 1) two replacement computers each year; 2) a HP IIP printer each year; 3) a microfiche cabinet and a storage cabinet each year of the biennium; and 4) a microfiche reader/printer in fiscal 1994.

Funding

The program is funded from the general fund. However, the Secretary of State charges fees for services provided by this program which are deposited in the general fund. In fiscal 1992, the revenue from these fees was $1.2 million, compared to program expenditures of $938,543.

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3201 03 00000

SECRETARY OF STATE — Administrative Code Program

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	3.50	3.50	3.50	3.50	3.25	3.50	3.25	0.00
Personal Services	99,762	99,763	104,379	104,413	99,013	104,538	99,134	4,650
Operating Expenses	83,041	80,246	75,864	91,338	115,877	89,409	102,129	11,092
Equipment	0	0	1,592	1,457	1,457	1,600	1,600	1,457
Total Costs	$182,804	$180,009	$181,835	$197,208	$216,347	$195,547	$202,863	$17,199
Fund Sources								
State Revenue Fund	182,804	180,009	181,835	197,208	216,347	195,547	202,863	17,199
Total Funds	$182,804	$180,009	$181,835	$197,208	$216,347	$195,547	$202,863	$17,199

Program Description

The Administrative Code Program executes the duties required under the Montana Administrative Procedures Act (Title 2, Chapter 4, MCA). These duties include filing, indexing, organizing for publication, and distributing the administrative rules adopted by state agencies in the Administrative Rules of Montana and the Montana Administrative Register.

LFA Current Level

Personal services costs increase by $4,650 due to annualization of the 1993 biennium pay plan and vacancy savings.

Operating expense increases are made up of: 1) inflationary adjustments of $6,857; and 2) a net increase in fixed costs allocated to the agency of $4,540.

Equipment includes an HP IIP printer in fiscal 1994 and a personal computer in fiscal 1995.

Funding

The program is funded from a state special revenue fund received from publications and subscriptions of the administrative rules. House Bill 9 enacted during the January 1992 special session required that $20,000 of revenues from this account be transferred to the general fund on or before June 30, 1993. This transfer had not been made as of November 1992.

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3201 04 00000

SECRETARY OF STATE — Records Management

Program Summary

Budget Item	Actual Expenditures Fiscal 1992	Current Level Fiscal 1992	Current Level Fiscal 1993	LFA Fiscal 1994	Executive Fiscal 1994	LFA Fiscal 1995	Executive Fiscal 1995	LFA Change 92 -- 94
FTE	9.25	9.25	9.25	9.25	8.80	9.25	8.80	0.00
Personal Services	229,516	217,273	225,667	234,500	225,900	235,090	226,481	17,227
Operating Expenses	102,486	102,487	123,619	106,444	117,379	104,516	116,151	3,957
Equipment	8,355	8,355	10,000	8,355	22,395	8,355	23,755	0
Total Costs	$340,358	$328,115	$359,286	$349,299	$365,674	$347,961	$366,387	$21,184
Fund Sources								
Proprietary Fund	340,358	328,115	359,286	349,299	365,674	347,961	366,387	21,184
Total Funds	$340,358	$328,115	$359,286	$349,299	$365,674	$347,961	$366,387	$21,184

Program Description

The State Agency Records Management program was moved from the Department of Administration to the Secretary of State's Office by the 1991 Legislature. The program administers state agency records management functions including: establishing guidelines for inventorying, cataloguing, retaining and transferring all public records of state agencies; establishing and operating the state records center for the purpose of storing and servicing public records not retained in office space; and operating a central microfilm unit on a cost recovery basis (section 2-6-203, MCA).

LFA Current Level

Personal services costs increase due to annualization of the 1993 biennium pay plan and vacancy savings experienced in fiscal 1992.

Operating expenses increase slightly due to inflationary adjustments and higher fixed costs allocated to the agency.

Equipment includes additional shelving each year.

Funding

The program is funded with a proprietary fund account which receives revenues from storing records for state agencies and for microfilming services. As discussed in the Issues section, there is insufficient revenue in this account to support the current level budget.

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3201 01 00000

SECRETARY OF STATES OFFICE HB

Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	22.50	22.50	21.25	22.50	(1.25)	21.25	22.50	(1.25)
Personal Services	543,308	536,669	552,725	563,795	(11,070)	554,103	565,183	(11,080)
Operating Expenses	361,108	406,713	366,117	346,124	19,993	419,394	364,934	54,460
Equipment	7,313	7,561	13,770	18,427	(4,657)	7,057	7,057	0
Total Costs	$911,730	$950,943	$932,612	$928,346	$4,266	$980,554	$937,174	$43,380
Fund Sources								
General Fund	911,730	950,943	932,612	928,346	4,266	980,554	937,174	43,380
Total Funds	$911,730	$950,943	$932,612	$928,346	$4,266	$980,554	$937,174	$43,380

Page References

Stephens' Executive Budget : pages A29 to A32
LFA Budget Analysis: pages A-51 to A-58

Current Level Differences

	Exec. Over(Under) LFA Fiscal 1994	Fiscal 1995
PERSONAL SERVICES – The LFA current level is higher than the executive current level because the LFA includes all FTE authorized by 1991 legislature in current level (including the "5 percent reduction" FTE). Offsetting part of the difference, the executive current level includes some positive adjustments made during the first part of fiscal 1993 which are not in the LFA current level. The net impact of these two factors accounts for the difference in current level personal services.	(11,070)	(11,080)
COMPUTER PROCESSING – The executive current level shows increase in cost of this service while the LFA current level uses historical costs which have actually decreased in recent years.	5,373	10,746
PRINTING – The LFA current level is lower because of certain printing being optional, and recognizes the cyclical nature of these expenditures.	3,550	7,250
MICROFILM SERVICES – The LFA current level uses fiscal 1992 actual expenditures. The executive current level assumes a workload increase.	3,092	4,792
POSTAGE – The LFA current level is based upon fiscal 1992 actual expenditures while executive current level assumes an increase in the number of mailings.	4,757	7,515
PUBLICATION EXPENSE – The LFA current level is lower, taking into account fiscal 1991 actuals and historical costs. The executive current level assumes that number of amendments requiring publication in fiscal 1995 will be comparable to fiscal 1993.		23,664
TRAVEL – The LFA current level uses fiscal 1992 actual expenditures.	2,254	2,425
MINOR DIFFERENCES – Generally, LFA current level uses fiscal 1992 actual expenditures.	967	(1,932)
EQUIPMENT – The LFA current level is higher than the executive current level for fiscal 1994 because the LFA current level includes a computer and printer not included in the executive current level.	(4,657)	
TOTAL CURRENT LEVEL DIFFERENCES	4,266	43,380

Budget Modifications

Executive Budget Modifications (See LFA Budget Analysis 1995 Biennium, Vol. I, page A-53)

CORPORATE RECORDS DUPLICATION – This item would fund the cost of microfilming various records in the custody of the Secretary of State and would allow compliance with section 2-6-111(5), MCA, which specifies that the Secretary of State shall maintain at least two copies of all records.	32,500	32,500
RESTORE 5% REDUCTION – This would restore 1.25 FTE in this program that were deleted in response to section 13 of House Bill 2. It would also restore 0.45 FTE to this program that was deleted from the Records Management Program, resulting in a change of funding for these positions from proprietary to general funds.	38,526	38,569

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Elected Official Budget Modifications (see LFA Budget Analysis 1995 Biennium, Vol. I, pages A-53 & A-54)

NEW FILE SERVER AND UPGRADES – The agency requests a file server and new software to provide capacity to meet needs of office.	28,268	
FIREPROOF STORAGE PURCHASE – Purchase of fireproof cabinets is estimated to cost $50,000. An alternative would be lease purchase at a cost of $12,748 per year for five years.	50,000	
RECORDS FILMING – RETRIEVAL – The agency requests more efficient storage and retrieval of business registrations and uniform commercial code financing statements through purchase of microfilming equipment.	8,950	
DATA PROCESSING PERSONNEL – The program requests a grade 15 data processing position to provide services currently provided by ISD, private vendors, consultants, and office staff.	33,566	33,566

Language and Other Issues

ISSUE: SENATE BILL 423 – CORPORATE INFORMATION – This legislation allowed the Secretary of State to sell lists of certain corporate information. Revenues anticipated in bill's fiscal note have not been realized. Agency staff indicates that office did not have enough funding to generate lists. (See page A-54 of LFA Budget Analysis 1995 Biennium, Vol. I)

ISSUE: INCREASED CORPORATE FILING FEES – In the January 1992 special session, language was added to House Bill 2 which directed the secretary of State "to raise annual corporation report fees by an amount sufficient to deposit an additional $150,000 in the general fund beginning in fiscal 1993". The fees which are established by administrative rules have not been increased. The Secretary of State is concerned that the fee increases would violate section 35-1-1206(3), MCA, which provides that the "fees must be reasonably related to the costs of processing the documents and preparing and providing the services". (See LFA Budget Analysis 1995 Biennium, Vol. I, page A-54)

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3201 03 00000
SECRETARY OF STATES OFFICE — Administrative Code Program
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	3.50	3.50	3.25	3.50	(0.25)	3.25	3.50	(0.25)
Personal Services	99,762	104,379	99,013	104,413	(5,400)	99,134	104,538	(5,404)
Operating Expenses	80,241	75,864	115,877	91,338	24,539	102,129	89,409	12,720
Equipment	0	1,592	1,457	1,457	0	1,600	1,600	0
Total Costs	$180,004	$181,835	$216,347	$197,208	$19,139	$202,863	$195,547	$7,316
Fund Sources								
State Revenue Fund	180,004	181,835	216,347	197,208	19,139	202,863	195,547	7,316
Total Funds	$180,004	$181,835	$216,347	$197,208	$19,139	$202,863	$195,547	$7,316

Page References

Stephens' Executive Budget – Pages A29 to A32
LFA Budget Analysis 1995 Biennium Vol. I – Pages A-51 to A-58

Current Level Differences

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
PERSONAL SERVICES – The LFA current level is higher than the executive current level primarily because the LFA analysis includes all FTE authorized by the 1991 Legislature including those FTE reductions for the "5 percent reduction" (0.25 FTE for this program).	(5,400)	(5,404)
PRINTING – The LFA analysis reflects continuation at levels consistent with fiscal 1992 actual expenditures for printing of Administrative Rules of Montana and the Montana Administrative Register, while the executive current level includes additional authority in order to respond to potential demand increases and a new printing.	19,916	6,534
POSTAGE – The LFA current level is consistent with the fiscal 1992 actual expenditures. Fiscal 1992 was 62.6 percent higher than fiscal 1991 and consistent with fiscal 1990.	2,772	4,314
MINOR DIFFERENCES – Generally, LFA current level uses fiscal 1992 actual expenditures.	1,851	1,872
TOTAL CURRENT LEVEL DIFFERENCES	19,139	7,316

Budget Modifications

None

Language

None

EXHIBIT
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3C 01 04 00000
SECRETARY OF STATES OFFICE — Records Management
Program Summary

Budget Item	Current Level Fiscal 1992	Current Level Fiscal 1993	Executive Fiscal 1994	LFA Fiscal 1994	Difference Fiscal 1994	Executive Fiscal 1995	LFA Fiscal 1995	Difference Fiscal 1995
FTE	9.25	9.25	8.80	9.25	(0.45)	8.80	9.25	(0.45)
Personal Services	217,273	225,667	225,900	234,500	(8,600)	226,481	235,090	(8,609)
Operating Expenses	102,486	123,619	117,379	106,444	10,935	116,151	104,516	11,635
Equipment	8,355	10,000	22,395	8,355	14,040	23,755	8,355	15,400
Total Costs	$328,115	$359,286	$365,674	$349,299	$16,375	$366,387	$347,961	$18,426
Fund Sources								
Proprietary Fund	328,115	359,286	365,674	349,299	16,375	366,387	347,961	18,426
Total Funds	$328,115	$359,286	$365,674	$349,299	$16,375	$366,387	$347,961	$18,426

	Exec. Over(Under) LFA Fiscal 1994	Exec. Over(Under) LFA Fiscal 1995
Page References		
Stephens' Executive Budget – Pages A29 to A32		
LFA Budget Analysis 1995 Biennium Vol. I – Pages A-51 to A-58		
Current Level Differences		
PERSONAL SERVICES – The LFA current level is higher than the executive current level primarily because the LFA analysis includes all FTE authorized by the 1991 Legislature including those FTE reductions for the "5 percent reduction" (0.45 FTE for this program).	(8,600)	(8,609)
OPERATING EXPENSES – The LFA current level is lower than the executive current level. The LFA analyses use fiscal 1992 actual expenditures (adjusted for fixed costs) because projected revenues which support this program are less than program costs.	10,935	11,635
EQUIPMENT – The LFA current level is lower than the executive current level because of the projected revenue shortfall as described for operating expenses above.	14,040	15,400
TOTAL CURRENT LEVEL DIFFERENCES	16,375	18,426
Budget Modifications		
Executive Budget Modification		
RESTORE 5% REDUCTION – Restore 0.25 FTE in this program – LFA page A-53	4,459	4,465
Language and Other Issues		
ISSUE: RECORDS MANAGEMENT PROGRAM REVENUES – Inadequate revenue in proprietary fund account which funds this program. See page A-54, LFA Budget Analysis 1995 Biennium Vol. I		

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HB

FUND ANALYSIS AND CAPACITY WORKSHEET

Accounting Entity 06556
Accounting Entity Name Records Management

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
Beginning Balance		$0	$60,485	$17,236	$0	($69,633)
Revenues						
1. Service Fees			$296,708	$280,000	$300,000	$300,000
2. Other			$401	$500	$500	$500
3.						
4.						
5.						
Total Revenues	$0	$0	$297,109	$280,500	$300,500	$300,500
Disbursements						
1. Operations			$340,358	$297,736	$354,264	$354,966
2. Elected Official					$11,410	$11,421
3. Mod to Restore 5%					$4,459	$4,465
4.						
5. Appropriations Balances				$0		
Total Disbursements	$0	$0	$340,358	$297,736	$370,133	$370,852
Adjustments						
1. PY Revenue						
2. PY Expenditures						
3. Misc						
Total Adjustments	$0	$0	$0	$0	$0	$0
Ending Balance	$0	$0	$17,236	$0	($69,633)	($139,985)

EXHIBIT 13
DATE 1/7/93
~~HB~~

Madam Chair and members of the Committee, for the record my name is Mike Cooney and I appear before you today as Secretary of State.

The financial problems that face this session are enormous, and your job here is difficult at best. The time has come for all of us involved in public service to take a serious look at the way we conduct the business of government. It is time for government to regain the public trust by showing ourselves to be capable and <u>responsible custodians</u> of our tax dollars.

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The catch phrase for this type of activity seems to have become "reinventing government." I think we can, in fact, reinvent government here in Montana and that the process can be a positive one for both the public and their government. However, to do so effectively will take all of us, pulling together, making difficult choices to do it right.

Further, we don't "reinvent" anything simply by making it smaller. We "reinvent" government only when we take stock of the services that the public expects to be provided, and find better, more effective ways to fund their delivery.

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With all due respect to the Governor's Budget Office and the Legislative Fiscal Analyst, the budget proposals presented to you do indeed make government smaller, but they don't make it better.

With me today to present our agency's request is my Chief Deputy, Doug Mitchell, and my Fiscal Affairs Officer, Gary Managhan. Gary and Doug have worked tirelessly to provide you with both a thorough analysis of our current budget situation and an innovative idea for "reinventing" the way this agency does business.

EXHIBIT 13
DATE 1/7/9
HB

I thank you in advance for your careful consideration of this matter, and I hope that as the process proceeds that you will feel free to contact me directly if you have any questions.

EXHIBIT 14
DATE 1/7/93
HB

Madam Chair and members of the Committee, good morning. For the record, my name is Doug Mitchell and I appear before you today as the Chief Deputy in the office of the Secretary of State.

No single issue is of more importance to Secretary of State Cooney than the proper stewardship of the public funds bestowed upon this office for use in providing service to Montana. Since his election in 1988, Secretary of State Cooney has made it a priority to improve both the services the office provides, and the efficiency with which those services are provided. Since that time, this office not once overspent its biennial appropriation, has consistently reverted funds as requested by the Governor and been a full partner in regular and special session budget cutting.

As a result, I submit that the office of the Secretary of State, under the stewardship of Secretary of State Cooney is one of, if not the, most efficient agencies in state government. Today, I will present this agency's request for funding for the coming biennium. In my presentation I will provide a historical overview of the office's funding and responsibilities, a brief discussion of the individual funding centers, a description of the requested budget modifications, and a proposal for a funding switch to remove the agency from the General Fund.

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Before I begin, let me take a moment to thank Gary Managhan of my staff for all of his hard work in putting this information together for your use. In addition, I would like to thank the Governor's budget office and the Legislative Fiscal Analyst for their work in helping to effectuate the smooth passage of House Bill 2.

Historical Overview

The functions of the office of the Secretary of State are prescribed extensively in both the Constitution of the State of Montana and the Montana Code Annotated. Over the past decade, the statutory responsibilities of the office have increased significantly. During the same period, the funding provided by the legislature has declined. In fact, in actual dollars, the amount included in the executive budget for FY 94 is $61,484 less than the appropriation Secretary Waltermire received for FY 1987. When you apply standard Consumer Price Index increases to these numbers, the reduction in support for this agency since 1983 is staggering. In fact, in adjusted dollars, this office now receives roughly 25% less state funds than it received in 1983, and nearly half of the support it received in 1987.

As budgets have been reduced, this office has found savings by

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eliminating discretionary items such as informational newsletters provided to our business customers, printing of information such as election canvasses and legislative rosters, and memberships in organizations such as the National Association of State Election Directors, and international association of corporate administrators. In so doing, this office has eliminated virtually all discretionary expenditures.

Nearly 100% of the expenditures made by this office are "pass through" in nature. Each biennium, this office is appropriated a large sum of money for what is termed "Contracted Services." It might appear to the casual reader that this is an amount that can then be spent at the discretion of the agency. Quite the converse is, in fact, true. Rather, in the case of this agency, "Contracted Services" translates into payments to the Department of Administration for maintenance of the computer system that handles the Uniform Commercial Code and Corporation filing systems.

Likewise, appropriations for "Printing" are made and spent to publish materials specifically mandated by state law. To illustrate this, I have brought today the publications that state law mandates the Secretary of State to print and distribute.

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As a result, the discretionary portion of this agency's budget represents less than 5% of its total appropriation and accounts for items like the relocation of phones, the moving and repair of office furniture or equipment, and travel (including the statutory training of election administrators).

The "Pass Through" nature of this agency then, makes it difficult for it to absorb further reductions in support without significant reduction in statutory mandates. Neither the Budget office nor the Legislative Fiscal Analyst have suggested the removal of statutory mandates.

The other half, and perhaps the most neglected half, of the budget equation for this agency is revenue. Over the past decade this office has subsidized other agency budgets with more than $1.5 million dollars in revenue in excess of expenditures. Without question, this office is fully funded by the fees collected from its customers.

However, as the agency's budget is cut, so is its ability to earn revenue. A vivid example is presented as a budget issue by the LFA in their report to the legislature. Last session this office asked for and received authority to prepare and sell lists of corporations requested by private vendors. However, due to the

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budget cuts enacted by that session, and the subsequent two special sessions, insufficient resources existed for this agency to prepare the lists requested. As I stand here before you, dozens of paying customers wait anxiously for a revenue producing product I can not afford to produce.

It is my hope that as I continue through my presentation, and particularly when we discuss this agency's proposal for a funding change that you will keep in mind the revenue portion of the equation.

Records Management

During the 1991 legislative session, the function of providing state records management services was transferred from the Department of Administration to the Secretary of State. The Secretary of State assumed all of the duties of the Records Management Bureau with the exception of Computer Output Microfilm or COM. The responsibility and budget for COM remained with the Department of Administration.

The resulting proprietary account has been a great management challenge. It became immediately clear that the agency's past "break-even" performance was due in large part to COM revenues.

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Absent COM revenues, the income, and hence expenditures, for this bureau have declined creating a significant cash flow problem.

Immediately, this office utilized a number of management tools to mitigate the financial difficulties being experienced by the bureau. First, we sought to better allocate staff to create the greatest efficiencies at Records Management. Personnel were reassigned to duties where they would be most productive. This both lowered the payroll cost at Records Management while at the same time increasing revenue.

Second, this office instituted fee changes to better attract business that has, in the past, been discouraged. Some fees were lowered to encourage customers and others were raised to more effectively cover costs. As a result, the Bureau's business climate has improved and it is now possible to predict that Records Management is at least temporarily on a break even basis. However, a serious problem still exists. The Bureau is operating significantly below appropriated levels due to limited revenue, and cash shortfalls experienced in prior months must be regained in order to repay an outstanding loan from the office's Administrative Rules bureau. While a significant fee increase in document storage costs could serve this purpose, this may lead to further increases in other agency budgets as well as a disincentive

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to agencies to properly store their records.

Another option is the transfer of COM back to the Records Management Bureau now housed within the office of the Secretary of State. Although exact figures are not available to this agency, COM provides significant positive cash flow to easily remedy the situation currently being experienced.

The third option is the merging of the Business and Government Services, Administratiave Rules and Records Management Bureaus under a new funding structure that I will discuss later.

Let me point out here as I close that although the transfer of this function has provided some significant management challenges for this agency, it has been a positive step for Montana. Records management has taken its rightful seat at the forefront of state government and through the dedication of the Bureau Chief, Ed Eaton, the Records Committee and others interested in proper records preservation, we have made great strides in dealing with important issues of public policy.

Administrative Rules

The Administrative Rules bureau is an example of a small and

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efficient bureau directed by a dedicated public servant. The Bureau Chief, Kathy Lubke has served three Secretaries of State and runs a business-like operation that provides a valuable service to both state government and the legal community.

This is quite possible the most productive and amazing bureau in all of state government. Responsible for the bi-weekly printing and publication of the Montana Administrative Register and quarterly updates to the Administrative Rules of Montana, this bureau proofreads, organizes and distributes literally thousands of pages of rules each year, all with 3.5 FTE.

There are no budget modifications or issues that concern this bureau.

Business and Government Services

This part of the agency represents the bulk of the income and expenditure for the office of the Secretary of State. It is funded by taxpayer dollars through roughly a $ 1 million annual appropriation from the General Fund.

The services provided by this bureau are critical to the conduct of public affairs in Montana. From the administration of elections to

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the filing of business and executive documents, these bureaus handle literally hundreds of thousands of constituent requests each and every year. Just yesterday, our Business Services information center, a staff of two, handled over 300 telephone calls from customers requesting information about corporate filings. Meanwhile, Shiela, our annual report staff, prepared a 38,000 piece Annual Report mailing, our Documents Specialists filed over 250 documents and Brenda and Faira in the Elections and Legislative Bureau processed dozens of oaths of office, notary commissions and extraditions.

This agency charges fees to the customers utilizing the services that the office provides. As I mentioned earlier, those fees have regularly exceeded the General Fund appropriation provided by the legislature, making this agency one that actually makes money for the state. Unfortunately though, that positive money making performance has not translated directly into the delivery of additional public services for which our customers have paid. In fact, modifications to add safe filing equipment and to allow this office to meet a statutory mandate regarding the duplication of vital records were removed from the agency budget as a result of the recent budget crisis.

At the beginning of my presentation, I noted that this agency is

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receiving less support now than in 1987. Nowhere is this more evident than in this area. Yet demands for improved services like facsimile filing and additional legislatively mandated special elections have increased, driving this part of the agency to the breaking point. Our computer programs are antiquated and constantly in need of costly repair, our storage facilities are unsafe and inadequate, our telecommunications abilities are limited at best and our staff is working at 110% of capacity to keep-up with the workload. The 5% FTE reduction re-instituted by OBPP would be devastating to this revenue producing entity.

Conclusion

In a nutshell, that's our operation to date. The agency is efficient, productive and profitable. However, it is also at risk. As I move into a description of our proposed modifications, let me close this section on current level budget by saying unequivocally that this agency can not operate under current statutory guidelines with any less budget authority than described in the original OBPP proposal made by former Governor Stephens in December. In the past, you have heard me testify in response to proposed budget cuts that we would find a way to handle them, and we have. I will tell you today, without pomp and circumstance that this agency can not handle further cuts without substantial changes in

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state law, and significant reductions in the level of service we provide to the public.

MODIFICATIONS

I will briefly cover the modifications this agency is requesting for the 1995 biennium.

1. Purchase of a new File Server.

This office's current server does not have the capacity to comply with our current needs which diminishes our capability to successfully meet our customers' needs. The addition of the Records Management Bureau and our increased reliance on LAN services has created a situation where a larger server, an upgrade in networking software (Novell), upgrades of software utilized by users and additional drive capabilities for both storage (hard drives) and retrieval (CD ROM) are necessary. ISD has written us to advise us to purchase a new server and a copy of their correspondence is included in our written presentation for your information.

Current level budgets provide for standard equipment replacement

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and not for larger acquisitions of this type. The installation of a new server will increase the efficiency of this office by reducing system lock-ups, speeding-up retrieval, allow for increased storage and retrieval, insure compatibility between this office and customers which provide the funds for this office as well as increasing the integrity of our automated data. This office has worked closely with ISD in developing the requirements for this purchase.

General Fund Costs -

Purchase of New Server	- Object 3106	$14,492.00
Software Purchases	- Object 3401	$ 9,052.00
Facility Cooling	- Object 3113	$ 2,000.00
CD Rom Drive	- Object 3106	$ 579.00
Addition Hard Drives	- Object 3106	$ 2,145.00
Total		$28,268.00

2. Acquisition of Fireproof Storage for Corporate Records.

The current storage facility for corporate records in unsafe and vulnerable to natural disaster. During the 1991 legislative sessions approval was given for $45,000.00 to purchase and install fireproof storage shelves. This authority was subsequently removed from this office's budget by the 1992 special session.

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The need for this equipment is dire. The state faces severe liability if the current physical plant is not altered. The first option is a straight purchase in FY 94, and the second is a lease-purchase with a five year term (10% interest is assumed).

General Fund Costs -
Purchase Option - Object 3113 - $50,000
5 year Lease Option - - $12,748 annual cost*

*To complete the lease purchase option requires $12,748 during both 1994 and 1995 as well as during 1996, 1997 and 1998. Total costs over this five years would be $63,740.

3. Records Filming/Retrieval Equipment.

The Secretary of State's Office has as one of it's delegated responsibilities the duty to provide and maintain a central filing point for business registrations and uniform commercial code financing statements, which includes agricultural product filings in accordance with the Federal Food Security Act of 1985. Current records activities are becoming overly cumbersome and inefficient. We seek to improve storage and retrieval of related documents through the capturing of documents onto microfilm through a process that will allow efficient retrieval. The on-site location of

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this equipment will promote more efficient microfilming and long term storage of records which will result in future costs being lower.

General Fund Costs -

Object 3115 - Photographic Equipment $8,950.00

4. Addition of One (1) Data Processing FTE..

Currently office data processing services are provided by a combination of salaried personnel outside their job description, ISD, private vendors, and consultants. This procedure and resulting overburdening of staff has lead to an incongruous data processing structure which has reduced our ability to serve customers, the taxpayers of the state of Montana. State laws allows this office to generate revenues for services such as corporate listings. We are currently unable to provide these services because of our inability to develop programming to generate listings and other services which are mandated by statute. This significantly reduces our revenue generating abilities.

General Fund Costs -

One FTE (Grade 15) - 1100 Personal Services - $26,466

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1400 Benefits - $ 7,100

$33,566

5. Microfilming of Corporate Documents.

This request is similar to that submitted during the last session. State law mandates that duplicate copies of be maintained of documents that are filed here. The current plan would be to begin microfilming in July of 1993. The modification asks for $35,000 in each year of the biennium.

6. 5% Personal Service Reversal.

This modification was recommended by OBPP in its December budget and would restore the office only to the FTE level appropriated in the 1983 biennium.

Funding Switch

The final portion of my presentation this morning will follow-up on what Secretary Cooney described earlier as our effort to reinvent government. I submit that the General Fund dollars allocated to the Secretary of State can be used better elsewhere. This agency operates on the fees it charges for the services it provides. To put it in the terms used in the Generally Accepted Accounting Principles, agencies where "costs are to be financed or recovered

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through user charges" are defined not as General Fund agencies, but as enterprise accounts.

It is this agency's proposal that all General Fund support to the office of the Secretary of State be removed, and that the office as a whole be unified under one enterprise account that will be funded wholly by fees charged for services provided.

In this way, this subcommittee immediately makes the general fund smaller by $1.1 million. In addition, create a market place situation where the agency must earn its keep or be forced to cut expenditures. Under a General Fund scenario, income is completely irrelevant to the agency. If it is appropriated $1 million it can spend $1 million. Under an enterprise fund format, the agency may be given spending authority of $1 million, but it may only spend that money if it earns it. In other words, government becomes responsible to provide its services to its customers in the same manner as a business.

Further, the establishment of an enterprise fund for use in the operation of the office of the Secretary of State allows for the development and implementation of long range plans and other positive business decisions. Since expenditures no longer rely on General Fund support, but on legislative authority and

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accompanying customer support through the payment of fees, issues such as proper document storage, data processing personnel and records duplication can be implemented without direct, Generally funded, taxpayer support.

Earlier in my presentation I asked you to keep revenue in mind as we discussed this budget, and I would be remiss if I did not also point out that this proposal would also remove revenue from the General Fund. As I have pointed out earlier, this office subsidizes other agency expenditures through surplus income. For the most part this subsidy is due to the fact that prior legislators have been hesitant to fund modifications that would have created much greater income to expenditure equity.

While it is our request to divert operating revenues to an enterprise account, we understand the desire of this session to maintain General Fund revenues at current or near current levels. In order to effectuate that goal, this office proposes to place a cap on the amount of cash the enterprise account may accrue. It is our proposal that the account be able to accrue a reserve balance no greater than 10% of its annual appropriation. In addition, spending authority for certain operating costs would be required although cash already exists to fully fund the operating account. The 10% reserve would allow for the setting aside of user fees for

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long term equipment purchases. No money earned or held in reserve could be spent without prior legislative approval.

In this way, the office would have the means to undertake revenue enhancing projects such as the sale of corporation lists and the monitoring of business licensing and still deposit funds in excess of the reserve amount directly into the General Fund.

There is no doubt in my mind that this change will enhance our ability to create efficiencies, improve our service to the public and enhance our ability to earn revenue. It will not only make the General Fund smaller, but it will also make government better.

CLOSE

I've already taken significantly more time than I have ever taken before in visiting with this committee about our budget and I'm going to close very briefly. I hope this committee will move swiftly to adopt our proposal to "reinvent", if you will, the funding structure for this office. I hope that you will look at the history and performance of this office and its stewardship of public funds, and that you will question me vigorously about our plans.

In preparing for this session, and for Secretary Cooney's new term

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we had an office retreat about what are goals for the future should be. Two things were decided by the 36 people that make up our office. First, that our purpose is service. We exist to serve the public as public servants, we serve government as a full partner, and we serve each other as human beings. Second, that our ability to do the first is greatly dependent on the establishment and maintenance of a budget for the agency that makes sense.

Madam chair and members of the committee, thank you for your time this morning. I hope that the information presented was useful and I stand ready to respond to any comments or questions the committee may have at this time or at any time in the future.

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EX 15
Subcommittee on General Government an Transportation

Office of the Secretary of State

Mike Cooney

Budget Presentation

1994-1995 Budget

Prepared for Analysis of
The Secretary of State's Budget Requests
As Contained in:

The Governor's Executive Budget Request

The Appropriations Report of
The Office of the Legislative Fiscal Analyst

Prepared December, 1992

The original is stored at the Historical Society at 225 North Roberts, Helena, MT 59601-12
The phone number is 444-2694.

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Office of the Secretary of State

Mike Cooney

Proposal to Change Funding Structure

Prepared for Presentation

To:
1993 Legislative Session

Prepared December, 1992

Using the following rationale the Secretary of State and staff support the position that the fund structure used to account for our revenues and expenditures be changed.

Governmental Accounting Standards (GASB) is the authoritative source on the application of general accepted accounting principles (GAAP) to state governments. GASB recognizes the need to segregate governmental accounting into funds types. Within this system of organizing accounting activity is the groupings of funds called proprietary funds. Proprietary funds contain enterprise funds (060XX accounting entities within the state's accounting system) and internal service funds (065XX within the state system).

GASB has the following definition for enterprise funds - To account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate.

The office of the Secretary of State has historically been funded from the state's general fund or from state special revenue funds. With the addition of the Records Management Program we acquired an enterprise fund operation. Prior legislative actions have demonstrated the intent to segregate our operations into self supporting components, striving to associate specific costs with revenues. Existing legislative language requires that the office establish fees for services to be commensurate with costs.

This user fee structure system has the support of the business and government community that utilize our services. The office's legislatively mandated budget structure however, is lacking. During the current fiscal year more than seventy five percent of the operations for this office will come from the general fund or special revenue funds, with over eighty percent of these funds coming from the general fund. The next two graphs reflect these fund usages.

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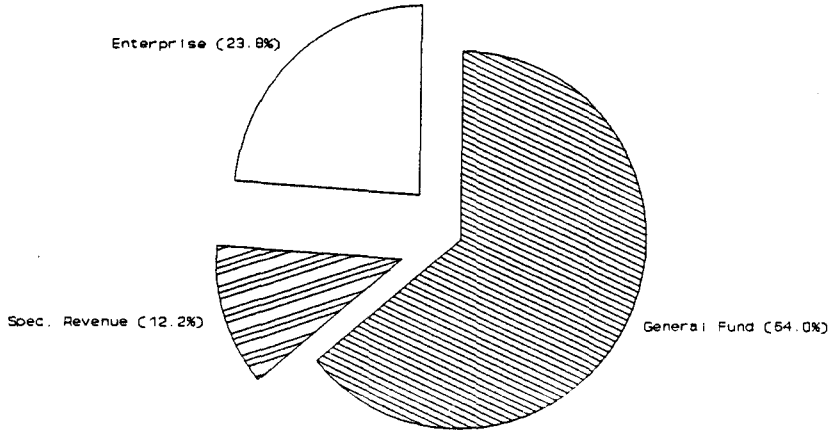
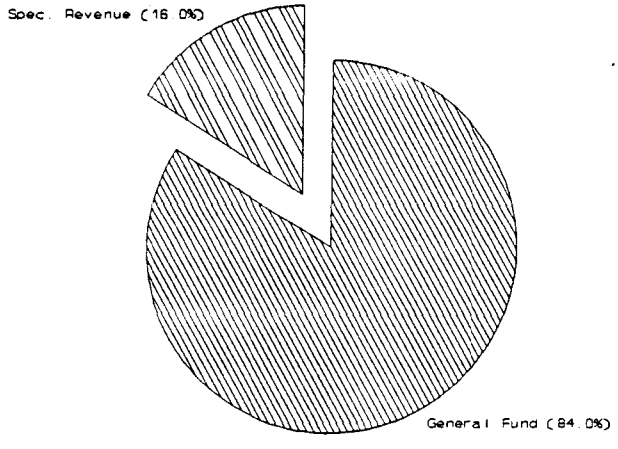
Funding Sources FY 1993

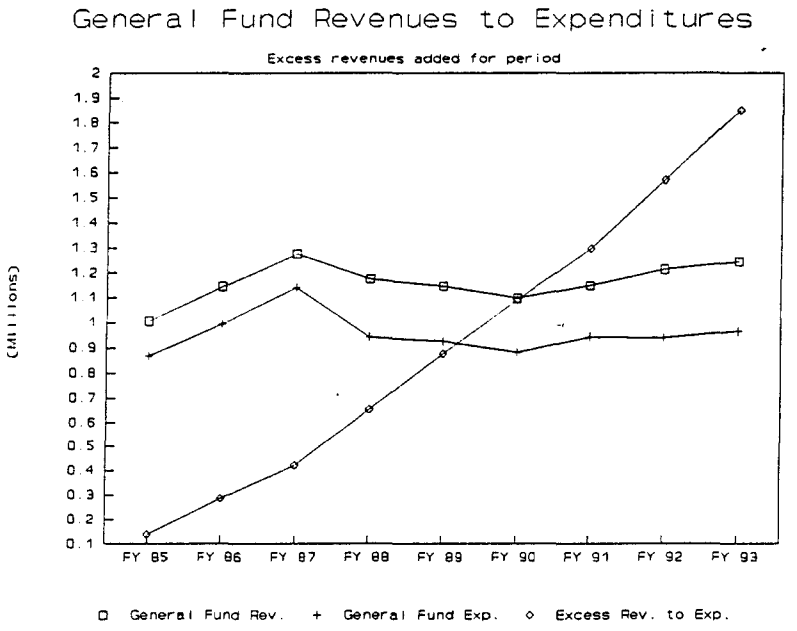


Fund Sources for FY 1993

Comparing GF & St. Spec. Rev.



The office has continued to set and collect fees based upon the most accurate projections of cost and budget information available. Legislative actions have reduced and withdrawn authority which has postponed or even entirely eliminated expenditures which were part of the cost projection base as well as the revenue projection base. The reduced authority has handicapped our ability to provide requested services and thereby reduced current revenue levels and in many cases eliminated additional revenues. The following table graphically presents the excess amount of funds that this office has collected from customers that have not been reinvested in customer service activities.



As demonstrated in the above graph between 1985 and fiscal year end 1993 an excess of over $1.8 million will be collected in fees for services but not be reinvested in customer related transactions. During each year of this cycle revenues collected exceeded expenditures and this excess could have been invested to update equipment or programs which in the long run would have saved money while providing a platform for generating additional revenues.

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Restructuring this agency's accounting and budgeting structure to elevate operations into a more businesslike structure would be greatly beneficial and would advance the concept of fees for services. The following is our recommendation that would accomplish this task.

1. Transfer all existing general fund, special revenue fund and proprietary fund activities for this agency into a single proprietary fund.

1994-95 Biennium Budget Request As Submitted -

Program	1994	1995
1 - Business & Government Services		
General Funds	$1,124,422	$1,085,189
2 - Administrative Rules		
State Special Revenue Funds	$ 216,347	$ 202,863
3 - Records Management		
Enterprise Funds	$ 370,133	$ 370,852
Total Budget	$1,710,902	$1,658,904

1994-95 Biennium Budget Request Proposed -

1 - Business & Government Services		
Enterprise Funds	$1,124,422	$1,085,189
2 - Administrative Rules		
Enterprise Funds	$ 216,347	$ 202,863
3 - Records Management		
Enterprise Funds	$ 370,133	$ 370,852
Total Budget	$1,710,902	$1,658,904

Under the proposed budget request no General Funds would be expended by this office.

2. Existing organizational structures and duties would be maintained but we would commence a process of internal review to provide changes that would provide conformance in our fiscal and managerial policies that would be more compatible with accounting and budgeting processes as an enterprise operation. Recognition of the need to continue support for all aspects of the organization would be included in fee calculations. An enhanced accounting structure would commence July 1, 1993.

Under this proposal we would require initial working cash to

provide for day to day needs during July of 1993 as well as requiring the transfer of funds for receipts that occurred in 1993 that belong to revenue transactions in 1994. These funds are not earned or are already committed and thereby represent liabilities to the office. In addition all fixed assets of the agency would be transferred to the enterprise fund.

Example:

1992 Fiscal Year End Property Held in Trust	$ 60,145.95
1992 Deferred Revenue	53,200.00
1992 Accrued Expenditures	7,131.72
Estimated Year End Payroll Accrual	35,000.00
Total Liabilities	$155,477.67

In addition to the funds to cover our liabilities we request that each year a 10% amount be assessed against revenues to provide for long range equipment and systems replacement or enhancements. This working capital would allow us to improve our abilities to meet customer's needs as well as enhancing our abilities to quickly and cost efficiently make system adjustments to Legislative changes.

1993 Estimated Revenues $1,812,414 X 10%	$181,241.00
Cash for Liabilities	$155,477.67
Beginning Cash July 1, 1993	$336,718.67

We propose that the Legislature statutorily appropriate an amount comparable to this assessment, provide flexibility for appropriate staffing levels and allow interest earnings to remain in this accounting entity. The Secretary of State would be assigned the responsibility of maximizing interest earnings to the enterprise fund by investing cash in STIP. Interest earnings would be deposited into the enterprise fund. After the end of each fiscal year an analysis of future needs would be done and presented to the interim finance committee. Funds in excess of approved amounts would be transferred to the General Fund.

The following is an example of our current disability to make timely and cost effective changes. Our current corporation database has a two digit year code. Because we are approaching the end of this century we are facing a situation where a two digit code will be inadequate to identify whether a business transaction was from 1890 or 1990. We have submitted a request to ISD to prepare a cost estimate to rectify this situation. ISD informs us that the cost would be $81,400.

This situation is not uncommon when dealing with our data processing systems. Updating of our information systems not only would save us costs such as those above but would also reduce day to day system maintenance. Our other information

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databases are even more archaic than the corporation database. Changes, enhancements and day to day maintenance costs are even more expensive.

Technologies for optical imaging, records storage and retrieval are in their infant stages. With the dual role that this office has for records storage and maintenance the benefits inherent in the flexibility of our proposal would be very advantageous to the state. We believe management of our office will be more businesslike and efficient which will provide for long term cost savings as well as provide for better and additional customer services which in the long run will supplement revenues.

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Office of the Secretary of State

Mike Cooney

Budget Presentation

1994-1995 Budget

Prepared for Analysis of
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The Office of the Legislative Fiscal Analyst

Prepared December, 1992

Exhibit 15 is a report containing the 1994-1995 budget presentation of the Office of the Secretary of State. The original is stored at the Historical Society at 225 North Roberts Helena, MT, 59620-1201. The phone number is 444-2694.

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VISITOR REGISTER

GEN. GOV. & HWYS. SUBCOMMITTEE DATE 1/7

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Ken Rudio	State auditor	
Donna Warner	State Auditor	
Shirley Adkins	State Auditor	
Mark Okeefe	ST AUDITOR	
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Doug Mitchell	Secretary of State	
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COMMENTS:

Tom Crosser Auditor Office Budget

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HR:1991
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