

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON SELECT BUDGET/REVENUE

Call to Order: By Ed Grady, on January 12, 1993, at 4:00 P.M.

ROLL CALL

Members Present:

Rep. Ed Grady, Chair (R)
Rep. Jerry Driscoll, Vice Chair (D)
Rep. Mike Foster (R)
Rep. Bob Gilbert (R)
Rep. John Johnson (D)
Rep. Bea McCarthy (D)
Rep. Mary Lou Peterson (R)
Rep. Joe Quilici (D)

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

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

Committee Business Summary:

CHAIRMAN GRADY opened the meeting at 4:00 P.M. and announced the Staff was coming back with more information to answer questions asked yesterday.

Teresa Cohea, LFA, said the group asked her to do three things; 1) To provide a list of miscellaneous ("cat and dog") general fund appropriations that were not included in the LFA current level for the 95 biennium. She referred to the next to the last page of **EXHIBIT 1** where they are listed. These were not included in the LFA current level because they have traditionally not been considered ongoing. If the Legislature wishes to continue the cost, it is either incorporated in the General Appropriation Act or another "cat and dog" for the upcoming biennium is introduced and passed. For the 93 biennium there are \$10.5 million general fund "cat and dogs" that are not included in the LFA current level. If the committee wants to consider any of these ongoing then that would add to the \$215 million deficit figure.

2) The Committee also asked the staff to provide a list of the one-time general fund and School Equalization Account (SEA) revenues anticipated in the 93 biennium. **Terry Johnson, LFA**, referred to the reconciliation on the back sheet of **EXHIBIT 1**. The Revenue estimates, as adopted by the Revenue Oversight

Committee, show the general fund and the SEA estimates for the two biennium periods. The first year is actual 92, then estimated 93, estimated 94 and estimated 95 with the biennium totals at the extreme right of the back sheet. Below that are the One-Time Component adjustments which are broken out into the various categories. As an example, the first one is Transfers, Accel., Etc. Those were actions that were taken primarily during the January and July special sessions. The combined impact of those was \$90.6 million. In addition to that were Revenue Accruals in FY 92 which were \$41.8 million. Next is the Seven Percent Surtax solution. The impact there was primarily in FY 93 although there will be some impact in FY 94. The next item is the Corporation Tax Audit which the Department of Revenue announced last week. That is included as a one-time adjustment in FY 93 which will not be an ongoing revenue source. The last item is Cash Reappropriated. Because of the requirement enacted that all County Equalization Public School monies come to the state there will not be cash reappropriated in 94-95 so it is excluded from the 92-93 numbers. The total shows \$193.3 million of one-time revenue in 92-93 and about \$13 million in 94-95. Under those figures are the adjusted totals for the biennium, \$1,617.6 million for 92-93 and that compares to \$1,725.3 million for 94-95. These figures give a growth factor of \$107.7 million for the biennium, 92-93 to 94-95 which is about 6.7% growth rate. On an annual average it figures out to be about a 3.3% or 3.4% annual growth rate.

3) **Ms. Cohea** gave a general sense of what would be the impact on state agency budgets of limiting their budgets to the 93 biennium, current level. She referred to the green sheets **EXHIBIT 1, 1-11-93**. As she understood the motion, the committee adopted the target of \$1,047.718 billion. Included in that number are general appropriations and pay plan of \$926.467 million. The next sheet shows the current level on an agency by agency basis as \$908,765 million. The reason for the difference between those numbers is twofold. First, on the balance sheet the reversions are not taken from that number. The 92 column on the next page reflects actual expenditures so reversions are out. In 93 they estimate what the reversions are but they have not yet occurred. Second, a number of one-time expenditures were removed. So, one issue the committee may want to discuss is what is the target for the general appropriation act? Is it \$926 million or \$908 million?

In response to questions, **Ms. Cohea** said 92 is the actual fiscal 1992 general fund expenditures authorized in the General Appropriation Act and the pay plan. Some one-time expenditures have been removed. The 93 component of the column is the general fund appropriated in the General Appropriations Act and the Pay Plan Bill as amended during the January and July special sessions. Built into those columns is: 1) the reversion that occurred in 92; 2) the vacancy savings imposed during the January regular session and the two subsequent special sessions; 3) the general budget reductions imposed during the two special

sessions; and 4) any funding switches. The increased cost that agencies will face in the 95 biennium can be broken into three areas. She referred to personal services, Table 1, provides an estimate of the additional general fund cost agencies will face. For example, Worker's Compensation premiums will cost agencies about \$8.5 million more general fund for the existing current level FTE. Obviously, if you reduce FTE the costs are less. Annualization of the pay plan will increase agencies' cost by \$11 million general fund. The legislature increased the statutory contribution for PERS in the 1991 session which would cost agencies about \$900,000 more. DofA has approved \$4 million of upgrades for this biennium. She made an assumption that 50% of this cost was general fund because it is hard to document at this point. The Federal Fair Labor Standards Act will increase agencies cost for overtime but until the Legislature appropriates that, it is uncertain how much. Again, the increased cost to agencies above the 93 base for current level FTE is \$22.4 million.

Ms. Cohea said a significant component of the cost increase between the 93 biennium and the 95 biennium is Human Service benefits: \$65.8 million of increased benefit cost which comprises 56% of the \$117 million general fund increase between the two bienniums.

The last issue is the foundation schedule. If you wish to keep spending at the 93 level with the increased amount of enrollment, you would need to reduce the schedules by 4.7%.

Dave Lewis, Director, Budget Office referred to **EXHIBIT 1**, last sheet, and asked if the \$1,738.3 billion is the official revenue estimate for the general fund and the SEA adopted by the Revenue Oversight Committee. **Mr. Johnson** said yes, that ties to the House Joint Resolution 3 as introduced. **Mr. Lewis** said it does include \$13 million in one-time revenue, which is in effect, the carryover from this biennium. If there was a concern on the part of the committee that might have been expressed yesterday that there was one-time revenue problem.

SEN. JACOBSON asked to address the committee and said if they leave the level at the 92-93 biennium they will be compounding certain problems that have occurred. For instance, the vacancy savings, not acknowledging the actual cost for Worker's Compensation and not acknowledging the actual student increases. This has been part of the problem of Special Sessions. Supplementals have occurred because the Legislature has underestimated costs. What this committee does impacts the work the subcommittees are doing now.

SEN. GAGE agreed with **SEN. JACOBSON's** remarks and suggested that the review and prioritization by agencies be coordinated quite closely with the Senate Taxation Committee because he assumes they are looking at programs that may have other than general fund money and there may be a need to get legislation prepared to

de-earmark some funds that may be funding some of those programs in order to make use of those funds.

SPEAKER MERCER referred to **SEN. JACOBSON's** remarks regarding cuts. He feels they cannot ask the agencies to go back to the 93 biennium expenditure level. The legislature needs to go beyond that with options with budget reductions in other areas to make up for it. The purpose of the committee is to set the target but you cannot do that unless you have good information. He feels the project the Budget Director is working on should go beyond 93.

REP. DRISCOLL said using the estimated 94-95 figure of \$1,142 billion and subtracting \$1,047 billion is \$95 million. He believes the estimated 92-93 of \$1,047 billion was actually spent in 92 and appropriated in 93. He assumes the \$1,047 billion was the current level, or actual spending.

Mr. Lewis said everyone agrees with the fact the target is \$1,047 billion. He referred to the **Racicot** budget where \$82 million was cut and ended up with \$1,080 billion in recommended spending. This takes it down another \$33 million and that's where he's coming from at \$115 million.

Ms. Cohea said the cost of the current level schedules for the present school enrollment for the guaranteed tax base and the transportation costs you are currently funding from the SEA is \$839.7 million. They are \$45.2 million short of SEA revenues as shown on the gray sheet, **EXHIBIT 1, 1/8/93** and the green sheet, **EXHIBIT 1, 1/11/93**. She referred to **Page 2**, of the green sheet, column 2. Included in the \$1,142. million for the 95 biennium is the \$45 million supplemental you are short. Going back to the 93 biennium; included in your target, \$1,047 million, is the \$12.1 million that was put in the FY 92 school equalization account to keep it solvent.

SEN. SWYSGOOD said by adopting the target of \$1,047 billion the school equalization account was shorted \$45 million because that is in the \$1,142 billion Table. In order to make that up a reduction in schedules of 4.7% would have to be made.

SPEAKER MERCER said the question from yesterday was "what was the total general fund that was spent by the State of Montana last year?" **Ms. Cohea** said it is the \$1,047 billion, 92 actual expenditures with 93 appropriation and a biennial number.

SPEAKER MERCER said that was their objective and hold to that line, \$1,047 billion, that is \$95 million under the LFA budget. The debate today is "what does that mean based on various people's definition of current level or other people's budgets?" It doesn't really matter how much went to school equalization or how much went to other things because it is just a target.

SEN. AKLESTAD asked **Ms. Cohea** if she could give them the 92-93 budget figures, not the actual. She told them \$526.087 million

is appropriated for 93 and for 92 the actual expenditures were \$523.072 million.

REP. BARDANOUVE asked what rate is the Worker's Compensation based on. **Ms. Cohea** said the numbers shown in Table 1, **EXHIBIT 1, 1-12-93**, include the rate increases that the Budget Office and the LFA built into the budgets. In addition, it reflects the 5% mid-year increase that has gone into effect in January. It does not include any additional rate increases that might go into effect.

SEN. GAGE said he understood Supplementals are not included in any of this. **Ms. Cohea** said included in the 93 column are the executive budget request for Supplementals. The 95 biennium column shows zero. There has never been a biennium with zero Supplementals but obviously it is very difficult to anticipate at this point in the budgeting process what the Supplementals for fiscal 1995 would be. **SEN. GAGE** asked if the those Supplementals are reflected in the Fiscal 94 current level. **Ms. Cohea** referred to the gray sheet, **EXHIBIT 1, 1-08-93, Page 1**, which shows in FY 93 a Supplemental line for the school equalization account and then all other agencies \$22.330 million. That is the executive budget request for additional Supplementals for Agencies. Any of them that are ongoing are included in the 94-95 biennium.

Mr. Lewis said he took the general fund revenue estimate and the \$21 million beginning fund balance or \$967 million to work with. If your spending target is \$1,047 billion you are \$80 million short to come out even. A fund balance requires adding that to the \$80 million.

Ms. Cohea said the \$1,047.7 billion includes \$12.1 million general fund that was transferred to the SEA. Back that out to get a clean general fund account of \$1,035.6 billion, then add the SEA costs of \$802.3 million. The current level costs in the 93 biennium of the general fund and school foundation are \$1,837.9 billion.

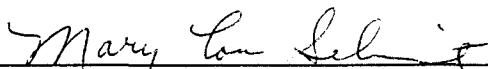
SPEAKER MERCER said if this figure, \$1,837.9 billion is used as the target, how much revenue would it take to balance the budget? **Mr. Lewis** said it is \$100 million, without a fund balance.

ADJOURNMENT

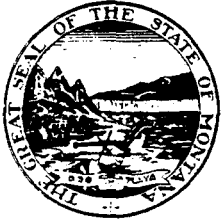
Adjournment: 5:15 P.M.



REP. ED GRADY, Chair



MARY LOU SCHMITZ, Secretary



TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

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Ephh 1
EXHIBIT 1
DATE 1-12-93
HB #82

January 12, 1993

TO: Members and Observers of the Select Committee on Budget and Revenue

FROM: Teresa Olcott Cohea
Legislative Fiscal Analyst

RE: Material for Tuesday's Meeting

At Monday's meeting, the members asked for the following:

1) A list of miscellaneous ("cat and dog") general fund appropriations not included in the LFA current level budget for the 1995 biennium. This list is attached.

2) A list of the "one-time" general fund and school equalization account revenues anticipated in the 1993 biennium. This list is attached.

3) A general overview of the impacts of limiting agency budgets to the 1993 biennium current level. The following sections provides this overview.

Limiting General Fund Expenditures to the 1993 Biennium Levels

The committee moved to set a budget target of \$1,047.7 million for general fund expenditures during the 1995 biennium. This target is based on anticipated expenditures during the 1993 biennium.

ISSUES COMMITTEE MAY WISH TO DISCUSS

The 1993 biennium total contains \$926.5 million for state agency and university system expenditures. The 1993 biennium current level base is \$908.8 million, since \$17.7 million of these expenditures were considered to be "one-time". The committee may wish to specify whether the target for each agency is the 1993 biennium current level budget shown on page 3 of the green handout or total general fund expenditures (which are \$17.7 million higher).

The 1993 biennium current level base is composed of:

1) actual fiscal 1992 general fund expenditures authorized by the general appropriations act and the pay plan. "One-time" expenditures were removed from this base.

2) general fund appropriated in the general appropriations act and pay plan bill, as amended during the January and July special sessions.

So, contained in these totals are:

1) all vacancy savings imposed during the January regular session and the two subsequent special sessions;

2) the general budget reductions imposed during the two special sessions; and

3) the funding switches imposed during the two special sessions.

Agency costs for current level services will increase in the following areas during the 1995 biennium:

Personal services

The following table provides an estimate of the factors that will increase general fund personal service costs for current level FTE. Under current law, agencies will be required to pay these costs if FTE remain at the current authorized levels. Unless current level programs and FTE are cut, providing no funding for these costs increases the level of vacancy savings imposed on agencies (i.e adds to the level that is already contained in the 1993 biennium current level as discussed above.)

Table 1 Estimated General Fund Cost of Factors Impacting Personal Services, 1995 Biennium	
	Increase for 1995 Biennium (millions)
Workers Compensation Premium Increase	\$8.5
Pay Plan Annualization	11.0
PERS Contribution Increase	0.9
Upgrades	2.0
Federal Fair Labor Standards Act	?
	\$22.4

Operations

Funding agencies at 1993 biennium levels does not recognize inflationary increases during the 1995 biennium in items the agencies must purchase. While the OBPP and LFA current level includes deflationary factors for some items, there is significant anticipated inflation in utility costs, medical care and supplies, and food items. Agencies (like the Department of Corrections and Human Services) that purchase such items will have to reduce the amount purchased if 1995 biennium budgets are held to the 1993 biennium level.

Equipment

Some agencies deferred equipment purchases during the 1993 biennium to meet the budget reductions imposed during the two special sessions. Maintaining equipment budgets at the 1993 biennium level may prevent agencies from purchasing replacement equipment for another biennium.

Benefits

Increased general fund benefit costs in SRS and the Department of Family Services account for \$65.8 million (or 56 percent) of the \$117.7 million increase in current level general fund budgets between the 1993 and 1995 biennia.

Foundation schedules

Current foundation schedules would need to be reduced by 4.7 percent in order to maintain spending at the 1993 biennium level for the increased enrollment.

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EXHIBIT 1
DATE 1-12-93
HA 2

General Fund Miscellaneous Appropriations Not Contained in LFA Current Level		
	Fiscal 1992	Fiscal 1993
<u>1992 Regular Session</u>		
HB005* Appropriation for Capital Projects***	\$1,400,500	
HB030 Educ. Telecommunications Network	300,000	\$300,000
HB077 Automobile Ins. Premium Tax for Highway Patrol Pensions**	317,400	214,360
HB125* American Indian/Minority Achievement Approp.	175,648	
HB131* Human Skeletal Remains and Burial Site Protection Act	10,000	
HB142* Committee on Postsecondary Education *** Policy and Budget	26,710	
HB179 Maintenance of Veterans' Cemetery	22,806	22,795
HB340* Property Taxation of Forest Land Based on Forest Productivity Value	980,838	
HB365* Applied Genetic Engineering Technology Research/Development	60,000	
HB371* Family Services Appropriation for In-Home Services	200,000	
HB477 Microbusiness Development Act	64,600	
HB489* Clothing Allowance - Foster Care Children	266,186	
HB491* Respite Care for Foster Children in Licensed Homes	50,000	
HB528 Request for Proposal for Siting of Women's Prison	8,000	
HB569* Family Services Info. Management System**	286,589	
HB579 Create Motor Vehicle Computer Renewal System**	588,156	770,868
HB696* Increase and Extend Funding for Statewide Genetics Program	1,069,299	
HB746* Indian Monument and Flag Circle on Capital Grounds	6,000	
HB876* Revise and Continue the MIAMI Project**	12,880	
HB903* Create Court Automation Account and Court Automation Fees	386,400	
HB959 Revise Montana Individual Income Tax Laws	108,225	78,705
HB966* Study Future of Galen and Warm Springs State Hospital**	34,040	
HB978 Seek Waiver to Provide Services in Personal Care Facilities		60,000
HB990* Fund National Historic Trail Interpretive Cntr***	500,000	
HB999* Out-of-District Placement of Child With Disability**	2,273,320	
TOTAL	\$9,147,597	\$1,446,728
*Continuing Appropriation		
**As amended during January 1992 special session		
***As amended during January and July 1992 special sessions		

EXHIBIT 1

DATE 1-12-93

HS HR

Office of Legislative Fiscal Analyst
General Fund & School Equalization Account
Revenue Growth Reconciliation (Figures in Millions)

Account	Actual Fiscal 92	Estimated Fiscal 93	Estimated Fiscal 94	Estimated Fiscal 95	Estimated Fiscal 92-93	Estimated Fiscal 94-95
General Fund	\$487.0	\$523.4	\$465.3	\$480.7	\$1,010.4	\$946.0
School Equalization	<u>399.8</u>	<u>400.7</u>	<u>391.6</u>	<u>400.7</u>	<u>800.5</u>	<u>792.3</u>
	\$886.8	\$924.1	\$856.9	\$881.4	\$1,810.9	\$1,738.3
One-Time Components						
Transfers, Accel., Etc.	\$33.3	\$57.3			\$90.6	\$0.0
Revenue Accruals	41.8				41.8	0.0
Seven Percent Surtax		28.2	13.0		28.2	13.0
Corporate Audit		15.2			15.2	0.0
Cash Reappropriated	<u>6.7</u>	<u>10.8</u>	<u>—</u>	<u>—</u>	<u>17.5</u>	<u>0.0</u>
Total	\$81.8	\$111.5	\$13.0	\$0.0	\$193.3	\$13.0
Adjusted Revenue Totals	\$805.0	\$812.6	\$843.9	\$881.4	\$1,617.6	\$1,725.3
Annual Dollar Change		\$7.6	\$31.3	\$37.5		\$107.7
Annual Growth Rate		0.9%	3.9%	4.4%		6.7%