

MINUTES

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

JOINT SUBCOMMITTEE ON INSTITUTIONS & CULTURAL EDUCATION

Call to Order: By REP. ED GRADY, Chairman, on February 5, 1993,
at 8:00 AM

ROLL CALL

Members Present:

Rep. Ed Grady, Chair (R)
Sen. Eve Franklin, Vice Chair (D)
Sen. Gary Aklestad (R)
Sen. Tom Beck (R)
Sen. J.D. Lynch (D)
Rep. Red Menahan (D)
Rep. Linda Nelson (D)

Members Excused: NONE

Members Absent: NONE

Staff Present: Sandra Whitney, Legislative Fiscal Analyst
Mary LaFond, Office of Budget & Program Planning
Judy Murphy, Committee Secretary

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

Committee Business Summary:

Hearing: DEPARTMENT OF CORRECTIONS AND HUMAN
SERVICES GLOBAL ISSUES
Executive Action: DEPARTMENT OF CORRECTIONS AND HUMAN
SERVICES GLOBAL ISSUES

**HEARING ON DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES GLOBAL
ISSUES**

Tape No. 1:A

Sandra Whitney, Legislative Fiscal Analyst explained to the committee the global issues regarding the Miscellaneous Personal Services for the department. The LFA current level includes miscellaneous employee benefits at 15 percent of the total differentials, holidays, and overtime worked. That percentage includes PERS and Social Security, but not workers' compensation.
EXHIBIT 1

CHAIRMAN GRADY asked if the committee works from the House Resolution will they be accepting the executive budget?

Rick Day, Department of Corrections and Human Services Director, said the department can calculate the reductions into the budget if the committee will tell them how they want the benefits calculated.

Ms. Whitney stated the July rate was put into the personal services calculation for all FTE. The rate increase in January was not. The workers' comp she is discussing is the amount of workers' comp that is going to be charged on overtime, differential and extra holidays worked. This will increase the LFA current level and benefits across the board in any of the programs regardless of what the committee does to downsize them.

EXECUTIVE ACTION ON DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES
GLOBAL ISSUES

Tape No. 1:A

Motion/Vote: **SEN. TOM BECK** made a motion to increase these figures in the LFA 1992 current level and use the same method of calculation in other budget action. The motion **CARRIED** unanimously.

Questions, Responses, and Discussion:

SEN. GARY AKLESTAD feels the committee needs to go back and look at other budgets more closely.

Ms. Whitney explained Prescription Services. The current contract with HPI prescription services expires in December, 1993. The company has informed DCHS when the contract expires, it will request an eight percent increase in the first year and a six percent increase in each of the following two years. The department can accept those terms, negotiate on appropriated funds, seek a competitive bid, or attempt to provide its own pharmacy services at one or more facilities now under the current contract. If the contract is renewed as requested by HPI, the department estimates it will need \$7,123 in FY 1994 and \$11,651 in FY 1995 more than the amounts in the LFA current level.

EXHIBIT 1

Pam Joehler, Management Services Division Administrator, said until the legislature makes a final decision on closures of programs the department is not able to negotiate with HPI on a contract.

SEN. BECK asked who is serving the pharmacy needs of SRFC and Eastmont?

Ms. Joehler told the committee that SRFC is being served by a pharmacy in Bigfork and Eastmont is being served by a pharmacy in Glendive.

SEN. BECK asked if HPI is an out of state agency?

Ms. Joehler said yes.

SEN. BECK said HPI serves all the pre-release centers in the state and MSP.

Ms. Joehler said HPI does not serve the pre-release centers in the state.

SEN. AKLESTAD asked if the pharmaceutical needs of the state have ever been put up for bid?

Ms. Joehler said the department has put the pharmaceuticals up for bid. There were only three companies who submitted a bid. The department is looking at this option again in December 1993.

SEN. AKLESTAD asked what the percentage is for using generic drugs?

Ms. Joehler did not know the percentage but told the committee the pharmacist has informed her they use generic drugs whenever possible.

SEN. AKLESTAD feels the committee should not go for the eight percent and the six percent increases which HPI is requesting.

Ms. Joehler explained the HPI expenses are for the management fee and the cost of the pharmacist. HPI does not charge for the drugs, just the service they provide.

SEN. BECK asked what the total management fee is for this fiscal year?

Ms. Joehler told the committee the management fee for this fiscal year is \$487,000.

Mr. Day believes there are two issues concerning HPI. If the department decides to advertise for bids they could get an agency who would be higher, plus they would have to change all the institutions to another pharmacy service. The other issue is there are two ways to make money on prescriptions. The independent pharmacies, such as the pharmacy in Glendive, make more money off prescriptions, HPI charges a management fee, but offers the drugs at a reduced price. If less institutions were served then there would be less money involved in management fees and prescriptions.

REP. LINDA NELSON asked if the department knew what the market value was on the prescriptions?

Ms. Joehler said HPI will sell the department drugs at their cost.

Ms. Whitney explained if the money is not approved there will not

be enough money there to meet the contract as it appears it will be for the next biennium.

SEN. AKLESTAD asked why this is a separate issue? He feels it should be in the whole budget.

Ms. Whitney said the right amount needs to be plugged into all the budgets so all institutions are treated consistently.

Mr. Day said the reason it is being treated as a global issue is HPI impacts all the institutions it serves. The department gets their drugs for cost. HPI's profit is what they get out of their contract. He told the committee the department can only go with the limits set by the legislature.

SEN. BECK feels the department has other resources to bring in money to meet their contract.

Ms. Whitney stated this is not a line item. She feels it is necessary to get to a base figure which is solid before the committee starts making cuts.

SEN. AKLESTAD said the key word is to maintain the services and maintaining the services will increase the budget by six and eight percent.

CHAIRMAN GRADY asked if this will control the management costs?

Mr. Day said they could tell HPI the increases are not acceptable and then wait and see what happens. This may also drive up the costs. He stated pharmacies provide many services beyond just being a pharmacy.

SEN. BECK asked why the committee can not show this as a cut which they are going to make?

Ms. Whitney told the committee the current level is low by the amount of \$18,774.

SEN. AKLESTAD said what the committee is dealing with is '92 actual and '93 appropriated. When the figures are added they will be \$19,000 higher than the '92 actual and '93 appropriated.

Mr. Day said if the committee does not approve the increase for HPI the department will tell HPI they cannot pay the increases.

SEN. AKLESTAD feels HPI was chosen not just for cost savings but for convenience. Maybe the time has come when we cannot afford the convenience. He feels the department needs to look at other avenues before the end of the session. He suggested going back to the bid process and using pharmacies within the state.

Mr. Day told the committee HPI did say they would come and discuss the department's needs and the cost of those needs.

SEN. AKLESTAD asked what services HPI provides for the

institutions?

Mary LaFond, Office of Budget Planning and Programming, provided the committee and department with some history regarding HPI. At the time she was working on the budgets one of the problems that some of the institutions were having was keeping pharmacists at the institutions. Much of the service at that time was contracted out, generic drugs were not being used, and the cost was high. The decision was made to go with HPI. The department felt they might not save money but they were assured of keeping pharmacists to cover everybody and by using generic drugs they could stay status quo.

SEN. BECK asked the department to explain how they arrive at their figures regarding the total HPI contract.

Ms. Joehler said they looked at what was in the LFA current level. They then took the '92 actual inflation rate and the executive which used the '93 contract amount and used the same inflation rate. The executive is higher than what the department thinks they are going to need and the LFA is slightly lower so the difference is what the department thinks they will need for the contract percentage increases and what is included in the LFA current level.

Ms. Whitney explained the Natural Gas Procurement. The natural gas procurement changes at MDC, MSH, and MSP are expected to generate energy savings in FY 1994 and FY 1995 because the facilities may purchase natural gas directly from suppliers rather than through Montana Power. MDC utilities are funded entirely with general fund. MSH utilities are funded entirely with general fund. The chemical dependency program at Galen is not included in the gas procurement program. Utilities for the Galen chemical dependency program are funded entirely with earmarked alcohol tax. Utilities at MSP are funded as follows:

FY 1994 - \$169,605 general fund, \$16,393 proprietary funds.

FY 1995 - \$171,194 general fund, \$16,546 proprietary funds. **EXHIBIT 1**

SEN. AKLESTAD asked if the department had contracts why didn't they know what the figures were going to be?

Ms. Joehler said this program was phased-in in FY '94 and this is the third year of a the three-year phase-in. The contracts for the gas are annual contracts. These programs are primarily operated in the field.

SEN. AKLESTAD asked what the expiration date is on the existing contract?

Ms. Joehler told him she thinks it is in October. She asked **Ms. Lafond** to check on the expiration date.

Ms. Whitney said the calculations for the contracts are from DNRC based on what they think the costs will be to buy gas themselves

and then get the transportation from Montana Power.

SEN. AKLESTAD asked if the department could get a longer contract with Montana Power?

Ms. Joehler told the committee the gas procurement program is managed through the Department of Administration.

SEN. AKLESTAD asked if the department could check with the Department of Administration to see what they are planning to do next regarding the gas procurement program?

SEN. BECK asked why Galen's consumption wasn't included in the plan in the beginning?

SEN. AKLESTAD told him it was because the Galen campus did not have a large enough consumption.

Motion/Vote: **SEN. BECK** made a motion to include the figures which **Ms. Whitney** presented regarding the natural gas procurement.
EXHIBIT 1 The motion **CARRIED** unanimously

Questions, Responses, and Discussion:

Ms. Whitney explained the Energy Retrofit Savings. The energy retrofit projects at MSH, CFA, and Eastmont are expected to generate energy savings of \$88,000 in FY 1994 and \$150,000 in FY 1995. The retrofits which were put into these facilities were done on the basis of issuance of bonds. The bonds need to be repaid. The method of repayment is to take the estimated saving, transfer it to the energy account and then pay the bonds. There has also been language which has been recommended.

Item _____ contains \$ _____ in FY 1994 and \$ _____ in FY 1995, which must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvements through the state building energy conservation program. The three issues are:

Updating the information from DNRC

A transfer to the general fund (budgeting general fund for transfer)

Allow the other half of the net savings to be kept for the department for incentives. **EXHIBIT 1**

Ms. Lafond said her department feels the incentive gives the department flexibility in handling any additional costs.

Mr. Day said the incentive return would give the department a cushion. He said he will leave the decision in the hands of the committee.

Ms. Whitney said that bonds have been issued and the retrofit has been done.

SEN. AKLESTAD asked when the bonds were issued?

Ms. Joehler said that DNRC or another state agency issued the

bonds.

SEN. AKLESTAD asked why the department did not know how much the bonds were costing?

Ms. Whitney said the DNRC calculations are updated information on how much of the savings they think they will need transferred to the energy account to pay for the bonds. DNRC is required to transfer to the general fund anything that is left over from payment of the bonds.

SEN. AKLESTAD said this is a fixed bond and not a variable bond and fixed bonds have a fixed cost. He feels the cost of the bonds should have been locked in.

Ms. Lafond said DNRC told her department they went in with the retrofit savings. DNRC had not been into the plan long enough to know what the savings will be and every time there is an update DNRC would have a better number.

SEN. BECK asked if there was any variable on repayment of the bond and can they escalate the payment of the bond?

CHAIRMAN GRADY asked where the real savings were going, to the general fund or to the department?

Motion/Vote: **SEN. BECK** made a motion to change the energy account transfer to \$10,000 and reduce the general fund portion of it to \$5,000. The additional savings will not be left with the department because they were not included with LFA current level. The motion **CARRIED** unanimously.

Motion/Vote: **SEN. BECK** made a motion to change the language to correspond with the figures. The motion **CARRIED** unanimously.

Questions, Responses, and Discussion:

Ms. Whitney said the Equipment issue is a global issue. The Executive budget generally includes less equipment throughout the department budgets than does the LFA current level. The LFA developed a three-year general fund equipment average as a guideline for current level by removing major one-time and prison ranch and industries equipment expenditures from total DCHS actual equipment expenditure. The one-time general fund equipment removed includes:

- the cook-chill system, a tractor, and computers at MDC
- the pellet food system at CFA
- two lifts at MVH

EXHIBIT 1

SEN. BECK asked if the equipment at the ranch is on a revolving account?

Ms. Whitney told the committee the equipment for the ranch is on a revolving account and not in the three-year average. If the committee wants to act on the equipment for the ranch at this

time it would have to be on a global basis.

Ms. Lafond said OBPP has actual expenditures for each line item in equipment. She eliminated items which were one-time expenditures.

SEN. AKLESTAD suggests they look at the equipment costs of each agency as they review each budget.

Ms. Whitney told the chairman the committee has accepted the LFA current level.

Ms. Whitney explained the Nursing Home Utilization fee. The LFA current level includes the nursing home utilization fee at \$2.00 per medicaid and medicare bed in state nursing homes, based on current law, while the executive anticipated a statute change.

Motion/Vote: SEN. BECK made the motion if HB 333 passes the figures will be reflected in the executive level. The motion CARRIED unanimously.

Questions, Responses, and Discussion:

Ms. Whitney explained the Legislative Contract Authority. In FY 1992, 20 budget amendments were approved for federal funds of \$410,014 in Corrections, \$281,397 in MH, and \$166,648 CH. These funds could be included in a legislative contract authority (LCA), thus eliminating the need for budget amendments up to the appropriated limit. The executive budget does not include LCA for these funds, and they are not included in the LFA current level because all budget amendments were removed from the base.

EXHIBIT 1

Ms. Lafond said the Office of Budget and Program Planning worked in a new section in the budget amendment bill. The new section relates to the LCA for all agencies. The amendment bill has blanket language. She believes it should remain in the budget amendment bill (HB 4) and not in HB 2.

Mr. Day stated the department would like the LCA.


SEN. LYNCH feels all the subcommittees should be the same. They either have the LCA or not.

Ms. Whitney said she knows that all agencies at this time are not consistent.

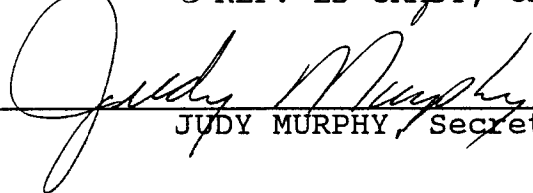
A motion was made to adjourn.

ADJOURNMENT

Adjournment: 9:40 am



REP. ED GRADY, Chair



JUDY MURPHY, Secretary

EG/jm

HOUSE OF REPRESENTATIVES

INSTITUTIONS/CULTURAL EDU. SUB-COMMITTEE

ROLL CALL

DATE

2-5-93

NAME	PRESENT	ABSENT	EXCUSED
SEN. GARY AKLESTAD	✓		
SEN. TOM BECK	✓		
SEN. EVE FRANKLIN, VICE CHAIRMAN	✓		
SEN. J.D. LYNCH	✓		
REP. RED MENAHAN	✓		
REP. LINDA NELSON	✓		
REP. ED GRADY, CHAIRMAN	✓		

DCHS GLOBAL ISSUES

EXHIBIT 1

DATE 2-5-93

MISCELLANEOUS PERSONAL SERVICES –

The LFA current level includes miscellaneous employee benefits at 15 percent of the total differential, holidays, and overtime worked. That percentage includes PERS and Social Security, but not worker's compensation. When worker's compensation is calculated on the straight time portion of overtime and holidays worked and all of the differential, the additional benefits needed are as follows:

	FY 1994		FY 1995	
	General Fund	Other Funds	General Fund	Other Funds
Corrections	\$54,086	\$5,144	\$65,759	\$6,227
Mental Health	106,183	0	133,324	0
Chemical Dependency		7,469	0	9,236
Develop. Disabilities	67,823	0	84,650	0
Veteran's Home	<u>6,623</u>	<u>0</u>	<u>8,635</u>	<u>0</u>
Total Funds	\$234,715	\$12,613	\$292,368	\$15,463

PERScription SERVICES –

The current contract with HPI perscription services expires in December, 1993. The company has informed DCHS that when the contract expires, it will request an 8.0 percent increase in the first year and 6.0 percent increases in each of the following two years. The department can accept those terms, negotiate based on appropriated funds, seek a competitive bid, or attempt to provide its own pharmacy services at one or more facilities now under the current contract.

The LFA current level includes the fiscal 1992 actual expenditures plus inflationary adjustments of 11.5 percent from fiscal 1992 to fiscal 1994 and 18.2 percent from fiscal 1992 to fiscal 1995. If the contract is renewed as requested by HPI, the department estimates that it will need \$7,123 in fiscal 1994 and \$11,651 in fiscal 1995 more than the amounts in the LFA current level.

NATURAL GAS PROCUREMENT –

Natural gas procurement changes at MDC, MSH, and MSP are expected to generate energy savings in fiscal 1994 and fiscal 1995 because the facilities may purchase natural gas directly from suppliers rather than through Montana Power. The Executive Budget and the LFA current level both use deflation factors established by DNRC. As noted in the Budget Analysis, DNRC has indicated that those factors may need revision. (Deflationary factors used are: 1) MDC – FY94 – 0.6382, FY95 – 0.5653; 2) MSH – FY94 – 0.5891, FY95 – 0.5073; and 3) MSP – FY94 – 0.5934, FY95 – 0.5115)

	<u>FY92 Actual</u>	<u>CL FY94</u>	<u>Adj. FY94</u>	<u>Increase</u>	<u>CL FY95</u>	<u>Adj. FY95</u>	<u>Increase</u>
1) MDC	\$225,099	\$143,658	\$169,768	\$26,110	\$127,248	171,546	\$44,298
2) MSH MH	254,219	126,610	232,095	105,485	114,169	234,355	120,186
3) MSH CD	177,306	127,601	203,193	75,592	104,744	205,852	101,108
4) MSP	225,099	<u>134,830</u>	<u>185,998</u>	<u>51,168</u>	<u>116,221</u>	<u>187,740</u>	<u>71,519</u>
Total	\$881,723	\$532,699	\$791,054	<u>\$258,355</u>	\$462,382	\$799,493	<u>\$337,111</u>

- 1) MDC utilities are funded entirely with general fund.
- 2) MSH mental health utilities are funded entirely with general fund.
- 3) The Chemical Dependency program at Galen is not included in the gas procurement program. Utilities for the Galen chemical dependency program are funded entirely with earmarked alcohol tax.
- 4) Utilities at MSP are funded as follows:
 Fiscal 1994 – \$169,605 general fund, \$16,393 proprietary funds; and
 Fiscal 1995 – \$171,194 general fund, \$16,546 proprietary funds.

ENERGY RETROFIT SAVINGS –

Energy retrofit projects at MSH, CFA, and Eastmont are expected to generate energy savings of \$88,000 in fiscal 1994 and \$150,000 in fiscal 1995. The energy savings is allocated to transfers as shown by calculating the debt service on the retrofits plus one-half of the net energy savings. The remaining half of the net energy savings is a budget reduction.

	LFA CURRENT LEVEL					
	<u>FY 1994</u> Savings	<u>FY 1994</u> Energy Acct.	<u>FY 1994</u> GF Transfer	<u>FY 1995</u> Savings	<u>FY 1995</u> Energy Acct.	<u>FY 1995</u> GF Transfer
MSH	\$78,000	\$66,191	\$5,905	\$130,000	\$91,637	\$19,182
CFA	10,000	0	5,000	10,000	0	5,000
Eastmont	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>5,000</u>
Total	\$88,000	\$66,191	\$10,905	\$150,000	\$91,637	\$29,182

UPDATED INFORMATION DNRC						
MSH	\$78,000	\$67,860	\$5,070	\$130,000	\$113,100	\$8,450
CFA	10,000	8,700	650	10,000	8,700	650
Eastmont	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>4,350</u>	<u>325</u>
Total	\$88,000	\$76,560	\$5,720	\$145,000	\$126,150	\$9,425

CHANGE TO LFA CURRENT LEVEL						
MSH	\$0	\$1,669	(\$835)	\$0	\$21,463	(\$10,732)
CFA	0	8,700	(4,350)	0	8,700	(4,350)
Eastmont	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>	<u>4,350</u>	<u>(4,675)</u>
Total	\$0	\$10,369	(\$5,185)	(\$5,000)	\$34,513	(\$19,757)

Item _____ contains \$ _____ in fiscal year 1994 and \$ _____ in fiscal year 1995, which must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvements through the state building energy conservation program.

EQUIPMENT

The Executive generally includes less equipment throughout the department budgets than does the LFA current level. The LFA developed a 3-year general fund equipment average as a guideline for current level by removing major one-time and prison ranch and industries equipment expenditures from total DCHS actual equipment expenditures. The one-time general fund equipment removed includes: 1) the cook/chill system, a tractor, and computers at MDC; 2) the pellet food system at CFA; and 3) two lifts at MVH.

Within that department-wide, 3-year average, the LFA then included the agency request or the highest priorities from a prioritized list for each program. This methodology for general fund equipment resulted in: 1) the inclusion of the agency request in Central Operations, Chemical Dependency, and the Veteran's Home; and 2) the top priorities for Corrections, Mental Health, and Developmental Disabilities.

After establishment of the current level general fund equipment, the principal for the cook/chill system at MDC (also general fund) and the agency request for equipment in the ranch and industries programs (proprietary funds) were also added to the current level equipment.

NURSING HOME UTILIZATION FEE

The LFA current level includes the nursing home utilization fee at \$2.00 per medicaid and medicare bed in state nursing homes, based on current law, while the Executive anticipated a statute change. The fees are:

	LFA		Executive	
	<u>FY94</u>	<u>FY95</u>	<u>FY94</u>	<u>FY95</u>
Veteran's Home	9,884	9,884	62,050	62,050
MSH*	32,758	32,758	0	0
CFA	70,224	70,224	98,550	98,550

Handwritten initials/signature

* The Executive anticipates closing the nursing facility at Galen and therefore includes no nursing home fees.

LEGISLATIVE CONTRACT AUTHORITY

In fiscal 1992, 20 budget amendments were approved for federal funds of \$410,013 in Corrections, \$281,397 in Mental Health, and \$166,648 in Chemical Dependency. These funds could be included in a legislative contract authority (LCA), thus eliminating the need for budget amendments up to the appropriated limit. The Executive Budget does not include LCA for these funds, and they are not included in the LFA current level because all budget amendments were removed from the base (see Budget Analysis, Vol. 2, page D-36).

While the Executive has included \$1.5 million each year for fiscal 1994 and fiscal 1995 in the budget amendment bill, it may be more appropriate to include LCA in the general appropriations act. If LCA is not approved, the general appropriations act must include all of these federal funds that can reasonably be anticipated at this time.