

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By REP. MARY LOU PETERSON, CHAIRMAN, on February 17, 1993, at 8:00 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
Dan Gengler, Office of Budget & Program Planning
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 FUND
Executive Action: STATE FUND; GOVERNOR'S OFFICE; AND
DEPARTMENT OF ADMINISTRATION

Announcements/Discussion:

CHAIRMAN MARY LOU PETERSON distributed the bill that would increase the sale of the Montana Codes. She distributed the fiscal note to the bill concerning the Office of the Secretary of State.

HEARING ON STATE FUND

Tape No. 1:A:075

Informational Testimony:

Mr. Jon Moe, Legislative Fiscal Analyst, presented an overview of the budget for the agency. **EXHIBITS 1 and 2**

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Mr. Pat Sweeny, President, State Fund, presented testimony for the agency. **EXHIBIT 3**

Mr. Schenck referred the subcommittee to page A224 of the Budget Analysis. **EXHIBIT 4**

Ms. Carla Smith, Administration Finance Department, State Fund, presented testimony for the agency. **EXHIBITS 5 and 6**

Questions, Responses, and Discussion:

SEN. GARY FORRESTER asked how the systems that the agency want to put in place would affect claims management. **Ms. Smith** answered that the claims management system would be improved.

SEN. FORRESTER asked how imaging works. **Ms. Smith** explained that all information is scanned and stored on optical disks. The information can then be brought up on a computer screen.

SEN. FORRESTER asked how many claims a day are received by the agency. **Ms. Smith** answered 315 claims/day.

SEN. FORRESTER asked what a reasonable time period for processing a claim would be with the new equipment. **Mr. Sweeny** answered that the agency could do it in seven to 14 days.

SEN. FORRESTER asked if this is a promise. **Mr. Sweeny** assured him that it is.

REP. JOE QUILICI stated that this processing time would reduce the need for lawyers in receiving claims.

Mr. Sweeny clarified that processing a claim would take longer if the claim were disputed.

CHAIRMAN PETERSON asked if the computer system has a safeguard to protect the information. **Ms. Smith** answered that there is a backup system.

REP. QUILICI asked if the new system would allow the agency to reduce FTEs. **Ms. Smith** answered that the agency hopes to eventually reduce FTEs in the file room.

REP. QUILICI asked how soon the agency would be able to eliminate FTEs in the file room. **Ms. Smith** answered that this can be done next biennium.

REP. QUILICI asked if the agency went through the Information Services Division of the Department of Administration to implement the WANG system. **Ms. Smith** responded that it did. The agency is happy with the system but it has outlived its usefulness.

REP. QUILICI agreed that the organization system of the agency

needs improving and the imaging system could be a step in this direction. He is adamant that stress should not be allowed to be claimed for compensation.

Tape No. 1:B:282

REP. MARJORIE FISHER inquired about the vacancies in the clerical staff. **Ms. Smith** responded that position numbers 30022, 30023 and 50041 are positions that the agency requested last session in the event that a significant number of employers applied for a medical deductible program. The agency agreed that the positions would not be filled if they were not needed. Position numbers 50010, 50023, 50024, 50034 and 50047 are critical to the agency's operation. The payroll and premium payment process were changed in 1991, increasing the workload at a particular time. Positions were filled at the time of the peak workload. This is why the positions were vacant during the "snapshot".

REP. FISHER asked if the agency contracts the actuarial services on a bid. **Ms. Smith** answered that it did for the first contract. State regulations allow agencies to renew contracts for three years. The agency is in this renewal period.

Informational Testimony:

Mr. Dan Gengler, Legislative Fiscal Analyst, stated that if the LFA current level base is accepted, the modification for external policy/procedure review will not be necessary. In regard to the transfer to the Department of Labor, there are pieces of legislation dealing with workers compensation that, if passed, will increase the workload for the Department of Labor. Those costs will be passed through to the State Fund.

Questions, Responses, and Discussion:

REP. FISHER asked when the optical scanning system will be in operation. **Ms. Smith** answered it would be in operation in late FY95.

REP. FISHER asked how many other states have this system and if the agency has spoken to them about it. **Ms. Smith** answered that Alberta, Canada and Maryland have the system. The agency has visited with those parties.

Informational Testimony:

Mr. Gengler stated that the OBPP consulted with private claims management firms and the firms were shocked that State fund does not have the imaging system; it is absolutely necessary.

Questions, Responses, and Discussion:

SEN. LARRY TVEIT asked what the current processing time is for claims. **Mr. Sweeny** answered that it is approximately 21-28 days.

The improved time will be at least seven days because the first six days of wage loss are not reimbursable; so the first check will not be issued until at least seven days after the claim is made.

SEN. TVEIT asked how much the agency pays ISD for its services. Ms. Smith answered that it pays approximately \$60,000-\$70,000/year.

EXECUTIVE ACTION ON STATE FUND

Tape No. 1:B:927

Motion/Vote: REP. QUILICI moved to accept the LFA current level base. THE MOTION CARRIED unanimously with five members present.

Informational Testimony:

Mr. Moe reviewed the budget for the agency. EXHIBITS 1 and 2. Modification #4 is not necessary due to the accepting of the LFA current level base.

Questions, Responses, and Discussion:

REP. QUILICI asked what the FTEs required for the imaging system will do. Ms. Smith answered that those requested for FY94 will install the equipment. The remaining three will do the scanning, etc.

REP. QUILICI asked if the agency would use ISD persons for installing the imaging equipment. Ms. Smith answered that it would not; ISD is not familiar with the imaging system.

SEN. TVEIT asked the total cost of the imaging equipment. Ms. Smith answered that it will cost \$1.3 million over a five year period.

REP. FISHER asked if the speed with which the equipment scans the material will allow the agency to reduce FTEs. Ms. Smith stated that the system will not be implemented until 1995 so FTEs cannot be reduced in the present biennium.

Motion/Vote: REP. QUILICI moved to accept the agency's proposal for computer related issues. EXHIBIT 7. THE MOTION CARRIED UNANIMOUSLY.

BUDGET ITEM COMPUTER SOFTWARE:

Motion: SEN. HARRY FRITZ moved to accept the request.

Questions, Responses, and Discussion:

REP. FISHER asked if this was being requested because no upgrades have been made in the past six to eight years. Ms. Smith

answered that the upgrades are constant and some of the software requested are new packages.

Tape No. 2:A:015

Vote: THE MOTION CARRIED with REP. QUILICI and CHAIRMAN PETERSON opposing.

BUDGET ITEM CONSULTING & PROFESSIONAL SERVICES:

Motion: SEN. FRITZ moved to accept the executive recommendation.

Discussion:

REP. QUILICI stated that the NCCI must have some type of monopoly since their rates are so high. He feels that this should be investigated.

Mr. Sweeny agreed. The agency has suggested partnerships with neighboring states to form a regional rating organization. A bill is being considered that would make membership in NCCI optional. He believes, however, that this item was amended out of the bill.

REP. QUILICI made a substitute motion to authorize expenditures at the LFA recommendation of .4%. THE MOTION PASSED with SEN. FRITZ and SEN. FORRESTER opposing.

BUDGET ITEM ASSOCIATION PLANS:

Questions, Responses, and Discussion:

REP. FISHER inquired about this item. Ms. Smith stated that the agency contracts with three associations to provide safety services to the association members. The services are provided in lieu of the agency's staff going to these places. The association must meet requirements and the agency rebates up to 4% of the premium fees to those associations.

SEN. TVEIT expressed concern that premiums are increased even for those associations that have never had to file a claim. Mr. Sweeny stated that the agency is hoping to make a safety contract with another association. For remaining associations, the agency intends to focus on those that have frequent and severe problems. The agency hopes to add to its safety program.

Motion/Vote: SEN. FRITZ moved to accept the request. THE MOTION CARRIED UNANIMOUSLY.

BUDGET ITEM BENEFITS & CLAIMS:

Informational Testimony:

Mr. Gengler stated that excess funding will not be used. If the funding is not enough, the agency will require a supplemental or it will not be able to pay claims.

Motion: SEN. FRITZ moved to accept the request.

Motion/Vote: SEN. TVEIT made a substitute motion to line-item authority for the entire benefits and claims amount; \$166 million in FY94 and \$182 million in FY95. THE MOTION FAILED.

Vote: SEN. FRITZ'S MOTION FAILED.

BUDGET ITEM NEW POSITIONS-MODIFICATION:

SEN. FORRESTER left his vote with REP. QUILICI until his return.
EXHIBIT 8

Motion/Vote: SEN. FRITZ moved to accept the request. THE MOTION CARRIED with REP. FISHER and CHAIRMAN PETERSON opposing.

BUDGET ITEM FRAUD INVESTIGATION-MODIFICATION:

Motion/Vote: REP. QUILICI moved to accept this request with the understanding that it will be integrated into the related bill, if the bill passes. THE MOTION CARRIED UNANIMOUSLY.

BUDGET ITEM VACANT POSITIONS:

Motion/Vote: REP. QUILICI moved to reinstate positions 50009 and 50016, the two positions for which the agency provided letters of hire.

Motion/Vote: SEN. FRITZ moved to reinstate the remaining FTE. THE MOTION FAILED with SEN. TVEIT, CHAIRMAN PETERSON, and REP. QUILICI opposing. SEN. FORRESTER'S vote was not submitted for this item.

BUDGET ITEM SUPPLEMENTAL REQUEST:

Motion: SEN. FRITZ moved to reconsider previous action taken on the supplemental request.

Informational Testimony:

Ms. Smith stated that the agency has received additional data and can reduce its request to \$15 million.

Vote: THE MOTION CARRIED UNANIMOUSLY.

Motion/Vote: SEN. FRITZ moved to accept the request at the lower amount. THE MOTION CARRIED with CHAIRMAN PETERSON and SEN. TVEIT opposing.

BUDGET ITEM VACANT POSITIONS:

Mr. Sweeny requested that the subcommittee reconsider its actions on the temporary positions; numbers 50010, 50023, 50024, 50034, 50047.

Motion/Vote: REP. QUILICI moved to reconsider previous action. THE MOTION CARRIED UNANIMOUSLY.

Motion: REP. QUILICI moved to reinstate the temporary positions named by Mr. Sweeny.

Discussion:

REP. FISHER would like to see vacancies at higher position levels.

Vote: THE MOTION CARRIED UNANIMOUSLY.

Tape No. 2:B:060

Motion/Vote: REP. QUILICI moved to restore position #20045. THE MOTION CARRIED UNANIMOUSLY.

BUDGET ITEM BOARD APPROVED MODIFICATIONS:

Ms. Smith presented the requests. EXHIBIT 9

Motion/Vote: REP. FISHER moved to fund the contracted audits. THE MOTION CARRIED with four members present.

SEN. FORRESTER returned to the meeting.

Discussion:

REP. FISHER stated that reducing claims by implementing safety requirements for subscribers should be the goal of the agency.

Mr. Sweeny agreed, but believes that other issues need to be addressed first. If the agency is able to reduce the number of claims filed, it will reduce staff.

EXECUTIVE ACTION ON GOVERNOR'S OFFICE

Tape No. 2:B:432

Informational Testimony:

Mr. Clayton Schenck, Legislative Fiscal Analyst, distributed a handout summarizing previous subcommittee action. EXHIBIT 10

Questions, Responses, and Discussion:

REP. FISHER asked who pays the benefits for the FTEs in the Flathead Basin Commission. Mr. Schenck stated that these are paid by a private fund that is donated to the state. This is why

the positions are classified as state positions.

Informational Testimony:

Mr. Schenck clarified that the Flathead Basin Commission has the authority to hire FTEs if it raises the funds to do so.

Motion/Vote: SEN. TVEIT moved that the \$500,000 funding for the Community Service Act be a biennial appropriation. **THE MOTION CARRIED UNANIMOUSLY.**

EXECUTIVE ACTION ON DEPARTMENT OF ADMINISTRATION

Tape No. 2:B:832

Informational Testimony:

Mr. Moe reviewed options to meet the agency's target. **EXHIBIT 11-BOTTOM PORTION, #1** This option would place the agency just below its target.

Motion/Vote: REP. QUILICI moved to eliminate position #04010. **THE MOTION CARRIED UNANIMOUSLY.**

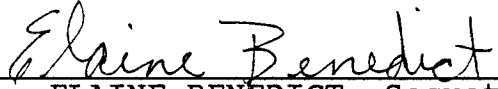
Ms. Lois Menzies, Director, Department of Administration, submitted a letter addressing concerns of the agency. **EXHIBIT 12**

ADJOURNMENT

Adjournment: 11:00 AM



REP. MARY LOU PETERSON, Chair



ELAINE BENEDICT, Secretary

MLP/EB

HOUSE OF REPRESENTATIVES

Gen. Gov. & Hwys.

SUB-COMMITTEE

ROLL CALL

DATE

2/17/93

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		

6103 01 00000 STATE COMP. MUTUAL INS. FUND Program Summary			St. Compensation Mutual Ins. F					
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	217.90	217.90	217.90	217.90	0.00	217.90	217.90	0.00
Personal Services	5,794,674	5,896,505	6,267,589	6,269,076	(1,487)	6,275,960	6,277,444	(1,484)
Operating Expenses	3,161,795	3,813,399	3,516,606	3,230,240	286,366	3,470,382	3,080,166	390,216
Equipment	292,286	127,138	281,566	172,253	109,313	179,597	104,947	74,650
Benefits and Claims	115,265,200	118,060,000	166,027,953	153,014,525	13,013,428	182,948,465	167,994,354	14,954,111
Transfers	2,427,859	2,959,054	2,839,300	2,439,300	400,000	2,716,695	2,316,695	400,000
Total Costs	\$126,941,815	\$130,856,096	\$178,933,014	\$165,125,394	\$13,807,620	\$195,591,099	\$179,773,606	\$15,817,493
Fund Sources								
Proprietary Fund	126,941,815	130,856,096	178,933,014	165,125,394	13,807,620	195,591,099	179,773,606	15,817,493
Total Funds	\$126,941,815	\$130,856,096	\$178,933,014	\$165,125,394	\$13,807,620	\$195,591,099	\$179,773,606	\$15,817,493

Page References

LFA Budget Analysis A-216 to A-227
 Stephens Executive Budget A93 to A98

Current Level Differences

Administration Program

CONSULTING & PROFESSIONAL SERVICES - This item has two parts:

- | | | |
|--|----------|-------|
| a) The LFA current level is higher because it includes \$75,000 in fiscal 1994 for an External Review while the executive budget presents that item as a budget modification (see budget modification #4). | (75,000) | |
| b) The LFA current level does not include \$8,000 in each year for "Netware" support (\$4,000), database support subscriptions (\$1,500), and database support hotline (\$2,500). | 8,000 | 8,000 |

COMPUTER PROCESSING/DofA - The LFA current level is lower because it uses fiscal 1992 actual expenditures. The executive includes an increase related to implementation of a "comprehensive claims management system" in 1993 for which it is indicated that additional management and reconciliation reports will cost more to produce. The LFA considered the increased costs as not being current level.

*	11,969	11,969
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SUPPLIES/MATERIALS/MAILING - The LFA current level does not include funding for the purchase of a supply of computer replacement parts (\$10,000 in fiscal 1994 and \$6,625 in fiscal 1995) or for shipping cost for sending parts to vendors for repair (\$755 in each year).

*	10,755	7,380
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MAINTENANCE CONTRACTS - The LFA current level is higher because in not including replacement computers in current level, the budget for maintenance must stay at a higher level.

*	(11,867)	(51,335)
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EQUIPMENT (Computers) - The LFA current level does not include funds for replacement of 29 WANG terminals. The executive includes these in current level. The LFA considers these a budget modification.

*	95,700	9,000
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COMPUTER SOFTWARE - The LFA current level does not include funds for a variety of software upgrades. The executive includes these in current level. The LFA considered these budget modifications.

	28,700	43,200
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Underwriting Department

CONSULTING & PROFESSIONAL SERVICES - This item has two parts:

- | | | |
|---|--------|--------|
| a) The LFA current level for NCCI dues allows an increase each year of .4% (based upon increase from fiscal 1991 to fiscal 1992) and the executive current level uses 5%. | 52,858 | 81,442 |
| b) The LFA current level includes \$100,000 each year for an actuarial services contract while the executive includes \$110,000 each year. | 10,000 | 10,000 |

COMPUTER PROCESSING/Dof A - The LFA current level uses fiscal 1992 actuals and considered the requested increases (in executive current level) as being budget modifications.

*	29,353	29,353
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Benefits Department

COMPUTER PROCESSING/Dof A - The LFA current level uses fiscal 1992 actuals while the executive

*	45,929	45,929
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includes increases which relate to implementation of a "comprehensive claims management system".

DATA NETWORK SERVICES/DofA--The LFA current level uses fiscal 1992 actual expenditures. Proposed increase are not considered current level in the LFA analysis.	* 21,950	19,190
ASSOCIATION PLANS--The LFA current level is lower because it uses fiscal 1992 actual expenditures. Subsequent to the LFA current level being finalized, additional information on this issue was received. The executive current level accurately reflects the amount needed for this budget item.	211,696	262,924
BENEFITS & CLAIMS--The LFA current level is lower because it does not include an/added (10% over the actuary's estimate) which the actuary states is the possible variance from the estimate provided for the cost of claims payments.	13,013,428	14,954,111
TRANSFER TO DEPARTMENT OF LABOR--The LFA current level is lower because its estimate of Department of Labor Budget covered by this transfer is based upon fiscal 1992 actuals. The budget for the Department of Labor budget has not been acted upon by its subcommittee.	400,000	400,000
INFLATION DIFFERENCES	(25,268)	(29,075)
MINOR DIFFERENCES	(20,583)	15,405
TOTAL CURRENT LEVEL DIFFERENCES	13,807,620	15,817,493

EXHIBIT

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Budget Modifications

- | | | |
|---|-----------|---------|
| 1) IMAGING--The Executive Budget includes 3.0 FTE and 283,745 in proprietary funds in fiscal 1994 and 6.0 FTE and \$730,476 in proprietary funds in fiscal 1995 to implement a computer imaging system. Implementation of the imaging system is integrally correlated with current level budget increases in the Executive Budget to upgrade the existing State Fund computer system. (See issue regarding "Computer System Requests" on page A-220 of LFA Budget Analysis). | * 283,745 | 730,476 |
| 2) NEW POSITIONS--In fiscal 1992, the State Fund reallocated funds from: 1) contracted services to personal services to support 3.0 programmer analyst FTE; and 2) operating expenditures to personal services to support 0.6 audit FTE. This request would make that operating plan change permanent. | 143,684 | 143,858 |
| 3) FRAUD INVESTIGATION--The Executive Budget contains \$155,000 in proprietary funds over the biennium to expand the workers' compensation fraud investigation program. The State Fund contracts with the Department of Justice for fraud investigation services. The current level expenditure for this activity is about \$39,000 per year and funds services of one investigator. This budget modification would fund services of three investigators. This budget modification is funded entirely from the old fund (claims incurred prior to July 1, 1990). The legislature may wish the State Fund to document that all of the investigation effort will be directed to the old fund claims and none to new fund claims. | 65,000 | 90,000 |
| 4) EXTERNAL POLICY/PROCEDURES REVIEW--The Executive Budget includes \$75,000 in proprietary funds for an external review of State Fund policies by a contractor from a private insurance agency or a contractor familiar with private insurance practices. This review would supplement work done by the Legislative Auditor. NOTE: The LFA current level for fiscal 1994 includes \$75,000 for a biennial appropriation for this review as part of ongoing program evaluation efforts undertaken by the State Fund. It is included in the 1994 so that the finding could be available for consideration and action by the 54th Legislature. Further, the legislature may wish to consider assigning contract oversight to an entity other than the State Fund to institute an "arm length" transaction between the State Fund and industry auditors. The legislature would need to consider the ability of the entity to: 1) let a request for proposal; 2) evaluate and negotiate proposals; 3) oversee and monitor contract performance; and 4) perform necessary accounting work. | | 75,000 |

Language or Other Issues

The following issues are discussed in the LFA Budget Analysis beginning on page A-219:

- 1) PAYMENT OF OLD FUND BENEFITS AND ADMINISTRATIVE COSTS--page A-219
- 2) ESTIMATE OF BENEFIT AND CLAIMS--page A-219
- 3) INDEPENDENT REVIEW OF THE STATE FUND--page A-220
- 4) COMPUTER SYSTEM REQUEST--page A-220
- 5) SYSTEM UPGRADE--page A-221
- 6) IMAGING SYSTEM--page A-221

STATE COMPENSATION MUTUAL INSURANCE FUND

EXHIBIT 2DATE 2/17/93487

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

Position #	Position Description	Total Personal Services		FTE		Total FTE Removed	Non-Approp. FTE
		Fiscal 1994	Fiscal 1995	Removed by 5% Reduction	Removed by Being Vacant		
General Fund Positions							
None							
Sub-Total		\$0	\$0	0.00	0.00	0.00	0.00
Non-General Fund Positions							
10017	Workers Comp - Clerical	4,945	4,953		0.25	0.25	
20028	Workers Comp - Prof	0	0		0.00		
20045	Workers Comp - Clerical	12,543	12,559		0.50	0.50	
30022	Workers Comp - Clerical	20,859	20,888		1.00	1.00	
30023	Workers Comp - Clerical	24,302	24,336		1.00	1.00	
50009	Workers Comp - Clerical	22,000	22,031		1.00	1.00	
50010	Workers Comp - Clerical	20,859	20,888		1.00	1.00	
50016	Workers Comp - Clerical	20,859	20,888		1.00	1.00	
50023	Workers Comp - Clerical	11,623	11,637		0.50	0.50	
50024	Workers Comp - Clerical	19,033	19,059		1.00	1.00	
50034	Workers Comp - Clerical	20,859	20,888		1.00	1.00	
50041	Workers Comp - Clerical	21,894	21,924		1.00	1.00	
50047	Workers Comp - Clerical	19,900	19,928		1.00	1.00	
90002	Workers Comp - Clerical	0	0		0.00		
Sub-Total		\$219,676	\$219,979	0.00	10.25	10.25	0.00
TOTAL		\$219,676	\$219,979	0.00	10.25	10.25	0.00

Notes: * Positions 20028 & 90002 show 0.00 FTE and no funding in the LFA current level and the executive current level.
(On the "snapshot" vacancy list, position 20028 showed 0.50 FTE and position 90002 showed 1.00 FTE.)

** Position 20045 in the executive current level is 0.00 FTE and not funded. Another position (20042) is funded at 1.00 FTE in the executive current level and 0.50 FTE in the LFA current level. Documentation indicates that position 20045 was combined with position 20042 in October, 1992.

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BUDGET HEARING TESTIMONY - 2/17/93

Workers' compensation continues to be a major problem in the State of Montana, as well as the nation. We consistently hear of businesses forced to close due to the high costs of workers' compensation, medical costs out of control, and allegations of fraud in the system. The State Fund is well aware of the magnitude of the problem, and we are working closely with the Legislature in an attempt to control costs and make the workers' compensation system affordable for employers.

The State Fund has proposed legislation to reform compensation and medical benefits, mandate safety programs, and increase efforts in fraud detection and prosecution. In addition, through our budget request, we hope to improve claims management, increase audit and safety efforts, and ultimately provide the best service possible to employers and claimants.

As you know, a five-member Board of Directors sets policy for the State Fund. Last summer, State Fund staff presented the budget request to the Board for consideration. The budget level approved by the Board was submitted to the prior administration, and most of the modified level request was rejected until the Governor's Task Force on Workers' Compensation completed its review of the system. Unfortunately, the Task Force did not officially vote on issues, so further consideration of the State Fund modified budget request did not take place. The State Fund management staff feels obligated to present the Board's budget request to you for consideration, even though it is not included in its entirety in the *Governor's Executive Budget*.

The State Fund is set up on SBAS as one program, and the budget request for the present biennium was presented to you as one program during last session's budget hearing. At the request of this committee, we will be presenting the budget to you

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today in several components, even though you stated last session you did not intend to appropriate at this level of detail.

The current level budget will be presented as the Administration Program, the Underwriting Program, the Benefits Program, and the Benefit Payments Program. The modified level budget includes a request to continue 3.6 FTE's which have been on staff since 1990, a request to increase the level of effort by the Attorney General's Office in fraud detection and prosecution, and implementation of an imaging program. In addition, we will present all other modifications approved by the Board of Directors which are not included in the *Executive Budget*.

The State Fund operational budget as a percent of premium is extremely low. When the actuary sets rates each year, he includes 8-10% of the total revenue requirement for administrative costs. If the State Fund's entire budget request is approved, it amounts to less than 8% of premium, meaning no rate increase would be necessary to fund it.

Due to Joint Committee Action taken January 6th by House Appropriations and Senate Finance & Claims, the State Fund has 10.25 positions targeted for removal from the current level budget. We feel we have compelling evidence to justify restoration of these positions to the budget.

The State Fund is committed to improving services to employers and claimants and restoring confidence in a system in trouble. The legislation presently being considered by the Legislature is a step in the right direction, but we also need the tools to effectively manage the agency. We ask your fair and open-minded consideration of our budget request.

1, 1990 and later). Old fund costs are funding by the payroll tax proceeds. However, beginning in January 1993, there are insufficient revenues to support these costs, as discussed below.

Program Budgets The State Fund is comprised of three programs--Administration, Underwriting, and Benefits. The following tables and narrative separately present and discuss the budget request for these programs to comply with legislative intent (see page A-250 of the LFA Appropriations Report, 1993 Biennium).

Administration Program

Fiscal 1992 expenditures for the Administration program are shown in Table 1. Personal services increase \$164,922 between fiscal 1992 and 1994 due to vacancy savings experienced in fiscal 1992 and fully funding the 1993 biennium pay plan.

Operating expenses increase \$62,564 between fiscal 1992 and 1994 due to: 1) a \$75,000 contract for independent review of State Fund policies and procedures in fiscal 1995; 2) inflationary adjustments of \$5,750 in fiscal 1994 and about \$9,400 in fiscal 1995; 3) equipment and building maintenance of \$8,500 annually; 4) network service fees of about \$8,000 annually; 5) travel and registration fees of about \$7,200 in fiscal 1994 for staff and board member travel to an AASICP meeting in Kalispell; 6) minor building modifications of \$4,200 in fiscal 1994 to comply with the federal Americans with Disabilities Act; 7) addition of grounds maintenance fees of about \$2,200; and 8) the legislative audit budgeted for \$52,032, compared to actual expenditures of \$29,882. The 1993 biennial audit appropriation is \$88,542.

Operating cost increases are partially offset by deflationary adjustments in mainframe computer processing, telephone equipment rental, and telephone long distance rates of about \$48,100 in fiscal 1994 and \$63,000 in fiscal 1995 and insurance and bond costs of about \$23,200 annually. Fiscal 1995 operating costs are lower than fiscal 1992 expenditures due to cyclical and one-time costs budgeted in fiscal 1994 and deflationary adjustments.

Equipment budgeted for the Administration program includes replacement of 4 dictaphones, 3 typewriters, 3 calculators, 2 laser printers, and 2 laptop computers each year. Replacement of software, two tables, and miscellaneous computer equipment is also funded.

Transfers include deposits to a sinking fund to retire debt on the State Fund building (\$439,300 in fiscal 1992 and \$316,695 in fiscal 1995).

Funding The Administration program is funded from proprietary funds. The allocation between new and old fund funding sources is based on the agency estimate of time spent on activities related to the new and old fund.

Table 1 Administration Program				
Budget Item	Actual FY 1992	---Current Level---		Change 92 to 94
		FY 1994	FY 1995	
FTE	73.50	73.50	73.50	0.00
Personal Services	\$2,028,995	\$2,193,917	\$2,197,023	\$164,922
Operating Expenses	779,330	841,894	705,866	62,564
Equipment	207,177	38,055	11,272	(169,122)
Transfers	441,803	439,300	316,695	(2,503)
Total Costs	\$3,457,305	\$3,513,166	\$3,230,856	\$55,861
State Fund Proprietary	\$2,308,787	\$2,616,959	\$2,576,918	\$308,172
Old Fund Proprietary	1,148,518	896,267	653,938	(252,251)
Total Funds	\$3,457,305	\$3,513,226	\$3,230,856	\$55,921

BUDGET HEARING - 2/17/93

The entire State Fund budget is funded through Proprietary Funds, which come from employer premiums. There is no General Fund support in this budget request.

ADMINISTRATION PROGRAM:

The Administration Program in this budget consists of the President's Office, Board of Directors, Management Information Systems Department, Legal Department, and Administration & Finance Department.

The first difference between the Executive and LFA budgets is \$75,000 for contracting for an independent, external review of claims management policies and procedures. The Executive included the \$75,000 as an approved modification in FY 1995, while the LFA included it in current level for FY 1994, possibly with a biennial appropriation. The State Fund is not opposed to moving it to 1994; in fact, by doing so, the results of the review could be available for consideration by the 1995 Legislature.

The other difference in consultant and professional services is \$8,000 a year for software support. This amount is needed to provide the State Fund with access to software experts when problems with the Local Area Network or applications software are encountered. This is a new cost as the result of moving to a Local Area Network computer environment, rather than the mini-computer environment we are now working in.

The computer software request includes a variety of items which I will summarize. All software provided through the Local Area Network receives periodic upgrades to resolve system problems and provide new capabilities. It is necessary to install these upgrades in order to ensure proper maintenance and ensure the software license is legally maintained with the number of users accessing the system. This will cost approximately \$56,000 for the biennium. We also want to provide dial-up

Administration - Page 2

capabilities for loss control and field audit staff, provide improved security capabilities, purchase system workload diagnostic software, add Zip!Mail, which is the state standard for electronic mail, track computer support services, and upgrade software which allows for access and storage of large data files. These software packages will cost approximately \$11,000 for the biennium. Finally, we intend to purchase software in FY 1995 to batch balance and update employer accounts. This \$5,000 purchase will streamline the cash receipting and data entry functions associated with employer premium.

EXHIBIT 5
DATE 2/17/93
AB

UNDERWRITING DEPARTMENT

There are two differences in the Underwriting Department, both in consultant and professional services. The first deals with the dues paid to the National Council on Compensation Insurance, a national rating organization to which the State Fund must belong. The State Fund used actual FY 1992 expenditures as the base, and increased it by 5% each year through 1995. The LFA suggests a percentage increase at the same level as the increase from 1991 to 1992.

The State Fund met with representatives of NCCI twice this past summer and fall in an effort to determine the appropriate funding level for the budget. While they would not commit that far into the future, they suggested increases would be minimal. We told them of our proposed 5% increase, and they did not indicate it was out of line.

The second issue is the actuarial contract. Tillinghast provided us with their estimate of costs for the current year, a range of \$80,000 to \$110,000. Based on this letter, and considering the expected level of effort in 1994 and 1995 will surely not decrease, we request the higher level of \$110,000. The LFA includes only \$100,000.

COMPUTER-RELATED ISSUES

The State Fund's computer processing charges are expected to increase during the next biennium due to projects completed during FY 1992, and projects to be completed during both the present fiscal year and FY 1994. Some of the changes are the result of legislative direction, but the major change is an updated claims management system.

During FY 1992, we implemented a system to report data to the National Council on Compensation Insurance. This system maintains a tremendous amount of data regarding exposure and losses in order to generate monthly files to NCCI. Operational costs to support this project are not included in the FY 1992 base. It was necessary for the State Fund to implement this program in order to avoid paying a penalty to NCCI.

Changes to the Policy Services system to bill employers using additional premium modifiers, as well as to cancel coverage for additional reasons, were implemented in September. Again, the operational costs are not in the base.

The major computer system change is in the claims management area. The system presently in place was designed in the mid-1970's and has undergone very little change since then. We have been attempting since the mid-1980's to provide much more claims management information, but due to legislative and business-dictated requirements, the Policy Services system always took precedence. However, we are now well on our way to implementing a host-based on-line and fully integrated system for issuance of wage loss checks. This system will issue fixed liability payments without specific employee authorization, capture payments and liability information based on disability status, improve management information, and provide full

Computer-Related Issues - Page 2

integration with external agency needs such as child support withholding, state accounting, insurance accounting, and actuarial requirements.

In FY 1994, the claims management system will provide a diary system to identify claims due for benefit adjustment, confirm medical disability, refer to rehabilitation, and invoke other triggers to proactively manage a claim. The system will also provide information regarding referral and follow-up on field activities, legal hearings, subsequent injury and social security eligibility, and third party and overpayment recovery.

The State Fund spends many millions of dollars a year in benefit payments, and it is imperative we have an adequate computer system. However, these system changes will result in increased operational costs paid to the Department of Administration.

In the State Fund's Administration Program, operational costs will increase to support improved claims management information and because of turnover in programming staff during the base year. We estimate the cost of management reports to be approximately \$3,000, and the additional cost for programming staff will be around \$6,000. With implementation of the claims management system, the Accident Cataloging Unit, which processes all new claims, will incur an additional \$3,000 a year for an annual purge of information and additional reconciliation reports and daily update charges.

In the Underwriting Department, significant increases in processing are expected due to implementation of construction credit surveys, medical deductible billings, monthly reporting to NCCI's programs, additional statistical reports, and providing dial-up capability for the loss control staff, which will cost an additional

Computer-Related Issues - Page 3

\$29,000 a year. The changes previously mentioned in the claims management system will increase operational costs by \$46,000 a year.

The Executive funded replacement of 29 WANG terminals and purchase of three new terminals in current level. It is our intent to replace all WANG terminals which communicate through two WANG mini-computers with equipment attached to a Local Area Network. If we are able to surplus the WANG equipment, we will save approximately \$51,335 a year in maintenance contract costs. We intend to move then to a depot maintenance policy for all terminals. Under depot maintenance, in-house staff perform simple maintenance on equipment; therefore, we must have a supply of replacement parts. If in-house staff are unable to restore the equipment to working order, it will be mailed to a maintenance vendor. By instituting a depot maintenance policy, we will not be paying for the technician's travel time, and our staff will perform routine maintenance, thereby significantly reducing maintenance costs. If the additional equipment purchase is not approved, we would be unable to surplus the WANG mini-computers and peripherals, thereby needing the higher maintenance figure in the budget.

Also affecting the decision on the maintenance budget is the State Fund's modification for a computer imaging system. Imaging technology is appropriate for operations having the following characteristics: there are large amounts of paper-based documents; paper-based information cannot be replaced with automated information; the information in its paper-based form is needed by several individuals simultaneously; and the processing of paper-based documents has critical implications in determining an end result involving significant costs.

These characteristics are particularly applicable to the insurance industry in handling claims. The primary advantage of imaging technology for an insurance

operation is to achieve simultaneous work flow on claims, reduce time and motion wastage in handling files, and achieve more effective control over records maintenance.

One of the most severe criticisms of the State Fund is in the claims management area. This is due in large part to contention for the physical file. An examiner may need it to pay compensation benefits, a medical technician may need it to pay medical bills, the File Room may need it to add mail. Implementation of an imaging system would allow all parties needing the file information to access it at the same time.

Included in the imaging proposal are three FTE's the first year, and six the second. In addition, the request includes an operational budget, as well as purchase of imaging equipment and computer terminals for the Benefits Department. Because the cost of this equipment is fairly high, the Board suggested we finance the purchase over five years, which we have done in the request.

We feel approval of this imaging budget request will significantly improve the State Fund's claims management practices. In the event this proposal is not approved, it again affects the maintenance contract budget in the Administration Program in that we will not be able to replace the WANG equipment. Also affected are the computer network fees. If replacement equipment is not approved, some of the network fees may be removed from the budget request, but we still would have to pay the Department of Administration these fees for present equipment, although at a slightly lower rate.

Association Plans

State Fund refunds premium to associations who are under contract to provide safety services to their members. Present contracts allow up to 4% of premium to be refunded. The '94-'95 request is based on premium estimates for those years.

As stated in the LFA write up, the Executive accurately reflects the amount needed for this item.

Fy '92 - \$304,997

	<u>'94</u>	<u>'95</u>
MLA	225,038	247,541
MMCA	217,929	239,722
MFDA	<u>73,726</u>	<u>80,658</u>
	<u>516,693</u>	<u>567,921</u>

Benefits & Claims

This estimate is provided by the actuary. He states estimates may vary by as much as 10% or more. Therefore, we increased the base estimate by 10%, which is included in the Expected.

	<u>194</u>	<u>195</u>
Old	\$49,219,977	\$41,422,433
New	<u>101,714,525</u>	<u>124,894,354</u>
Base	\$150,934,502	\$166,316,787
10%	<u>15,093,451</u>	<u>16,631,678</u>
	<u>\$166,027,953</u>	<u>\$182,948,465</u>

Transfers

Transfers budget includes State Fund's share of Workers' Compensation Court, Department of Labor & Industry budget, and assessments for rehabilitation and Subsequent Injury Fund.

193

Adm. -	\$1,635,886
Rehab -	304,276
SIF -	<u>241,384</u>
	\$2,181,547

LFA is \$400,000 lower than Expenditure, Mr. Dwyer was analyst for Labor budget, as he provided figure of \$2 - 1 million. May need to be adjusted after Labor's budget is finalized.

Go to LFA sheets for mods.

STATE COMPENSATION MUTUAL INSURANCE FUND

% OF
ESTIMATED
PREMIUM

PERSONAL OPERATING DEBT
SERVICES EXPENSES EQUIPMENT TRANSFERS SERVICE TOTAL

FY 1994:

Current Level	\$6,267,589	\$3,513,403	\$281,566	\$2,839,300		\$12,901,858
Modified Level	231,092	98,581	28,500		134,256	492,429
Board Modified Level	538,254	331,372	69,935			939,561
	\$7,036,935	\$3,943,356	\$380,001	\$2,839,300	\$134,256	\$14,333,848
						7.90%

FY 1995:

Current Level	\$6,275,960	\$3,467,179	\$179,597	\$2,716,695		\$12,639,431
Modified Level	308,964	451,790	57,000		221,580	1,039,334
Board Modified Level	1,034,654	369,094	149,489			1,553,237
	\$7,619,578	\$4,288,063	\$386,086	\$2,716,695	\$221,580	\$15,232,002
						7.63%

EXHIBIT 4
DATE 2/17/93
AB

STATE COMPENSATION MUTUAL INSURANCE FUND - COMPUTER RELATED ISSUES

CURRENT LEVEL DIFFERENCES

Executive Over(Under) LFA
Fiscal 1994 Fiscal 1995

Administration Program

COMPUTER PROCESSING/DofA - The LFA current level is lower because it uses fiscal 1992 actual expenditures. The Executive includes an increase related to implementation of a "comprehensive claims management system" in 1993 for which it is indicated that additional management and reconciliation reports will cost more to produce. The LFA considered the increased cost as not being current level.

11,969 11,969

SUPPLIES/MATERIALS/MAILING - The LFA current level does not include funding for the purchase of a supply of computer replacement parts (\$10,000 in fiscal 1994 and \$6,625 in fiscal 1995) or for shipping cost for sending parts to vendors for repair (\$755 in each year).

10,755 7,380

MAINTENANCE CONTRACTS - The LFA current level is higher because in not including replacement computers in current level, the budget maintenance must stay at a higher level.

(11,867) (51,335)

EQUIPMENT (Computers) - The LFA current level does not include funds for replacement of 20 WANG terminals. The Executive includes these in current level. The LFA considers these a budget modification.

95,700 9,000

Underwriting Department

COMPUTER PROCESSING/DofA - The LFA current level uses fiscal 1992 actuals and considered the requested increases (in Executive current level) as being budget modifications.

29,353 29,353

Benefits Department

COMPUTER PROCESSING/DofA - The LFA current level uses fiscal 1992 actuals while the Executive includes increases which relate to implementation of a "comprehensive claims management system".

45,929 45,929

DATA NETWORK SERVICES/DofA - The LFA current level uses fiscal 1992 actual expenditures. Proposed increases are not considered current level in the LFA analysis.

21,950 19,190

Budget Modifications

IMAGING - The Executive Budget includes 3.0 FTE and \$283,745 in proprietary funds in fiscal 1994 and 6.0 FTE and \$730,476 in proprietary funds in fiscal 1995 to implement a computer imaging system. Implementation of the imaging system is integrally correlated with current level budget increases in the Executive Budget to upgrade the existing State Fund computer system. (See issue regarding "Computer System Request" on page A-220 of LFA Budget Analysis).

283,745 730,476



STATE COMPENSATION MUTUAL INSURANCE FUND

P.O. BOX 4759

HELENA, MONTANA 59604-4759

GENERAL INFORMATION (406) 444-6500

16 December 1992

EXHIBIT 6

DATE 2/17/93

HE

Chantal L. VanDaele
1622 Kelly Road
Helena, Montana 59601

Dear Chantal:

This is to confirm your acceptance of our offer of Position No. 50009, Cashier III. Your effective date is December 28, 1992.

Please acknowledge receipt and acceptance of the position by signing, dating and returning the enclosed copy.

We are pleased you are able to advance within the State Fund.

Sincerely yours,

DEBBIE SVALDI
Personnel Manager

DS:cs/2941

Accepted:

Chantal VanDaele
Signature

Dec. 17, 1992
Date



STATE COMPENSATION MUTUAL INSURANCE FUND

P.O. BOX 4759
HELENA, MONTANA 59604-4759

RECEIVED
JAN 04
STATE FUND

GENERAL INFORMATION (406) 444-6500

29 December 1992

EXHIBIT 6
DATE 2/17/93
HJB

Tricia Lynn Charlton
4424 Snowshoe Drive
Helena, Montana 59601

Dear Trish:

This is to confirm your acceptance of our offer of Position No. 50016, Data Entry Operator III. Your effective date is January 11, 1993.

Please acknowledge receipt and acceptance of the position by signing, dating and returning the enclosed copy.

We are pleased to have you as a new member of the State Fund.

Sincerely yours,

Debbie Svaldi

DEBBIE SVALDI
Personnel Manager

DS:cs/2784

Accepted:

Tricia Charlton

Signature

12-29-92

Date

12/24/92
is when the
people interviewed
were notified
they didn't get
job + Trish not.
she dit.

EXHIBIT 4DATE 2/17/93

STATE COMPENSATION MUTUAL INSURANCE FUND

BOARD APPROVED BUDGET MODIFICATIONS

	FY 1994				FY 1995					
	PERSONAL FTE SERVICES	OPER.	EQUIP.	TOTAL	PERSONAL FTE SERVICES	OPER.	EQUIP.	TOTAL		
CLAIMS MANAGEMENT:										
Claims Staff	6.00	\$168,507	\$3,240	\$28,500	\$200,247	7.00	\$202,260	\$4,630	\$38,000	\$244,890
Rehabilitation Staff	1.00	38,144	1,390	9,500	49,034	5.00	200,256	5,560	38,000	243,816
Medical Benefits Staff	1.00	28,698	540	4,750	33,988	2.00	51,534	1,080	16,000	68,614
File Room Staff	1.00	18,930	540	3,250	22,720	1.00	18,930	540		19,470
	9.00	\$254,279	\$5,710	\$46,000	\$305,989	15.00	\$472,980	\$11,810	\$92,000	\$576,790
AUDIT:										
Audit Staff	4.00	\$113,649	\$17,970	\$23,935	\$155,554	9.00	251,275	40,432	12,489	\$304,196
Contracted Audits			295,152		295,152			295,152		295,152
	4.00	\$113,649	\$313,122	\$23,935	\$450,706	9.00	\$251,275	\$335,584	\$12,489	\$599,348
SAFETY:										
Loss Prevention Consultants	4.00	\$125,416	\$12,000		\$137,416	4.00	\$125,416	\$10,800		\$136,216
LEGAL:										
Legal Staff						4.00	\$140,073	\$10,360	\$45,000	\$195,433
POLICYHOLDER LIAISON	1.00	\$44,910	\$540		\$45,450	1.00	\$44,910	\$540		\$45,450
TOTAL	18.00	\$538,254	\$331,372	\$69,935	\$939,561	33.00	\$1,034,654	\$369,094	\$149,489	\$1,553,237

EXHIBIT 7
DATE 2/17/93
WIT MA

I leave my vote with
Rep. Quilici Wed Feb 17
Greg Ford

STATE COMPENSATION MUTUAL INSURANCE FUND - COMPUTER RELATED ISSUES

CURRENT LEVEL DIFFERENCES

Administration Program

COMPUTER PROCESSING/DofA - The LFA current level is lower because it uses fiscal 1992 actual expenditures. The Executive includes an increase related to implementation of a "comprehensive claims management system" in 1993 for which it is indicated that additional management and reconciliation reports will cost more to produce. The LFA considered the increased cost as not being current level.

Executive Over(Under) LFA	
Fiscal 1994	Fiscal 1995

11,969	11,969
--------	--------

SUPPLIES/MATERIALS/MAILING - The LFA current level does not include funding for the purchase of a supply of computer replacement parts (\$10,000 in fiscal 1994 and \$6,625 in fiscal 1995) or for shipping cost for sending parts to vendors for repair (\$755 in each year).

10,755	7,380
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MAINTENANCE CONTRACTS - The LFA current level is higher because in not including replacement computers in current level, the budget maintenance must stay at a higher level.

(11,867)	(51,335)
----------	----------

EQUIPMENT (Computers) - The LFA current level does not include funds for replacement of 20 WANG terminals. The Executive includes these in current level. The LFA considers these a budget modification.

95,700	9,000
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Underwriting Department

COMPUTER PROCESSING/DofA - The LFA current level uses fiscal 1992 actuals and considered the requested increases (in Executive current level) as being budget modifications.

29,353	29,353
--------	--------

Benefits Department

COMPUTER PROCESSING/DofA - The LFA current level uses fiscal 1992 actuals while the Executive includes increases which relate to implementation of a "comprehensive claims management system".

45,929	45,929
--------	--------

DATA NETWORK SERVICES/DofA - The LFA current level uses fiscal 1992 actual expenditures. Proposed increases are not considered current level in the LFA analysis.

21,950	19,190
--------	--------

Budget Modifications

IMAGING - The Executive Budget includes 3.0 FTE and \$283,745 in proprietary funds in fiscal 1994 and 6.0 FTE and \$730,476 in proprietary funds in fiscal 1995 to implement a computer imaging system. Implementation of the imaging system is integrally correlated with current level budget increases in the Executive Budget to upgrade the existing State Fund computer system. (See issue regarding "Computer System Request" on page A-220 of LFA Budget Analysis).

283,745	730,476
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STATE COMPENSATION MUTUAL INSURANCE FUND

BOARD APPROVED BUDGET MODIFICATIONS

FY 1994

FY 1995

CLAIMS MANAGEMENT:

		PERSONAL FTE SERVICES	OPER.	EQUIP.	TOTAL		PERSONAL FTE SERVICES	OPER.	EQUIP.	TOTAL
Claims Staff	6.00	\$168,507	\$3,240	\$28,500	\$200,247	7.00	\$202,260	\$4,630	\$38,000	\$244,890
Rehabilitation Staff	1.00	38,144	1,390	9,500	49,034	5.00	200,256	5,560	38,000	243,816
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File Room Staff	1.00	18,930	540	3,250	22,720	1.00	18,930	540		19,470
	9.00	\$254,279	\$5,710	\$46,000	\$305,989	15.00	\$472,980	\$11,810	\$92,000	\$576,790

AUDIT:

Audit Staff	4.00	\$113,649	\$17,970	\$23,935	\$155,554	9.00	251,275	40,432	12,489	\$304,196
Contracted Audits			295,152		295,152			295,152		295,152
	4.00	\$113,649	\$313,122	\$23,935	\$450,706	9.00	\$251,275	\$335,584	\$12,489	\$599,348

SAFETY:

Loss Prevention Consultants	4.00	\$125,416	\$12,000		\$137,416	4.00	\$125,416	\$10,800		\$136,216
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LEGAL:

Legal Staff						4.00	\$140,073	\$10,360	\$45,000	\$195,433
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POLICYHOLDER LIAISON	1.00	\$44,910	\$540		\$45,450	1.00	\$44,910	\$540		\$45,450
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TOTAL	18.00	\$538,254	\$331,372	\$69,935	\$939,561	33.00	\$1,034,654	\$369,094	\$149,489	\$1,553,237
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EXHIBIT 10
DATE 2/17/93
MB

GOVERNOR'S OFFICE

Subcommittee Action through 2-16-83	4,684,772
Adjustments Requested by Governor's Office:	
Decrease Board of Visitors Equipment Request	(8,420)
Decrease Board of Visitors Operating	(2,487)
Net Appropriated (TARGET)	4,673,865

AGENCY: DEPARTMENT OF ADMINISTRATION

Checklist
Response to Subcommittee Letter

GENERAL FUND TARGET \$6,452,040

Priority
Ranking

SPECIFIC REDUCTION PROPOSALS

Total Biennial Reductions Identified	
Does Apply Toward Target	Does Not Apply Toward Target

<i>Current General Fund Appropriation*</i>	
Current Level Adjustments Requested:	
None	
Agency Target Reduction Options:	
The subcommittee acted on the agency's letter which provided for "target reductions".	
FTE Reductions Included:	\$444,052
Reduced Dept of Justice Processing	\$172,371
GENERAL FUND BALANCE ACHIEVABLE	
ABOVE (BELOW) TARGET	
Agency Additional Options (5% Below '93 Bien.)	
Eliminate Position #04010, Admin Aide II (P&PD)	
Reduce Pest Control (Gen. Svcs)	
Reduce Janitorial Specifications (Gen Svcs)	
Eliminate Director's Office Equipment Request	
Eliminate Position #03505 & painter (Gen Svcs)	
Reduce position #00010 (Director's Office)	
Reduce position #00002 (Director's Office)	
Eliminate position #04005 (P&PD)	
Eliminate remaining .5 FTE pos. #12015 (Accg)	
TOTAL ADDITIONAL OPTIONS	

6,674,051	
(subtracted) (not subtracted)	
6,674,051	
\$222,011	
50,132	
5,000	
22,468	
11,609	
66,311	
13,741	
12,388	
58,494	
35,439	
\$275,582	0

Fund Switch	Fee Increase	Permanent Reduction	Cost Shift to Local Govt?	Loss of G/F Revenue?	Amt. of G/F Rev. Loss	Statute Change
N	N	Y	N	N	N	N
(1)	(1)	N	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N
N	N	(2)	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N
N	N	Y	N	N	N	N

* This amount represents subcommittee action to date, or LFA current level if there has not yet been committee action.

COMMENTS:

- (1) The committee accepted the \$172,371 reduction as a credit toward the target reduction. It would not, however, be a permanent reduction and may indirectly affect ISD processing fees since Motor Vehicle processing costs (general fund) would be artificially kept low for a period of time.
- (2) To be a permanent reduction, the "reduced janitorial specification" would need to be applied each biennium.

DATE 2/17/93
HB

EXHIBIT 12
DATE 2/17/93
MB /

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



MARC RACICOT, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
FAX: 444-2812

PO BOX 200101
HELENA, MONTANA 59620-0101

TO: Representative Mary Lou Peterson
Chair, General Government and
Transportation Subcommittee on Appropriations

FROM: Lois Menzies, Director. *Lois Menzies*

DATE: February 12, 1993

SUBJECT: Spending Targets

You have asked the Department of Administration to identify \$49,640 in reductions to meet our target for the 1994-95 biennium. To achieve this reduction, we propose using the first item under the department's Additional Options category (5% Below '93 Biennium):

Eliminate Position #0410, Administrative Aide II (Procurement & Printing Division) \$50,132

The elimination of this position would put the department \$492 over its target reduction.

We also want to clarify a concern raised by the footnote on the \$172,371 reduction in Department of Justice processing fees which was approved by the subcommittee as a credit toward the Department of Administration's target reduction. This reduction in processing fees while the Motor Vehicle system is transferred to the state mainframe and tested will not increase the Information Services Division's (ISD) computer processing rates. ISD will absorb this cost; it will be reflected in a reduction of ISD's cash balance. In addition, transfer of the Motor Vehicle system will permit ISD to permanently reduce its processing rates to all agencies by 16%.

We have several other concerns regarding specific budget issues:

Payroll

If passed, HB 153 would transfer operation of Central Payroll from the State Auditor's Office to the Department of Administration. We would like to discuss our concerns related to systems development and computer costs for this program. We propose appropriating available state special revenue funds for these costs.

Reappraisal
Cycle

Based on past experience, we anticipate an increase in appeals to the State Tax Appeal Board at the end of the current property reappraisal cycle. New

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property tax assessments will be mailed in Spring, 1993. A funding increase may be needed to provide services which are constitutionally required.

To address this concern, we suggest the following language amendment to HB 2: "The Legislature recognizes that costs associated with property tax appeals may exceed the appropriation for the state tax appeal board due to timing of the reappraisal cycle. In that event, the department may request a supplemental appropriation from the 1995 Legislature rather than allow the automatic reductions in property valuation required by 15-15-103(2) due to the failure to timely hear appeals."

Proprietary
Fund 5%
Reduction FTE

We remain concerned about the 5% reduction in FTEs in the department's proprietary funds. The positions affected are as follows:

Pos. No.	Pos. Descrip.	FY 94-95 Cost	FTE
Information Services Division			
08206	Inf Sys Spec Trne	53,420	1.00
08225	Inf Sys Spec IV	75,305	1.00
08215	Prog/Analyst	45,414	0.50
08617	Prod Contrl Spec	62,634	1.00
09417	Planner IV	62,727	1.00
Procurement and Printing			
03211	Duplic MacOpr	\$41,895	1.00
03222	Inf Sys Spec III	32,415	0.50
09609	Purch/Supply Asst	47,198	1.00
General Services Division			
03505	Painter	66,311	1.00
Central Mail			
13002	Mail Clerk II	23,664	0.52

These positions are required to provide essential services to state agencies. Centrally organized operations such as ISD, Purchasing, Publications and Graphics, General Services and Central Mail provide significant cost savings to state agencies in both personnel and operating costs. If these divisions lose their ability to provide these services, agencies will need to pick up the additional work themselves or contract for the

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services. However, agencies will not have the FTEs to do this due to their own personal services cuts. Contracted services will cost more than what they are budgeted to pay these divisions for the same service.

Each of these divisions anticipates a significant increase in workload for the coming biennium. They did not ask for an increase in FTEs, but anticipated the extra work could be absorbed by current level staff. This will be extremely difficult to do with the 5% reduction in FTEs. This request does not affect the General Fund target reductions.

Interactive
Voice

ISD has provided the information requested by Representative Fisher on the Interactive Voice Response Budget Modification Request. The department would ask the subcommittee to consider this modification request keeping in mind the advantages of having ISD provide a shared system which can be used by several agencies.

Zip-Plus-Four

The department would like clarification that the negative action taken on the Zip-Plus-Four Software modified request in the ISD budget is not intended to prohibit the acquisition of this type of software if budget authority becomes available during the 1994-95 biennium.

We suggest the following language amendment to HB 2: "The department is authorized to acquire Zip-Plus-Four software within current level budget authority."

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

GEN. GOV. & HWYS. SUBCOMMITTEE DATE 2/17/93

DEPARTMENT(S) STATE FUND, ADMINISTRATION DIVISION

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