

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON NATURAL RESOURCES

Call to Order: By **CHAIRMAN ROGER DEBRUYCKER**, on February 7, 1995, at 8:00 a.m. in Room 402 of the State Capitol.

ROLL CALL

Members Present:

Rep. Roger DeBruycker, Chairman (R)
Sen. Thomas F. Keating, Vice Chairman (R)
Sen. Judy H. Jacobson (D)
Sen. Loren Jenkins (R)
Rep. John Johnson (D)
Rep. William R. Wiseman (R)

Members Excused: none

Members Absent: none

Staff Present: Roger Lloyd, Legislative Fiscal Analyst
Florine Smith, Office of Budget & Program
Planning
Debbie Rostocki, Committee Secretary

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

Committee Business Summary:

Hearing: Department of Commerce
- Local Government Audit & Systems Bureau
- Local Government Assistance Administration
- Montana Promotion Division

Executive Action: Department of Commerce
- Local Government Audit & Systems Bureau
- Community Development Bureau
- Local Government Assistance Administration
- Board of Housing
- Montana Promotion Division

Mr. Newell Anderson, Administrator of the Local Government Assistance Administration for the Department of Commerce, had some additional testimony for the committee regarding the Treasure State Endowment Program. He showed what the recommendations were for Treasure State grants for the current year. There is a minimum 50% match by the local governments in all cases, with the collective total being an 82% match when considering all funding sources.

HEARING ON Department of Commerce
Local Government Audit & Systems Bureau

Mr. Roger Lloyd, Legislative Fiscal Analyst (LFA), gave an overview of this program (pp. C-168-172). Major changes including privatization of the audit function are being proposed in this program. The net reduction in the budget's proprietary funding will amount to about \$850,000 in each year, with a \$205,000 increase in general fund each year. One option which would reduce the amount of general fund needed would be to increase fee revenue by charging fees commensurate with costs. The new proposal recommending that 16 FTE be eliminated should be changed to 15 due to the committee's action the previous day. The personal services reductions are intended to help fund the pay plan. However, if the FTE are eliminated, so too will be the revenue intended for the proprietary account, which was to have been used to fund the pay plan.

Ms. Florine Smith, Office of Budget and Program Planning (OBPP), added that during the 1993 special legislative session it had been proposed to move the audit functions remaining after privatization to the Legislative Auditor's Office (OLA).

Mr. Anderson then gave a presentation of the Bureau's budget. **EXHIBIT 3, pp. 5 and 6** He distributed a chart comparing the average sizes of Montana's municipal and county governments. **EXHIBIT 1**

The audit Review Function was established by the 1991 Legislature. All of the activities conducted under this function are charged against the audited local entities. Audits are required if an entity receives either \$25,000 worth of federal funds or \$200,000 of local or state-generated funds. Before this program was enacted, a local jurisdiction may have failed to comply with a rule or grant requirement but there was no formal process to address this. **Tape No. 1:B:000**

Mr. Anderson said there has been some discussion about raising the \$25,000 limit on federal funds the local governments could receive before becoming subject to audit. Of the 900 audit reports reviewed over the biennium, a random 50 will probably be tested in each year. Almost 75% of all entities audited have problems with accounting for capital equipment. The bureau thinks they can help to resolve this problem.

The department made an administrative decision in the fall of 1994 to privatize the Audit Function as of July 1, 1995. He distributed copies of the privatization plan which was submitted to the Legislative Auditor's Office. **EXHIBIT 2** The fact that the state couldn't pay competitive market wages to senior accounting professionals left the state with little capacity to retain these personnel, who have moved on to employment in the private sector. The private sector has shown much interest in

performing local government audits, and is currently underbidding the state.

CHAIRMAN ROGER DEBRUYCKER wanted to know how much money would actually be saved by privatizing. **Mr. Anderson** said he was unsure whether there would actually be any savings. The bureau will remain a party to the contracts for auditing, in order to ensure that all entities which should be audited will be audited. However, it will have no participation in the actual audits.

REP. WISEMAN suggested that savings would be realized by the local taxpayers, who will no longer have to pay for double auditing. **Mr. Jon Noel** clarified that the audit review would still be required. **Mr. Anderson** explained why the Review Function was important to retain. **Mr. Noel** said the actual auditing business would just be going from the Department of Commerce to private firms. The local governments might have to pay more for the service but it appears there is enough competition that this will not be the case: the 25% of auditing which the state used to do will be done by private firms.

Tape No. 2:A:000

Mr. Anderson said the review fee ranged from \$325-\$925 depending on the size of the entity. The Review Function is approved of by the private auditing firms and most local governments do not object to it. Audit review is a common procedure both in government and private practice. **Mr. Anderson** pointed out that the Legislative Audit Committee had been opposed to the state (rather than the local governments) paying for the costs of the Review Function. He added that the fee had been reduced for the past three years by up to 13% per year. Once the general fund which started the program is repaid, they will be able to reduce the fee by an additional 25%.

REP. WISEMAN suggested the bureau change its name to Quality Control, which would be a more accurate term.

Mr. Anderson continued his presentation. In conjunction with the decision to eliminate the Audit Function they concluded that a new proposal was needed to enhance the System Function.

The OLA is opposed to handling the System Function in its office because they feel it is an executive function. However, their review suggested that the Systems Function needed to be upgraded.

Prior to 1976 there was no uniform accounting or budgeting system for local governments, which made auditing very difficult. The solution was BARS, the uniform budgeting, accounting and reporting system, which the Legislature established. **Mr. Anderson** briefly explained BARS and passed around a copy of the BARS manual. One of the things they are proposing to do with the expansion of the Systems Program is produce a County Collections manual, a project which is eight years overdue.

Six FTE are proposed for the System Function; currently there are 2.5. They will "outpost" three of the four professionals, with support staff in Helena. A sheet outlining the argument that the System Function should be supported by the general fund was distributed. **EXHIBIT 4** He submitted that the poorer the local government is, the more need it has for the System Function, which is available to all local governments regardless of their size. The System Function plans to hold training sessions for local government staff to teach them how to close their books, etc. He added that they have up to 3,200 requests per year for technical assistance.

REP. WISEMAN wanted more clarification on **Mr. Anderson's** statement that 75% of all audited local governments had problems with their capital equipment accounting. **Mr. Anderson** said one thing which he had never quite understood was why government does not depreciate anything. He clarified that the 75% with problems were accounting for their equipment, but not doing so properly. **Mr. Noel** agreed with **Mr. Anderson** and said the fact that government does not depreciate anything is "frankly absurd."

REP. WISEMAN wanted to know if the System Function fees were tied to the size of the local government, as was done with review fees. **Mr. Anderson** said what they used to charge under the System Function was either \$1,000 maintenance contracts, which paid for workshop attendance and telephone assistance, or \$2,500, which included staff coming to the community to help. He added that there probably wasn't a CPA firm in the state that would like to take on performing the System Function.

Mr. Noel said one of the real beneficiaries in this program is the private accounting firms which do the audits. He suggested the Legislature might consider imposing a registration fee on public accounting firms that want to qualify to do local government audits, as a method of helping fund the System Function.

Tape No. 2:B:000

**EXECUTIVE ACTION ON Department of Commerce
Local Government Audit & Systems Bureau**

Discussion: **SEN. JENKINS** wanted to know if the 16 FTE proposed to be cut would be transferred to another division and how many would actually be leaving state government. **Mr. Anderson** said some of the positions might be moved to the System Function if the increase in that program is approved. In the meantime, however, all 16 positions have received notice that their jobs will end June 30, 1995. There will be a net reduction of 15 FTE department-wide including all of the shifts which are planned.

In response to **CHAIRMAN DEBRUYCKER**, **Mr. Anderson** said if the general fund was not increased in Present Law (PL) Adjustment No. 5 on p. C-169 to the full requested amount, he doubted there would be enough proprietary or any other revenue to make it work. He added that it was an all or nothing proposition, and trying to

implement a System Function program partially would cause more problems than having no program at all. When the budgeting process was in its initial stages, 12 FTE were being requested, and the 6 that ended up being requested is the fewest number he feels would be workable. **Mr. Noel** stressed that many of the local governments that need the service are too small to even be audited and they do not have the money to pay for the service, even though they probably need it the most. **Mr. Anderson** pointed out that providing this money on the front end was a preventative measure to help small local governments avoid financial problems in the future.

Motion: **SEN. KEATING** moved to accept PL Adjustments No. 4, 5 and 6 on p. C-169; **SEN. JACOBSON** seconded the motion.

Discussion: Discussion took place about the LFA's suggestion that general fund, if used to fund a proprietary account such as in PL No. 5, needed to be budgeted as a transfer to that fund. **Mr. Anderson** said the proprietary authority being requested was for a situation such as a defalcation, where the state would have to become involved: historically, CPA firms have always turned these types of cases back to the state. Without the audit staff there is no "court of last resort" in the Audit Function anymore. What they are suggesting is to put in a proprietary account to hire auditors for defalcation audits. He suggested that the proprietary funding was a second funding type for the program.

Vote: The question was called for on **SEN. KEATING'S** motion. The motion carried with **REP. WISEMAN** and **CHAIRMAN DEBRUYCKER** opposed.

Motion: **SEN. JENKINS** moved to accept New Proposals No. 1 and 2 on p. C-172, with the FTE reduction in No. 2 to be amended to 15. **REP. WISEMAN** seconded the motion. The motion carried unanimously. Tape No. 3:A:000

EXECUTIVE ACTION ON Department of Commerce
Community Development Bureau

Discussion: **Mr. Noel** explained that the Hard Rock Mining Board (p. C-165, PL No. 5) deals with the financial impact of the development. The board operates as a liaison between the mine and the local government to negotiate for what kinds of up-front costs might be funded by the developer to mitigate impacts on the local taxpayers. The impact plan also addresses what kinds of actions will be necessary to meet the fiscal impacts when the mine closes.

In response to **SEN. KEATING**, **Mr. Lloyd** said small portions of the HOME Program and the Section 8 Housing Program pay indirect costs to fund the Local Government Assistance Administration.

SEN. JENKINS wanted to know why the Coal Board grants budget was being increased. **Mr. Anderson** said a major diversion of Coal

Board Funds had occurred in the last biennium: the Board operated on some \$1.49 million worth of grants and the remaining \$3 million of their appropriation was diverted out of their budget. As a result, the activity in the current biennium was considerably less. There is no diversion proposed for the coming biennium. The new number represents the actual total projected cash flow. **Mr. Lloyd** said there was no statutory appropriation for the coal tax revenue money that goes to the coal board. It is a statutory allocation: 6.65% of the Coal Severance Tax goes to the Coal Board, to be appropriated by the Legislature. **Mr. Anderson** pointed out that any monies not used by the Board were reverted back to the State Equalization Account (SEA). Discussion took place regarding whether or not the impact from coal mining activities had been sufficiently addressed. **Mr. Lloyd** said the \$3.3 million which had been diverted from the Coal Board's budget ended up reverting to the SEA.

Motion/vote: **SEN. JENKINS** moved to accept PL No. 4 on p. C-165, with a total funding level of \$2 million over the biennium for the grants portion, including the 1994 base, and to approve the operating and equipment increase. **REP. WISEMAN** seconded the motion. The motion carried with **CHAIRMAN DEBRUYCKER** and **SEN. JACOBSON** opposed. **REP. JOHNSON** was excused.

Motion/vote: **SEN. KEATING** moved to accept PL Adjustments No. 5, 6, 7, 8, 9, 10 and 12; **SEN. JACOBSON** seconded the motion. The motion carried with **REP. DEBRUYCKER** opposed.

Motion/vote: **SEN. JENKINS** moved to accept New Proposals No. 1, 2 and 3 on p. C-167; **REP. WISEMAN** seconded the motion. The motion carried unanimously. Tape No. 3:B:000

HEARING ON Department of Commerce
Local Government Assistance Administration

Mr. Lloyd gave an overview of the division (pp. C-173-4).

Mr. Anderson then spoke. The division has 2.5 FTE, consisting of himself, one lawyer and a .5 FTE secretary. There are thirteen separate but closely related programs operated in this division. **EXHIBIT 3** Prior to having the attorney added to their staff they were paying more than \$90,000 per year for legal advice from the department's legal pool. With only two exceptions in twelve years the division has never been sued. They feel this is due partially to the accessibility of legal advice before a lawsuit needs to be filed.

He submitted that the work of this division would increase rather than decrease as a result of the elimination of the Audit Function.

\$10,000 was recharged to each of the twelve programs in this division for proportionate shares of staff time. He said if the committee reduced his budget by \$10,000 it would have a big

impact because of the small size of the division. **Mr. Noel** said the only way this budget could be reduced by \$10,000 would be to cut someone's salary or eliminate a position. The \$10,000 mentioned in the LFA issue on p. C-174 originated in the Audit Function, which was paying into this budget and is now being eliminated. The fact that one program has been eliminated means the others will be charged a little more for the services of these 2.5 FTE. **Mr. Lloyd** confirmed that the Audit Function had been paying this division \$10,000 for its time, with funds going into the proprietary account.

Motion/vote: **SEN. KEATING** moved to close the section on Local Government Assistance; **REP. WISEMAN** seconded the motion. The motion carried unanimously. **Tape No. 4:A:000**

HEARING ON Department of Commerce
Montana Promotion Division

Mr. Lloyd gave his overview of the Montana Promotion Division's budget (pp. C-160-162). He distributed some information on the lodging facility tax revenue. **EXHIBIT 5** Even though the funds are statutorily appropriated, the executive is requesting appropriations in the general appropriations act for them as well.

HB 83 is the name of the bill which would have de-earmarked the lodging facility tax ("bed tax") revenue but this provision has been removed from the bill.

Two FTE from the Montana Science and Technology Alliance were removed from that budget and the present law budget of this division now contains two more FTE than it did in the last legislative session.

Ms. Smith said the Institutions and Public Safety Joint Subcommittee gave \$75,000 per year as a grant from bed tax revenues to the Historical Society, providing it did not conflict with this subcommittee's action or with the fate of **HB 83**. Language amending **HB 2** was also passed by that subcommittee and **Ms. Smith** distributed copies to the committee. **EXHIBIT 6** She clarified that the \$75,000 would be in addition to the 1% the Historical Society receives.

Mr. Matthew Cohn, Montana Promotion Division Administrator, then spoke. Travel and tourism is now Montana's second largest industry; there has been dramatic growth since the initiation of the bed tax in 1988. **Mr. Cohn** attempted to show a short video used at the Governor's conference on tourism, but was unable to get the machine to work. He summarized that the video was talking about change and the impact travel and tourism are having on the state.

The question of what the social costs of tourism are and whether they are being met by the tax revenues being generated was

addressed. The cost to society goes far beyond water, sewer, police and fire protection.

Over the past several years this division has been involved in a rural tourist assessment program. Last year, Glendive, Lewistown and Libby participated in the program. A reduction in tourism would have a dramatic impact on local service and retail businesses as well as tax revenues. According to estimates of the Department of Transportation, about 30% of the state gas tax revenues come from nonresidents. Additional tax revenues are increased as a result of other activities related to tourism. It is hard to quantify the actual fiscal impacts of tourism although studies have tried to determine this; the division intends to study this more.

The correlation between their program expenditures and the economic benefit derived from tourism is clear: Montana has enjoyed a dramatic positive economic impact from tourism.

EXHIBIT 7 Montana is now at the highest per capita income level in its history. Regarding nonresident expenditures in the state, in 1994 \$1.2 billion was spent. About 32,000 jobs are directly related to tourism, while another 30,000 are indirectly related. About \$780 million in travel-related payroll has been generated.

The perception seems to be that the state is spending ever increasing amounts. However, total bed tax collections in relation to the efforts of this division shows that they grow at the same proportion. The downturn in both consumer marketing and the division's budget in 1993 is due to the channeling of 6% of bed tax revenues to the state parks system. Tourism in Montana is now growing at a rate of 2-3% and this is also a factor in the downturn. The consumer marketing budget has been voluntarily reduced by the division but marketing efforts need to continue because of the highly competitive nature of tourism marketing. He attempted to show a video of what some of the other states were doing in marketing but was once again unsuccessful.

Tape No. 4:B:000

Over 400,000 people contact them every year wanting information about the state. In 1994 seven major motion pictures were made in the state and in the current year over 65 different television commercial, still and catalog shoots were made, generating about \$45,000 into the economy.

The changes the division is making are based on the five-year strategic plan. The plan identified that questions such as how much was being spent on advertising and infrastructure, how funds amongst the six tourism regions are distributed and what the impact of tourism will be on the environment and quality of life are major concerns of Montana people.

A major internal shift has been made in how the regional funds get distributed. As a result, the two largest regions are now sharing some of their money with the smaller ones.

The division has three new programs which the executive has included in the budget. **EXHIBIT 8** Currently before the Legislature, **SB 87** would allow the division to use bed tax monies as the basis for a bond. If the three new programs are accepted by the committee, as well as the changes already made, 15% of the bed tax projected to be collected in the next biennium will be used directly to help develop the state's infrastructure. When the budget was put together, the program changes were included in the budget, but not the dollar amounts. The Grants Program will be funded with bed tax revenue and the redistribution of operating revenues.

Ms. Linda Reed, Governor's office, rose in support of the suggested budget changes.

EXECUTIVE ACTION ON Department of Commerce
Board of Housing

Discussion: **REP. WISEMAN** wanted to know why it was felt extra money was going to be needed for refunding bond issues. **Mr. Andy Poole**, Deputy Director of the Department of Commerce, said the wording should be "bond issues" rather than "refundng bond issues." The plan is to do as many bond issues during the coming biennium as can be put in the market. Based on the past, the bond issues the Board does are usually 1.5-2% below the market rate.

Motion/vote: **REP. WISEMAN** moved to accept **PL Adjustments No. 4, 5, 6 and 7** on p. C-185; **SEN. KEATING** seconded the motion. The motion **carried** unanimously.

Motion/vote: **SEN. JENKINS** moved to accept **New Proposal No. 1** on p. C-186; **SEN. KEATING** seconded the motion. The motion **carried** unanimously.

Discussion: **Mr. Lloyd** directed the committee's attention to the LFA issue on p. C-184. He said this committee had adopted the provision requiring funds to be deposited into the state treasury in the last legislative session because it was learned that the funds were being deposited out of state. **Mr. Poole** said it was true the Board of Housing's operations funds were not put in the state treasury prior to the current biennium. He pointed out that there was now a new administrator and an entirely new board and there was no intention to have operating funds anywhere besides in the state treasury.

EXECUTIVE ACTION ON Department of Commerce
Community Development Bureau

Discussion: **Ms. Smith** asked that the committee turn to the budget for the Community Development Bureau (p. C-165). **Mr. Anderson** had brought up the issue concerning the \$100,000 appropriation authority for the Hard Rock Mining Board. Should

the board need the money, they would need the Legislature's approval.

Tape No. 5:A:000

Mr. Anderson spoke. The executive didn't put this in the budget because there was a question whether it was a statutory appropriation. The OBPP thought it was a statutory appropriation but it isn't. The money is a contingency fund, and exists in a reserve account. About \$87,000 is in the account at present. It is money that ultimately will be distributed to impacted counties. Part of the Metal Mines License Tax revenues go into the reserve account. If there is more than enough money for the other accounts the surplus goes to the reserve account up to \$100,000. After this level is reached another account receives any additional funds.

In response to **SEN. KEATING**, **Mr. Noel** said if he felt it would be appropriate to attach language to **HB 2** to make the committee's wishes about the uses of the reserve known, this would be acceptable to the department.

Motion/vote: **SEN. KEATING** moved to appropriate the additional \$100,000 per year reserve in the state special revenue Hard Rock Mining Trust Account and that it be restricted for use by the Board only if expenses for its quasijudicial functions exceeded the normal budgeted level. **REP. WISEMAN** seconded the motion. The motion carried unanimously.

Motion/vote: **SEN. JENKINS** moved to reconsider the committee's action on **PL No. 4** on p. C-165; **SEN. JACOBSON** seconded the motion. The motion carried unanimously.

Discussion: **SEN. JENKINS** suggested eliminating all funding for the Coal Board, including the base. **Mr. Lloyd** said the base contained one FTE and associated expenditures for operating and personal services in the amount of approximately \$93,000 in each year. **SEN. JENKINS** modified his suggestion to remove all the grant money including what was in the base plus all the increases for operations and equipment. **Mr. Lloyd** said by statute those funds that are not committed revert to the SEA.

Mr. Anderson said most of the Coal Board activity at present had to do with the proposed Bull Mountain Mine near Roundup. Currently there is a question of ownership but if the mine opens that community will be significantly impacted. In addition there are four other pending grant applications and more continue to be submitted at each meeting of the Board.

Motion/vote: **SEN. KEATING** moved to appropriate no grant money for the biennium, including the 1994 base, for the Coal Board and to only approve the 1994 base level of funding for operating and equipment, with the proposed present law increases denied. **SEN. JENKINS** seconded the motion. The motion carried with **REP. WISEMAN** opposed.

EXECUTIVE ACTION ON Department of Commerce
Montana Promotion Division

Discussion: SEN. JACOBSON questioned why the percentage of the bed tax which the Historical Society receives wasn't being changed instead of having this division pass the additional money through to them. Ms. Smith said originally the Historical Society was going to try to get their allocation changed to 1.75% of the tax but the executive was not in favor of this.

Mr. Cohn said the Tourism Advisory Council had met the previous day and he passed out to the committee draft guidelines for the uses they envision for the Tourism Infrastructure Investment Program. EXHIBIT 9

Tape No. 5:B:000

SEN. KEATING wanted to know if there had been any discussion about cutting the bed tax by 25%. Mr. Cohn said that subject was discussed with the Governor's office and he interpreted the direction as being that if the division can come up with justifiable uses for the revenue beyond simply increasing travel promotion, then these uses should be considered. SEN. KEATING expressed misgivings about grant programs in general and added he felt it might be time to reduce this tax. SEN. JACOBSON felt it was stretching the intent of the law by getting into infrastructure concerns.

Motion: SEN. KEATING moved to accept PL Adjustments No. 4, 5 and 6 on p. C-161.

Discussion: Mr. Lloyd said the bed tax funds are statutorily appropriated. The executive budget contains \$450,000 in each year of state special revenue from private sources which are not statutorily appropriated. SEN. JACOBSON suggested that the bed tax funds did not need to be appropriated in HB 2 since they were statutorily appropriated.

Withdrawn motion: SEN. KEATING withdrew his motion.

Motion: SEN. JACOBSON moved that only the \$450,000 per year in state special revenue from private sources be appropriated to the division, with the understanding that the remainder of the appropriation was statutory and did not require a vote of the committee to appropriate. REP. WISEMAN seconded the motion.

Discussion: SEN. JACOBSON said she would like to hear what the division was doing with its bed tax revenue, but it made more sense to her if the process did not include actually appropriating the money in committee. Mr. Lloyd said that under this motion all the committee would be seeing in the Montana Travel Promotion Division's base in the next legislative session would be the private funds which were spent. Mr. Noel assured the committee that it would continue to hear about the entire Montana Promotion division budget including statutory appropriation expenditures.

Vote: The question was called for and the motion carried unanimously.

Discussion: Mr. Lloyd referred the committee to EXHIBIT 6. This language will appear in Section D of HB 2 and this committee has the option of inserting language in Section C directing the department to grant that amount of money to the Historical Society.

Motion/vote: SEN. JACOBSON moved to insert language in HB 2 specifying that it was the subcommittee's intent that the Department of Commerce grant \$75,000 each year of lodging facility use tax revenue to the Montana Historical Society for restoration and tours at the Original Governor's Mansion, as well as tour guides for the State Capitol Building. REP. WISEMAN seconded the motion. The motion carried unanimously.

Motion: SEN. JENKINS moved to accept New Proposal No. 1 on p. C-162. REP. WISEMAN seconded the motion.

Discussion: Mr. Lloyd said that money was statutorily appropriated and thus the motion was unnecessary.

Withdrawn motion: SEN. JENKINS withdrew his motion.

ADJOURNMENT

Adjournment: 12:05 p.m.



ROGER DEBRUYCKER, Chairman



DEBBIE ROSTOCKI, Secretary

RD/dr

The meeting was recorded on five 60-minute audiocassette tapes.

Senator Jacobson

Vote me With You on The Issues.
Also, My Seconds if Needed

John Johnson
HD-2

Montana's Local Governments

► MUNICIPAL GOVERNMENTS

<u>Class</u>	<u>Number</u>	<u>Average Population</u>	<u>Mill Value</u>	<u>Gen. Fund</u>	<u>FTE's</u>
■ 1st	9	33,451	\$46,121	\$8,863,070	290
■ 2nd	3	7,238	\$ 6,936	\$1,607,708	65
■ 3rd	38	2,473	\$ 2,591	\$ 595,609	17
■ Towns	78	484	\$ 436	\$ 108,491	3

► COUNTY GOVERNMENTS

<u>Class</u>	<u>Number</u>	<u>Average Population</u>	<u>Mill Value</u>	<u>Gen. Fund</u>	<u>FTE's</u>
■ 1st	10	50,554	\$102,180	\$6,340,150	275
■ 2nd	11	12,845	\$ 25,334	\$2,065,778	104
■ 3rd	10	8,664	\$ 21,684	\$1,571,032	73
■ 4th	4	8,190	\$ 15,473	\$1,135,951	60
■ 5th	6	3,307	\$ 8,356	\$1,027,798	48
■ 6&7	15	2,414	\$ 6,840	\$ 728,666	35

EXHIBIT 1

DATE 2/7/95

HB



MONTANA
DEPARTMENT OF COMMERCE

EXHIBIT 2
DATE 2/7/95
HB _____

Director's Office
1424 9th Avenue PO Box 200501
Helena, MT 59620-0501

Phone: (406) 444-3494
FAX: (406) 444-2903
TDD: (406) 444-2978

February 3, 1995

Mr. Scott A. Seacat
Legislative Auditor
Room 135
State Capitol
Helena, MT. 59620

Dear Mr. Seacat:

I am forwarding to you the Department of Commerce's 1995 Privatization Plan for the Local Government Audit Program. In accordance with 2-8-301 through 304, MCA, we are required to submit this plan to the Legislative Audit Committee for their notice, hearing and findings.

Please contact Newell Anderson (444-4480) for any information concerning this plan and its disposition, as he is prepared to assist the staff or Committee in whatever may be needed.

Sincerely,

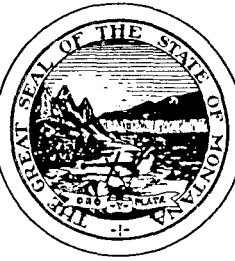
A handwritten signature in black ink, appearing to read "Jon Noel".

Jon Noel
Director

Enclosed: 1995 Report

cc: Newell Anderson

DEPARTMENT OF COMMERCE
LOCAL GOVERNMENT ASSISTANCE DIVISION



MARC RACICOT, GOVERNOR

1424 9TH AVENUE
PO BOX 200501

STATE OF MONTANA

(406) 444-3757

HELENA, MONTANA 59620-0501

October 7, 1994

MEMORANDUM

TO: Chief Elected & Appointed Local Officials

FROM: Newell Anderson, Administrator
Local Government Assistance Division

RE: IMPORTANT NOTICE!

First:

For over one hundred years employees of the Montana Department of Commerce and its predecessor agencies have performed audits of the financial affairs of local governments in Montana. Beginning July 1, 1995, the Department will no longer employ its own staff to carry out this auditing function. However, the Department will complete those audits for which it has already contracted. For those local governments that desire assistance in obtaining auditing services for the FY 95 or 96 years and beyond, Mr. Mike Duncan and his Single Audit staff will remain the state's coordinating function for audit services. As is now the case, his office will continue to notify those required to be audited and will maintain the roster of private firms and individuals that are eligible to perform government auditing services.

Again, beginning July 1, 1995, the State of Montana will no longer perform audits of Montana's local governments.

Second:

Since the late '70's, the Department of Commerce has operated an accounting and reporting technical assistance program. Since the final installation of the Budgetary, Accounting and Reporting System (BARS), the cost of providing this service has shifted increasingly from the state to the local government entities. As a result of higher and higher costs to local governments, those who need the TA services the most can least afford it. Because of the financially driven decrease in demand for this service, the Department has reduced the staffing of this "systems" function to the point where we are barely "hitting the minimums." Critical needs are currently being handled by the senior audit staff.

As the sole entity which is in a position to maintain a uniform accounting and reporting system for local governments and in consideration of the termination of our statewide auditing function, the Department will propose to the 1995 Legislature that the "systems" function be fully state funded and be modestly expanded so that it can provide a much needed service to all local governments. The staff is proposed to include four professionals and two administrative support positions. Plans are to locate three of the professionals throughout Montana.

The Department realizes that both of these actions may require further explanation. We will be available to address association conventions and regional meetings and, upon request, meet individually with others as appropriate. Please let us know what you think of these actions/plans, ask those questions that remain and join us in building a continued and growing positive working relationship between local and state governments. We appreciate our close and constructive relationship over the past hundred years and we look forward to another hundred years of serving you.

Local Government Audit Program
of the
Montana Department of Commerce
1995 Privatization Plan

Audit Program Description: This program exists to perform post-audits of the financial statements of local government entities across Montana. The audit function is designed to protect the taxpayers' interests by verifying that the financial conditions and operations of local governments are responsibly accounted for, reported and all the appropriate statutes and regulations are complied with. The audit function was, until 1976, completely a state employee accomplished activity. In 1976, the qualified private accounting sector was added to performing this activity. In FY '93, 75% (323) of all local government audits were accomplished by private accountants and 25% (125) by state staff.

Existing adjacent Bureau Programs: The Audit Program exists as one of three programs within this Local Government Services Bureau. The Accounting and Systems Program, responsible for designing and maintaining a uniform statewide budgeting, accounting and reporting system, and a central training and technical assistance staff have operated in this Bureau for the past 20 years. The Newest addition to this Bureau is the Audit Review Program, created by the Montana Single Audit Act. This program establishes which local entities are required to be audited, establishes a roster of qualified private auditing persons or firms, insures scheduling of audits, tests completed audits at one of two levels for compliance and insures findings are followed up and closed.

Legal Authority:

Title 2, Chapter 7, Part 5, MCA.

Local Government Audit Program

1995 Privatization Plan

Page 2

Budget Details:

<u>Budget Detail Summary</u>	Budgeted <u>FY'93</u>	Actual <u>FY'93</u>	Budgeted <u>FY'94</u>	Actual <u>FY'94</u>
FTE's Authorized	31.25	28.50	28.50	25.75
Personal Services	\$854,376	\$664,677	\$672,802	\$596,960
Operating Expenses	\$261,106	\$190,848	\$224,231	\$180,162
Equipment	\$ 16,828	\$ 9,380	\$ -00-	-00-
Transfers	\$ 92,314	\$ 91,733	\$ 95,794	\$ 95,794
Debt Service	-00-	-00-	\$ 1,367	\$ 1,366
TOTAL PROGRAM	\$1,224,624	\$956,639	\$994,194	\$874,283

<u>Funding</u>				
General Fund	\$ 92,314	\$ 91,733.	\$ 95,794	\$ 95,774
Proprietary	<u>\$1,132,310</u>	<u>\$864,906.</u>	<u>\$898,400</u>	<u>\$778,489</u>
TOTAL FUNDING	\$1,224,624	\$956,639.	\$994,194	\$874,283

REVENUES:

General Fund				
Proprietary Funds	<u>\$ 1,132,310</u>	<u>\$868,654.</u>	<u>\$898,400</u>	<u>\$748,214</u>
TOTAL REVENUES	\$ 1,132,310	\$868,654.	\$898,400	\$748,214

Current Personnel:

<u>Positions</u>	<u>FTE</u>	<u>Grade</u>	<u>Occupied/ Vacant</u>	<u>Employment Status</u>	<u>Annual Personnel Cost</u>
62001 W.Proc. Op.	01	08	V		\$ 19,937
62002 Audit Man	01	17	O	RIF	\$ 39,329
62003 Exec.Assign	01	18	O	RIF	\$ 42,776
62007 " "	01	15	O	RIF	\$ 33,401
62008 Auditor III	01	15	O	RIF	\$ 33,401
62011 Auditor III	01	15	O	RIF	\$ 33,401
62015 Auditor III	01	15	V		\$ 33,401
62017 Auditor II	01	14	V		\$ 30,889
62020 Secretary II	01	08	O	RIF	\$ 19,937
62021 Auditor II	01	14	V		\$ 30,889
62022 Auditor I	01	14	O	RIF	\$ 30,889
62024 Auditor I	01	12	V		\$ 26,547
62027 Auditor I	01	12	V		\$ 26,547
62029 Admin. Sup	01	08	V		\$ 19,937
62030 Admin. Sup	0.75	08	V		\$ 14,953
63004 Fiscal Officer	0.75	15	V		\$ 25,051
62033 Auditor III	0.50	15	V		\$ 16,701
TOTAL	16				\$477,986

Local Government Audit Program
1995 Privatization Plan
Page 3

Asset Listing & Disposition:

The listing of assets is contained in appendix "A" as the most recent physical inventory. This inventory was accomplished during FY'95 and can be accounted for in the PAMS System. PAMS listing shows a total \$55,661 (purchase price) worth of equipment.

The method of disposition of these assets will be surplusing all Pams registered items in the following order of priority: **1st** - to the remaining Local Government Services Bureau Programs; **2nd** - to the remaining Local Government Assistance Division Programs; **3rd** - to the remaining Department of Commerce Programs and **4th** - to the state surplus property program for their further disposition. We anticipate no monetary gain as a result of this disposition.

Estimated Cost Savings or Cost Increases:

Over the course of the past 15 years, the provision of these services has gone from 100% state staff to now 35% state staff and 65% private. In 1991, the Legislature passed the State's Single Audit Act which establishes a state operated system of: **1)** determining which entities are required to be audited, **2)** insuring that rules are in place and enforced to define how private auditors become listed on the state roster of qualified local government auditing persons or firms, **3)** tracking all audit for timing, procedural correctness, compliance correctness, entity and grantor finding resolutions. This existing program, funded by fees assessed to the roster audit firms and to the audited local governments, will as a result of this privatization, absorb some minor clerical and filing responsibilities. The principle functions required of contracting audits is all in place and has been operating for the past three years. This activity is budgeted at \$220,000/yr. during the 1997 biennium. There will be no predictable increase in cost to either the customer - the local entity - or to the state for oversight. Because this function was over 90% proprietary funded - the termination of the state performing this function will cause a limited cash savings to the state.

At this point in time it is generally the rule that competition between private auditors will continue at a fair and responsible price structure to the local entities. The profession makes the point that price is not the single most important issue of competitive bidding for audit services.

Should all current staff be on staff when this plan becomes effective (6/30/95), the estimated buy-out would be as follows:

Sick Leave:	\$ 12,394
Vacation:	\$ 41,035
FICA Comp	\$ 4,087
<u>Severance Pay:</u>	<u>\$ 12,029</u>
Estimated TOTAL	\$ 69,545

Local Government Audit Program

1995 Privatization Plan

Page 4

Current & Future Economic Impacts:

The number of private accounting firms or individuals performing local government audits will increase by some small number during the coming fiscal year. There are no reasons to believe that such new growth will continue but rather level off with little predictable change over the short term. The trend has been for general purpose CPA firms to take-up government auditing as an off tax season activity. The economic impact of this plan will not be noticeable to the economy of but the few involved individuals.

Impacts on Costs & Quality:

There is little evidence today that would suggest that a) the cost to local governments will materially change or, b) that the quality of these services will deteriorate. With the existence of the Single Audit Function remaining in state government, disclosure of costs and quality reviews will be a matter of public record.

Changes in Individual wages:

In the past 12 months, some six members of this program's professional staff have left the state's employment to go private in the business of local government accounting and auditing. Past employees tell us of their current personal fiscal conditions, suggesting clearly and totally that each of them is making a better living now than what they were making working for the state. From this and other historical information, we can project that all state program professionals can make a greater wage in the private pursuit of this field than they could in the public sector. In some cases, history shows that greater wages to be considerable - 30% to 50% higher.

Explanation & Justification:

Simple and short - a) the state will not pay market competitive wages to senior accounting professionals and therefore they ('senior staff') move on to the private sector as soon as they can - thus leaving us (the state) little capacity to "grow and retain senior supervisors". b) the state is required by law to bill and recover all costs. The private sector has the legitimate capacity to do "loss leader" contracts. As a recent example the state was under bid, in a large Montana county by 20% below our price charged in the previous year, by a private firm that "wanted the business". Without moving our senior staff positions off the state pay classification system (for retention) and without a significant state general fund subsidy to mitigate the "loss leader" effect - it has become operationally and fiscally impossible for the state to stay in the local government auditing business.

ATTACHMENT "A"

PAMS REPORT 130
REPORT PAGE NO. 34
CONSECUTIVE PAGE NO. 34
REPORT DATE 11/01/94

STATE OF MONTANA
PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM
PROPERTY BY RESPONSIBILITY CENTER REPORT
AS OF 10/31/94

AGENCY 6501 DEPARTMENT OF COMMERCE

CENTER 0000620000 LOCAL GOV'T SERVICES BUDGET

PROP NO	CLASS TYPE	DESCRIPTION	COST	ACQ DATE	N	U	LOCATION	FUNDING A/E SUB	INV DATE	COND	EST LIFE	CONTR DR	ACCT CR
5453	25008	GREY FILE CABINET	433	02/88	N		LGS-21	06043	05/93	0	10	1704	1811
5512	20001	COMPAG PORTABLE III 1015AL 2D0	4,140	06/88	N		LGS-32	06043	05/93	0	06	1704	1811
5547	20001	1252AE48044 COMPAC II	3,175	01/89	N		LGS-21	06043	08/93	0	06	1704	1811
5584	20001	ZHL-200-4 ZENITH COMPUTER	3,179	11/89	N		LGS-32	06043	05/93	0	06	1704	1811
6036	20004	OKI 293 PRNTR 60ZASD009722	550	04/91	U		LGS-21	06043	00/93	0	06	1704	1811
6084	20004	IBM PANTR #937514	500	04/91	U		LGS-32	06043	04/93	0	06	1704	4502
7106	20001	L.E. DR 1240 P/C	650	05/91	U		LGS-36	06043	05/93	0	02	1704	4502
8011	20004	OKI PRNTR #601A0	450	04/91	U		LGS-23	06043	04/93	0	06	1704	4502
8024	20004	OKI PRNTR #2049022	533	04/91	U		LGS-34	06043	04/91	0	06	1704	4502
8037	20004	IBM PRNTR #2049022	533	04/91	U		LGS-30	06043	04/91	0	06	1704	4502
8040	20004	OKI 321 PRNTR #906C	510	04/91	U		LGS-32	06043	05/93	0	06	1704	4502
8041	20004	OKI 321 PRNTR #903B	494	04/91	U		LGS-4	06043	04/93	0	06	1704	4502
8924	20004	OKIDATA 121 PRNTR	450	05/91	N		LGS-35	06043	04/93	0	06	1704	1811
8925	20004	OKIDATA 121 PRNTR	450	05/91	N		LGS-36	06043	04/93	0	06	1704	1811
8947	20001	TOSHIBA COMPUTER 1734505	450	07/91	N		LGS-35	06043	04/93	0	06	1704	1811
9034	20004	LASER JET III SI PRINTER	3,220	04/92	N		LGS-12	06043	04/93	0	06	1704	1811
9159	20001	DELL LAPTOP P/C 325NC	3,428	05/93	N		621601	06043	06/93	0	06	1704	1811
9160	20001	DELL LAPTOP P/C 325NC	2,345	05/93	N		621601	06043	06/93	0	06	1704	1811
9161	20001	DELL LAPTOP P/C 325NC	2,345	05/93	N		621601	06043	06/93	0	06	1704	1811
9162	20001	DELL LAPTOP P/C 325NC	2,345	05/93	N		621601	06043	06/93	0	06	1704	1811
621112	65011	IBM SELECTRIC TYPEWRITER	460	03/85	N		LGS-36	06043	05/93	0	06	1704	1811
621158	25006	5 DR GREY METAL DESK	386	11/59	N		LGS-01	06043	06/89	0	10	1704	1811
621160	25006	5 DR GREY METAL DESK	262	06/67	N		LGS-7	06043	05/91	0	10	1704	1811
621371	65011	IBM SELECTRIC TYPEWRITER	406	11/69	N		LGS-32	06043	05/93	0	06	1704	1811
621781	65014	OKIDATA PRINTER	448	06/90	N		LGS-29	06043	04/93	0	06	1704	1811
621782	65006	ZENITH 206-91400015407	2,140	00/90	N		LGS-36	06043	05/93	0	06	1704	1811
621882	65011	IBM CORR. SELECTRIC TYPEWRITER	693	10/75	N		LGS-10	06043	05/91	0	06	1704	1811
621945	25013	COLE BLACK METAL CREENZA	215	06/76	N		LGS-01	06043	06/89	0	10	1704	1811
621983	05004	DICTAPHONE PORTABLE RECORDER	221	12/76	N		LGS-01	06043	06/89	0	06	1704	1811
621984	05004	DICTAPHONE PORTABLE RECORDER	221	12/76	N		LGS-01	06043	06/88	0	06	1704	1811
621985	05004	DICTAPHONE	545	12/76	N		LGS-01	06043	06/89	0	06	1704	1811
622155	65011	IBM CORR SELECTRIC TYPEWRITER	779	04/77	N		LGS-13	06043	04/93	0	06	1704	1811
622490	25006	DRN METAL DESK-6DR-EXTN	346	06/77	N		LGS-14	06043	04/93	0	10	1704	1811
622771	65011	ADLER TYPEWRITER	735	10/80	N		LGS-27	06043	05/91	0	06	1704	1811
631887	25008	5SH YELLOW BROADSIDE FILE	301	11/75	N		LGS-12	06043	08/93	0	10	1704	1811
631888	25008	5SH YELLOW BROADSIDE FILE	301	11/75	N		LGS-11	06043	08/93	0	10	1704	1811
631889	25008	5SH YELLOW BROADSIDE FILE	301	11/75	N		LGS-8	06043	08/93	0	10	1704	1811
631890	25008	5SH YELLOW BROADSIDE FILE	301	11/75	N		LGS-0	06043	08/93	0	10	1704	1811
631896	25006	YELLOW METAL DESK HOOD TOP	299	11/75	N		LGS-4	06043	08/93	0	10	1704	1811
632245	25008	5SH YELLOW BROADSIDE FILE	301	09/77	N		LGS-11	06043	08/93	0	10	1704	1811
632246	25008	5SH YELLOW BROADSIDE FILE	301	09/77	N		LGS-8	06043	08/93	0	10	1704	1811
632533	25013	BLACK METAL COMPUTER STAND	240	10/79	N		LGS-13	06043	08/93	0	10	1704	1811

RESP CENTER TOTAL 44 ITEMS 137471

STATE OF MONTANA
 PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM
 PROPERTY BY RESPONSIBILITY CENTER REPORT
 AS OF 10/31/94

AGENCY 6501 DEPARTMENT OF COMMERCE

CENTER 0000622001

PROP NO	CLASS TYPE	DESCRIPTION	COST	ACQ DATE	N U	LOCATION	FUNDING A/E SUB	INV DATE	COND	EST LIFE	CONTR DR	ACCT CR
8983	20001	DEC 316 SX TC20476658	1,747	02/92	N	REVIEW	06042	02/92	0	06	1704	1811
8984	20001	DEC 316 SX TC20476660	1,747	02/92	N	REVIEW	06042	02/92	0	06	1704	1811
9045	20001	DELL 386 PC # IHSS0	1,967	05/92	N	622001	06042	05/92	0	06	1704	1811
9046	20001	DELL 386 PC # IHSS1	1,967	05/92	N	622001	06042	05/92	0	06	1704	1811
9047	20001	DELL 386 PC #IHSS2	1,967	05/92	N	622001	06042	05/92	0	06	1704	1811
9048	20001	DELL 386 PC IHSS3	1,967	05/92	N	622001	06042	05/92	0	06	1704	1811
9075	20001	DELL 386 P/C S/N IPRP7	1,224	06/92	N	LGS-20	06042	04/93	0	06	1704	1811
9076	20001	DELL 386 P/C S/N IPRP8	1,224	06/92	N	LGS-24	06042	04/93	0	06	1704	1811

Total = \$55,666

TREASURE STATE ENDOWMENT PROGRAM (TSEP)

Program Description: This represents the operational budget for the new TSEP program, enacted by a public vote on June 2, 1992. This program is intended to provide state financial assistance to local governments for their local infrastructure projects. Commerce as the lead agency, in cooperation with the Department of Natural Resources, is missioned to establish administrative rules, provide technical assistance to applicant communities, review applications and recommend awards to the Legislature, issue contracts to awarded governments, and monitor those projects. For the '93 Biennium - \$ 4.2 million TSEP funds leveraged \$38 million in other funds on 24 projects.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * PLACE UNDER CONTRACT THOSE 54th LEGISLATIVE SESSION APPROVED PROJECTS.
- * REVISE PROJECTS ADMINISTRATION MANUAL FOR COMMUNITIES.
- * HOLD GRANT ADMINISTRATION WORKSHOP FOR '95 GRANTEEES
- * MONITOR APPROVED PROJECTS.
- * PROVIDE 8 APPLICATION WORKSHOPS & OTHER ASSISTANCE TO FUTURE TSEP APPLICANTS.
- * HOLD STATEWIDE HEARINGS ON PROPOSED '99 BIENNIUM APPLICATION GUIDELINES
- * RECEIVE, REVIEW AND RECOMMEND '99 BIENNIUM AWARDS TO THE GOVERNOR AND THE '97 LEGISLATIVE SESSION.

MONTANA COMMUNITY TECHNICAL ASSISTANCE PROGRAM

Program Description: This program, mandated by statute, exists to provide technical assistance, analysis and other services to local governments, private developers and general citizens in the fields of community planning, land development, and local project / public works financing. The program policy is directed by existing law, available funding and contemporary technology. As an adjunct to the state CDBG Program, this program is extremely important to local governments in their community development capacity building.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * RESPOND TO 550 PUBLIC FACILITIES FUNDING DATA SEARCHES
- * PROVIDE DIRECT TECH. ASSIST. 1375 TIMES TO LOCAL OFFICIALS & DEVELOPERS ON TECHNICAL LAND USE ISSUES
- * LEAD THE RESEARCH UNDER HUD 107 GRANT ON THE ISSUES OF HOUSING AFFORDABILITY AND CAPITAL IMPROVEMENT PLANNING AND MANAGEMENT.
- * DISTRIBUTE 1650 CURRENT CTAP PUBLICATIONS TO LOCAL OFFICIALS & DEVELOPERS. MAINTAINS A LIBRARY OF 30 CURRENT "HOW TO" PUBLICATIONS.
- * CONTINUE TO ENHANCE INFORMATION ON FUNDING ALTERNATIVES FOR LOCAL INFRASTRUCTURE PROJECTS.
- * COORDINATE THE STATE WATER, SEWER, AND SOLID WASTE TEAM (W2ASACT) MADE UP OF 20 PUBLIC & PRIVATE PROGRAMS INVOLVED IN IMPROVING THE CONDITION & FINANCIAL MANAGEMENT OF THESE PUBLIC FACILITIES. ie: Streamline application procedures, unify financial analysis, engineering, and environmental reviews.

'97 BIENNIUM BUDGET PRESENTATION
DOC/LOCAL GOVERNMENT ASSISTANCE DIVISION
PAGE 3

MONTANA COAL BOARD

Program Description: This program, legislatively established in 1975, provides grants to local governments where unfunded public service impacts have occurred as a result of large scale coal development. The seven member Gubernatorial appointed board set the operating policies, review and act on grant applications. By assisting in the mitigation of these unfunded public service impacts, some \$69 million of Coal Board funds have been combined with nearly double that amount in local funds to assure critical services to the people of Montana's "Coal Country".

PROJECTED '97 BIENNIUM ACTIVITIES:

- * CONDUCT 8 PUBLIC BOARD MEETINGS TO ESTABLISH POLICY AND REVIEW APPLICATIONS.
- * PROVIDE APPLICATION ASSISTANCE TO SOME 90 INQUIRIES CONCERNING COAL BOARD ASSISTANCE.
- * REVIEW SOME 40 APPLICATIONS AND AWARD SOME 16 GRANTS
- * MONITOR SOME 15 PAST AND CURRENT GRANTS FOR PROGRAM COMPLIANCE

MONTANA HARD-ROCK MINING IMPACT BOARD:

Program Description: This program, established in 1981, provides technical assistance, impact analysis, and mediation services to local governments and hard rock mining companies where adverse fiscal impacts from large scale development are identified. The Gubenatorially appointed board adjudicates disputes, makes determinations on impact plan waivers and financial guarantees, sets policy under the Hard Rock Mining Impact Act, and notifies the Department of Revenue to initiate or terminate Tax Base Sharing.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * CONDUCT 8 PUBLIC BOARD MEETINGS IN THE PROXIMITY OF EXISTING OR PENDING HARD ROCK MINING ACTIVITY
- * CONSULT AND ASSIST WITH SOME 120 INDIVIDUAL INQUIRIES CONCERNING THE ACT.
- * REVIEW AND ACT ON 6 EXISTING PLAN MODIFICATIONS OR AMENDMENTS.
- * PROVIDE ASSISTANCE TO 30 LOCAL GOVERNMENTS AND OR MINING COMPANIES CONCERNING THE ACT.
- * REVISE, PUBLISH AND DISTRIBUTE 2 NEW PUBLICATIONS CONCERNING THE ACT

MONTANA HOUSING ASSISTANCE PROGRAM

Program Description: The Department of Commerce, as the state housing authority, administers the Federal Section 8 Housing Programs for the U.S. Department of Housing and Urban Development. These programs, operated by the Department since 1976, are intended to provide rental assistance or rehabilitation funds to facility owners on behalf of lower income families and the elderly. These rental units (housing stock) must be and will remain decent, safe and sanitary to have landlords eligible for these subsidies. The Federal funds are allocated to the State and then the State allocates these certificates and vouchers throughout Montana communities by local need definitions. Because there are presently lower amounts of Federal funds available compared to the eligible demand, there is a significant waiting list for this assistance. There are no state funds involved in this program.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * PROVIDE FAIR MARKET RENT ASSISTANCE EACH MONTH TO 3,300 MONTANA ELIGIBLE LOW INCOME FAMILIES - \$17,000,000 / YEAR
- * MANAGE A 7,900 PERSON REVOLVING WAITING LIST FOR ELIGIBLE BUT NOT SERVED MONTANA FAMILIES
- * PROCESS 330 NEW APPLICATIONS FOR ASSISTANCE EACH MONTH
- * INSPECT 900 RENTAL UNITS SUPPORTED BY ASSISTANCE FUNDS
- * PROCESS 250 DAMAGE CLAIMS PER YEAR

HOME & CD COMPREHENSIVE PLAN PROGRAMS

Program Description: These Federal programs were established by the National Affordable Housing Act of 1990. HUD awards a "block" grant to each state for the purposes of: providing coordinated financial assistance to develop affordable low income housing; expanding the supply of safe, decent, sanitary affordable housing; and strengthening the ability of local governments and other housing development entities to actively participate in community housing enhancements.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * RECEIVE SOME 50 LOCAL APPLICATIONS FOR HOUSING ENHANCEMENTS
- * RANK AND AWARD SOME 28 GRANTS FOR LOCAL HOUSING ENHANCEMENTS
- * PROVIDE TECHNICAL ASSISTANCE TO SOME 75 COMMUNITIES ON HOUSING
- * RESEARCH MONTANA HOUSING AFFORDABILITY AND COMMUNITY DEVELOPMENT ISSUES AND PUBLISH RESULTS
- * HOLD 16 PUBLIC HEARINGS AND APPLICATIONS WORKSHOPS
- * MONITOR AWARDED PROJECTS
- * DISTRIBUTE 1500 CD COMPREHENSIVE PLANS AND HOME PROGRAM GUIDELINES

MONTANA SINGLE AUDIT ACT

Program Description: This program, established by the 1991 Legislature, exists to insure the appropriate accounting and auditing standards are met by local taxing jurisdictions throughout Montana. The legislation requires that this program insure that: the Federal Single Audit Act is complied with, that all required jurisdictions are audited, insure that all participating auditing resources are qualified and audits are performed in a timely manner, that all state agencies rely on a single approved audit report, and insure that appropriate audit findings are brought to closure.

PROJECTED '97 BIENNIUM ACTIVITIES:

- * RECEIVE AND REVIEW SOME 1400 LOCAL ANNUAL FINANCIAL REPORTS.
- * ESTABLISH AND MAINTAIN A REGISTER OF QUALIFIED PRIVATE AUDITING INDIVIDUALS AND FIRMS.
- * NOTIFY 450 ENTITIES OF THEIR REQUIREMENTS FOR AUDIT AND TRACK TIMELY COMPLETION.
- * REVIEW AND TEST SOME 900 AUDIT REPORTS SUBMITTED FOR FISCAL AND COMPLIANCE CORRECTNESS. (FEDERAL A-128 REVIEW)
- * FOLLOW - UP AND CLOSE UNRESOLVED FINDINGS WITH APPROPRIATE LOCAL, STATE OR FEDERAL AGENCIES.

'97 BIENNIUM BUDGET MODIFICATIONS

MONTANA LOCAL GOVERNMENT AUDIT PROGRAM:

Program Description: This program, mandated by the State Constitution and created by statute, exists to perform post-audits of the financial statements and compliance requirements of the local government entities in Montana. The audit function is designed to protect the taxpayer's interests by verifying that the financial conditions and operations of local governments are responsibly accounted for, reported and all appropriate statutes are complied with. Program staff also advise local officials of changing state and federal laws and assist private CPA's under contract with the Department doing local audits.

HISTORICAL '95 BIENNIUM ACTIVITIES:

- * ACCOMPLISHED SOME 250 LOCAL GOVERNMENT AUDITS OF COUNTIES, CITIES, TOWNS, SCHOOL DISTRICTS & OTHER SPECIAL TAXING JURISDICTIONS
- * PERFORMED 16 SPECIAL REVIEWS OR AUDITS
- * PROVIDED TECHNICAL ASSISTANCE 685 TIMES TO LOCAL OFFICIALS
- * PROVIDED TECHNICAL ASSISTANCE 105 TIMES TO PRIVATE CPA'S
- * PROVIDED 1860 HOURS OF CONTINUING PROFESSIONAL EDUCATION
- * PARTICIPATED IN 640 HOURS OF PEER REVIEW ACTIVITIES

PROJECTED '97 BIENNIUM AND BEYOND ACTIVITIES:

The State of Montana announced on October 7, 1994, that effective July 1995, it will no longer be performing audits of local governments with state staff. All regular local government auditing will be contracted to private CPA's. SEE: 1995 PRIVATIZATION PLAN

MONTANA ACCOUNTING AND SYSTEMS MANAGEMENT ASSISTANCE PROGRAM

Program Description: This program, created by statute, exists to develop, implement and maintain a uniform budgetary, accounting and reporting system for all Montana cities, counties, and other single purpose districts. The staff provide regular and special accounting assistance to local officials, develop a budget reporting format, develop and maintain a chart of accounts and do ongoing training for local finance personnel.

HISTORICAL '95 BIENNIUM ACTIVITIES:

- * PROVIDED 30 ACCOUNTING /SYSTEMS TRAINING SEMINARS FOR LOCAL GOVERNMENT STAFF IN 8 DIFFERENT LOCATIONS ACROSS MONTANA
- * ANNUALLY MAINTAINED AND UPDATED THE UNIFORM CHART OF ACCOUNTS AND DISTRIBUTED IT TO ALL TAXING JURISDICTIONS
- * PROVIDED ON CALL ASSISTANCE TO 475 REQUESTS FOR TECHNICAL ASSISTANCE

PROJECTED '97 BIENNIUM ACTIVITIES:

- * ESTABLISH A LOCAL OFFICIALS ADVISORY SERVICE COMMITTEE FOR THE PRIORITIZATION OF LOCAL FISCAL ISSUES & RESOURCES FOR THEIR RESOLUTION
- * PROVIDE 46 ACCOUNTING / SYSTEMS TRAINING SEMINARS FOR LOCAL GOVERNMENT STAFF IN MULTIPLE LOCATIONS ACROSS MONTANA
- * MAINTAIN AND UPDATE THE UNIFORM CHART OF ACCOUNTS AND INSURE THEIR DISTRIBUTION
- * PROVIDE ON CALL ASSISTANCE TO 3200 REQUESTS FOR TECHNICAL ASSISTANCE.
- * PROVIDE ONSITE ASSISTANCE TO 124 REQUESTS FOR SIGNIFICANT TECHNICAL ASSISTANCE
- * PRODUCE AND MAINTAIN A "COUNTY COLLECTIONS MANUAL" IN COOPERATION WITH LOCAL OFFICIALS AND STATE EXECUTIVE AGENCIES
- * ESTABLISH A CENTRAL "SYSTEMS" LIBRARY OF MATERIALS THAT CAN BE USEFUL TO LOCAL ACCOUNTING AND FISCAL OFFICIALS.
- * PRODUCE THOSE ISSUE PAPERS AND WORK AIDS THAT ARE DESIRED BY LOCAL OFFICIALS

CONCLUSION:

THE CONTINUATION OF THESE 12 PROGRAMS THAT PROVIDE BOTH DIRECT SERVICES OR FINANCIAL ASSISTANCE TO ALL MONTANANS IS ACCOMPLISHED BY THE EXECUTIVE BUDGET THAT IS BEFORE YOU FOR YOUR CONSIDERATION.

THIS BUDGET REPRESENTS A MINIMUM STATE COMMITMENT TO SUPPORTING OUR LOCAL GOVERNMENTS IN CRITICAL AREAS. THESE ARE STATE PROGRAMS THAT CONTINUE TO MEET THE DYNAMICS OF CHANGING NEEDS, CONTINUE TO OPERATE WITHIN THEIR PRESCRIBED BUDGETS AND HAVE APPROPRIATELY RESPONDED TO THE REDUCED FISCAL RESOURCES OF THE PAST 12 YEARS.

I URGE YOUR SUPPORT FOR THESE CONSERVATIVE BUT EFFECTIVE PROGRAMS.

THANK YOU, I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Montana's Local Governments

- * There are some 1350 local public jurisdictions
- * They collect and remit to the state \$155,000,000 annually
- * They receive over \$132,000,000 annually from federal sources
- * Total expenses for all jurisdictions annually exceed \$1.5 billion

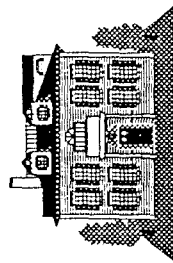


EXHIBIT 4
DATE 2/7/95
HB _____

Natural Resources and Commerce Subcommittee

EXHIBIT 5
 DATE 2/7/95
 HB _____

Available Lodging Facilities Use Tax Revenue 1997 Biennium

Estimates by the Revenue Oversight Committee

Revenue/Disbursements	--- Fiscal 1996 ---		--- Fiscal 1997 ---	
	Estimated Rev.	Exec. Bud. House Bill 2	Estimated Rev.	Exec. Bud. House Bill 2
Total Estimated Revenue	\$8,629,764		\$8,934,017	
Less General Fund Deposits	(100,429)		(103,970)	
Less Dept. of Revenue Appropriations	(96,424)		(99,824)	
Total Disbursable Revenue	\$8,432,911		\$8,730,223	
Disbursements (Statutorily Appropriated)				
Department of Commerce - 67.5%	\$5,692,215	\$5,266,443	\$5,892,901	\$5,285,887
Regional Non-profit Corporations - 22.5%	1,897,405	1,827,000	1,964,300	1,881,810
Department of Fish, Wildlife & Parks - 6.5% *	548,139	347,494 *	567,464	347,485 *
University System - 2.5%	210,823		218,256	
Montana Historical Society - 1%	84,329		87,302	
Total Disbursements	\$8,432,911		\$8,730,223	

* An additional \$100,000 is requested in Long-Range Building for the 1997 biennium.

02/07/95

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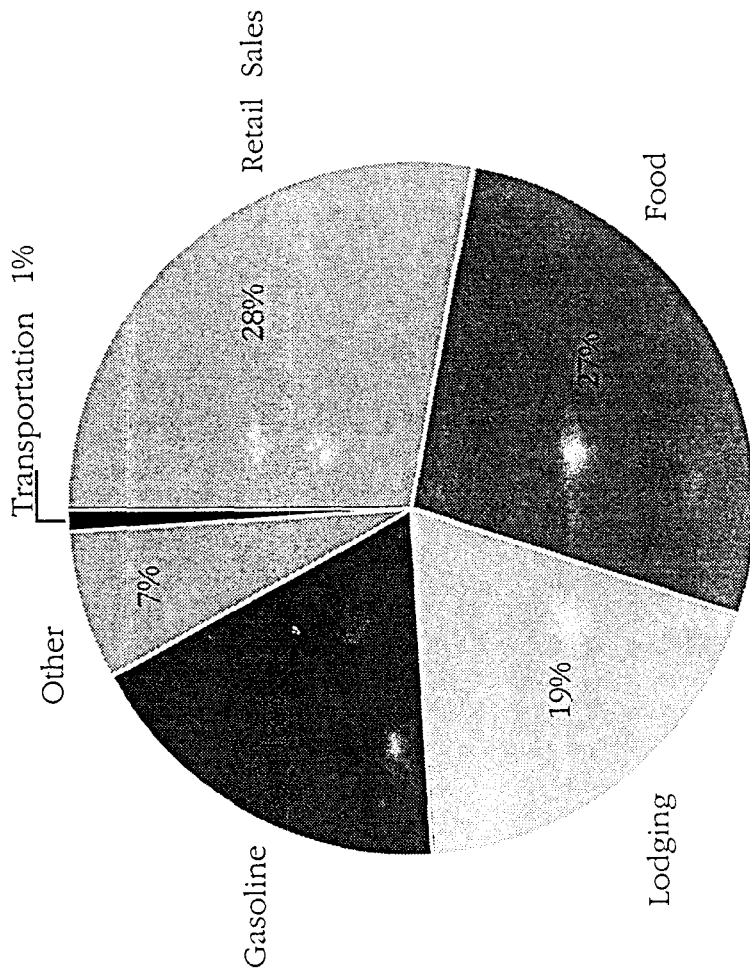
EXHIBIT 6
DATE 2/7/95
HB _____

LANGUAGE APPROVED BY:
THE INSTITUTIONS AND PUBLIC SAFETY JOINT SUBCOMMITTEE

There is appropriated to the Montana Historical Society \$75,000 each year of the biennium from accommodations tax revenues available to Travel Montana to be expended on providing tours of the Capitol and the Original Governor's Mansion and rehabilitation of the Original Governor's Mansion. It is the intent of the legislature that similar amounts will be appropriated to the Society for these purposes in subsequent bienniums.

HOW THE TRAVEL DOLLAR IS SPENT

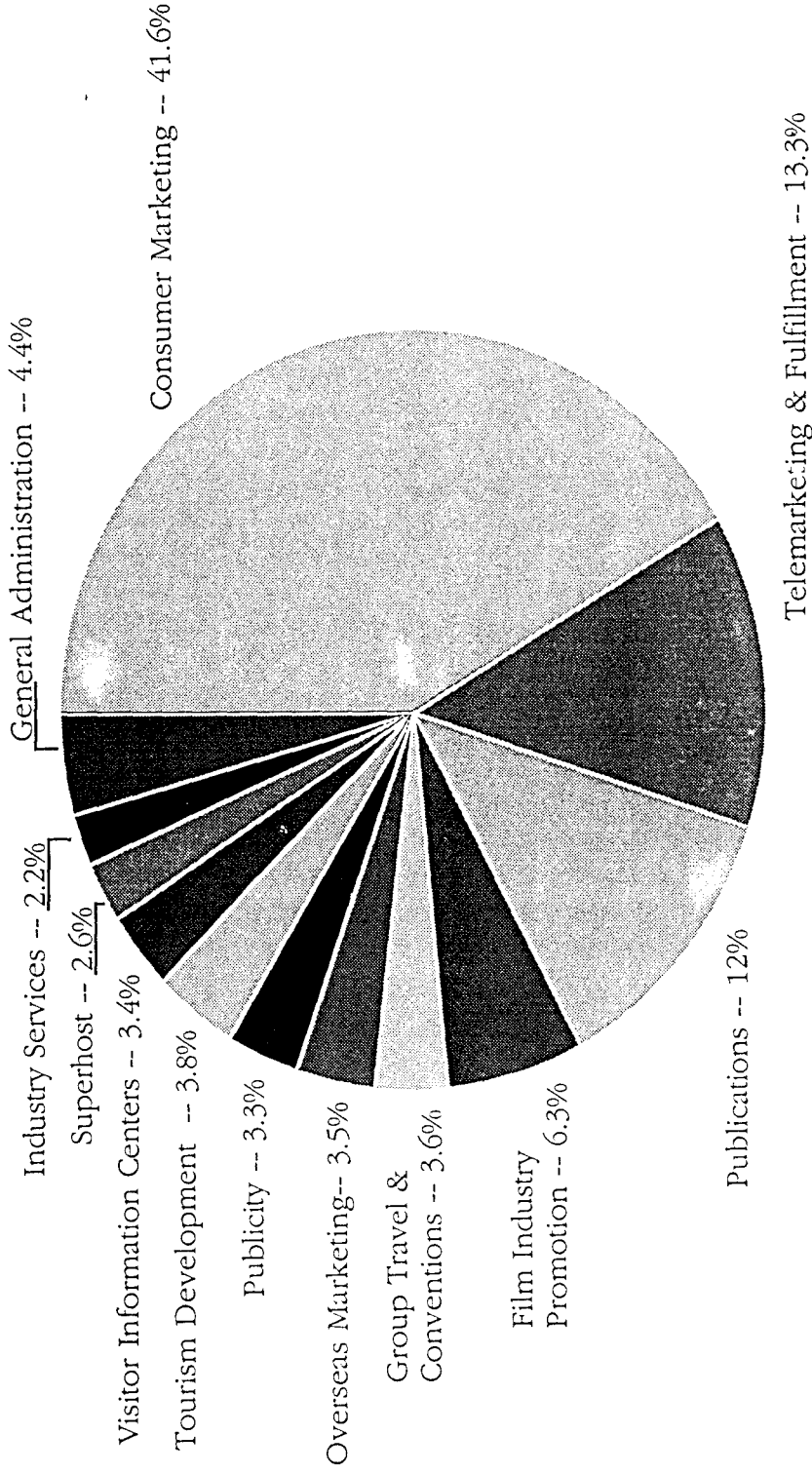
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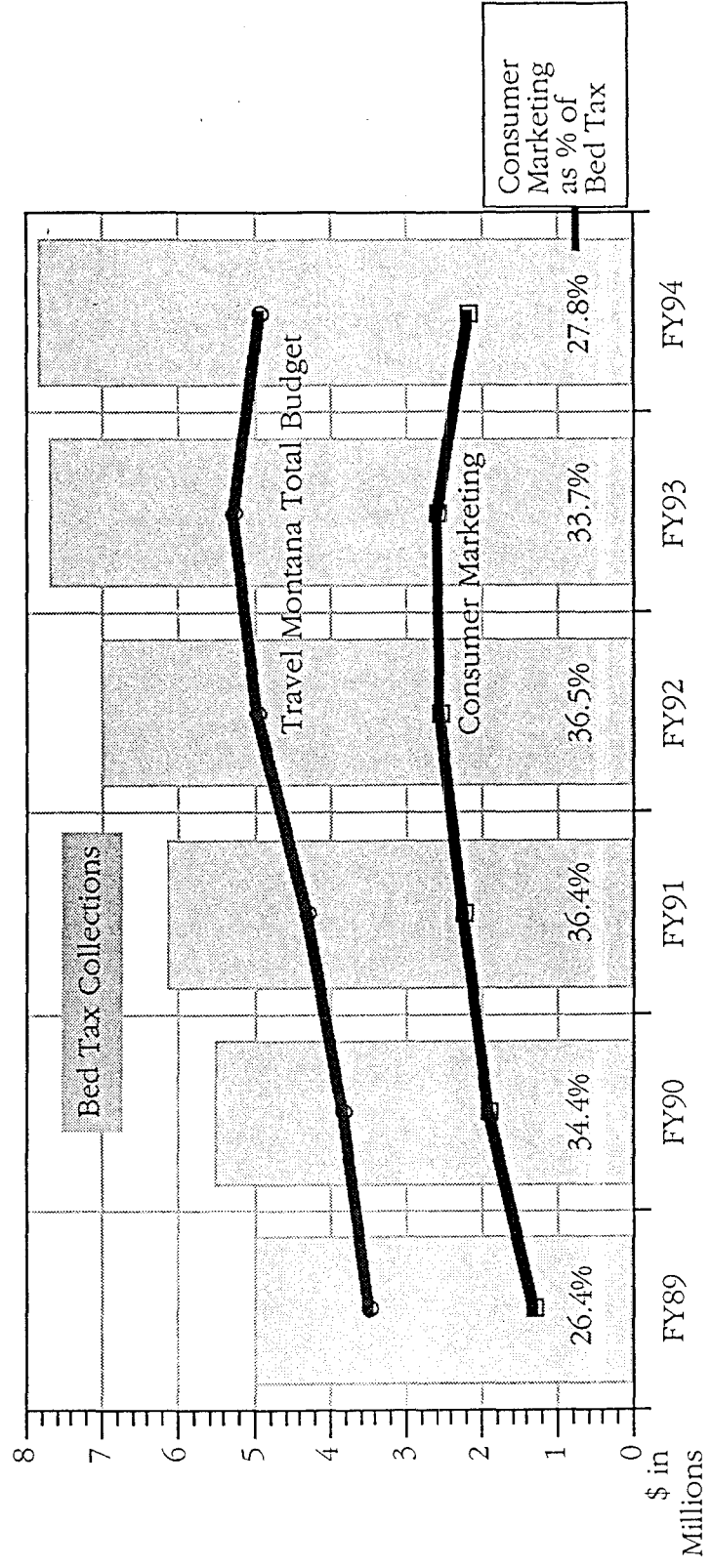
Visitor spending impacts the economy in a variety of ways.

TRAVEL MONTANA BUDGET USES

FY 1995



BED TAX & BUDGET TREND



Travel Montana Consumer Marketing as a percent of total bed tax collection has decreased. Actual Consumer Marketing dollars are less than FY 1991.

**MONTANA PROMOTION DIVISION
 FUNDING CHANGES**

In the narrative section of the Governor's Executive budget for the Montana Promotion Division (Page C54), there are new proposals on uses of Accommodations Tax Funds for the next biennium. The budget presentation on Page C53 does not reflect these changes, and therefore we are requesting that these be amended. The Governor's office is in full support of this request. The net result of these changes will redirect Accommodations Tax Funds to a grants program for tourism related infrastructure and rural development, improved customer service and a reduction in consumer marketing.

6501-52 MONTANA PROMOTION DIVISION

	FY94 Base	Fiscal Year 1996		TOTAL	Fiscal Year 1997		TOTAL
		Base Adjust	New Proposals		Base Adjust	New Proposals	
Full Time Equivalent Employees	20.33	1.00	0.00	21.33	1.00	0.00	21.33
Personal Services	678,273	24,904	-4,084	699,093	28,239	-4,263	702,249
Operating Expenses	4,758,780	58,570	-195,443	4,621,907	74,858	-50,457	4,783,181
Equipment	36,021	-36,021	0	0	-36,021	0	0
Local Assistance	1,698,083	128,917	0	1,827,000	183,727	0	1,881,810
Grants	0	0	435,000	435,000		435,000	435,000
Debt Service	1,108	-1,108	0	0	-1,108	0	0
Total Agency Costs	7,172,265	175,262	235,473	7,583,000	249,695	380,280	7,802,240
State Special Revenue Fund	7,172,265	175,262	235,473	7,583,000	249,695	380,280	7,802,240
Total Funding Costs	7,172,265	175,262	235,473	7,583,000	249,695	380,280	7,802,240

Major program changes are:

- **Create a grants program for tourism related development or enhancement:** Funds could be used as matching, bonding, or outright grants. The Tourism Advisory Council and the Department of Commerce would handle the implementation of the process. Focus should be on areas targeted by the strategic planning process as having the most need, or to take advantage of unique opportunities. (\$300,000/year)
- **Make funds available for projects for rural communities that have completed the Tourism Assessment program:** The assessment program is a year long process in which a community identifies and prioritizes potential tourism projects acceptable to the community. Up to \$20,000 in funds would be available to communities that complete the process for the project identified. There are usually 3 communities selected each year. (\$60,000/year)
- **Funds available for Historical Society:** The Governor recommends that funds be used by the Historical society to provide for restoration and tours at the Original Governors mansion, as well as tour guides for the state capitol building. (\$75,000/year)

EXHIBIT 7
DATE 2/7
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SUGGESTED GUIDELINES FOR DISCUSSION

TOURISM INFRASTRUCTURE INVESTMENT PROGRAM

February, 1995

The Tourism Infrastructure Investment Program is designed to provide for the development of tourism products in the state of Montana which will enhance our presence in the marketplace as a competitive tourism destination.

The following guidelines would apply:

- Only nonprofit, tourism-related projects would be eligible for funding.
- Funds may be used to build, purchase, preserve a site or attraction.
- Projects must provide a broad, long term appeal beyond the local area and provide a significant economic impact to the area and the state.
- Projects must support the goals of the Tourism Strategic Plan.
- Minimum fund will be \$20,000; maximum will be \$300,000.
- Funding may be requested for up to, but not exceeding, 50% of the total project.
- Entities may apply successive years.
- Funds will not be provided for staffing, sewer, roads, maintenance, market research/feasibility studies.

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

NAT. RESOURCES SUB COMMITTEE

BILL NO. _____

DATE 2/7/95 SPONSOR(S) _____

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
WILLIAM HOFFMANN 2235 GOLDRUSH AVE HELENA, MT 59601	DEPARTMENT OF COMMERCE	✓	
ANDY POOLE	"	✓	
NORRILL ANDERSON	"	✓	
BARB CHARLTON	"	✓	
Jon Keel	"	✓	
Dave Cole	"		
Lynn D. Paul	Gov's Office	✓	
Matthew Cohen	Dept of Commerce	✓	

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