

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION**

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By **CHAIRMAN ED GRADY** on January 5, 1995, at 8:00
a.m.

ROLL CALL

Members Present:

Rep. Edward J. "Ed" Grady, Chairman (R)
Sen. Thomas A. "Tom" Beck, Vice Chairman (R)
Rep. Gary Feland (R)
Sen. Eve Franklin (D)
Rep. Joe Quillici (D)

Members Excused: None

Members Absent: None

Staff Present: Terri Perrigo, Legislative Fiscal Analyst
Dan Gengler, Office of Budget & Program Planning
John Patrick, Office of Budget & Program
Planning
Rosa Fields, Committee Secretary

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

Committee Business Summary:

Hearing: Department of Administration
Fixed Cost Overview
- Introduction
- How Fixed Costs were Developed for
Present Law Base
- Significant Policy Changes
- State Auditor/Accounting for Warrant
Writer System
- State Personnel/Payroll Program
- General Services Division/Rent
- Changes to Executive Budget/
Data Network Fees

Executive Action: Department of Administration/
Fixed Costs

Tape 1 - Side A

FIXED COST OVERVIEW

Introduction

Ms. Terri Perrigo, Legislative Fiscal Analyst, presented an overview of the Fixed Costs. **EXHIBIT 1** Ms. Perrigo explained that one of the reasons the subcommittee was discussing fixed costs was because the majority of the programs that are funded with fixed costs collections are heard by this subcommittee. Fixed costs represent a significant amount of money that's built in to agencies budgets. There's currently \$33.5 million in agency budgets already built in for the fixed costs collection.

Ms. Perrigo explained that when comparing the fixed cost collections to the FY94 fixed cost collections, there an increase of \$5 million in FY96 and an increase of \$2.2 million in FY97. Fixed costs are approved on a global basis, and other subcommittees don't do much with them. **Ms. Perrigo** explained that there are structural and significant other changes in the fixed costs rates and policy.

Ms. Perrigo went over the nine fixed costs item listed on attachment 1. **EXHIBIT 2**

How Fixed Costs Developed for Present Law Base

Ms. Perrigo explained that the fixed costs developed for the 1997 biennium really have no relationship with fiscal 94 expenditures. Agencies, along with OBPP, estimate their projected expenditures for the upcoming biennium, including new proposals and increased growth in the program. Fixed cost rates are based on a decision of how much the programs are going to need to operate in the next biennium. Other agencies have no control of how much is in their budgets for fixed costs. If the subcommittee approved all the present law adjustments and all the new proposals in the Executive Budget for programs funded with fixed cost collections, the fixed costs included in the Executive Budget would be perfect. If the Legislature does not approve the program budgets at the level presented by the executive, then the subcommittee will need to go back and determine whether or not the fixed costs in the Executive Budget are excessive, insufficient, or adequate. If it were determined that they were excessive or insufficient, it's possible to go back and change the fixed cost allocations in all agency budgets.

Dan Gengler, Office of Budget and Program Planning (OBPP), gave an overview of the guidance that the OBPP gave to the agencies in their development of fixed cost rates. The fixed cost development process starts long before the actual budget development process because agencies can't build their budgets until they have the fixed costs that will be allocated to them, and programs supported with fixed cost collections can't accurately build fixed cost rates until they build their budget.

Based on the projected account balances for those programs and the projected expenditures from those accounts, OBPP determines how much money will be needed to operate the programs and then determines how costs will be allocated to other state agencies. The most important principle is that the rates are set on a break even basis. For most of the internal service accounts, the standard is to cover all expenditures and allow for a 45-day operating reserve.

Mr. Gengler used, as an example, the Department of Administration (DofA) insurance account. A 45-day operating reserve is not appropriate for an insurance account because they may have a claim that far exceeds what the mid-point estimate is. The standard for that account is that the OBPP wants them to have a reserve sufficient enough to tide them over if they would have two back to back years of the work case scenario. The reason for the reserve is so OBPP won't have to ask for a special session. The reason for the 45 day reserve on the other accounts is to give them a cash flow cushion. OBPP wants to avoid having the agencies come to the general fund for a loan. **Mr. Gengler** explained attachment 2 about the original Executive Budget recommendations. **EXHIBIT 3**

Tape No. 1; Side A; 516.

Mr. Gengler gave a brief explanation of attachment 2A, Revised ISD Account. **EXHIBIT 4** Then he explained attachment 2B on OBPP Analysis of Risk. **EXHIBIT 5**

Tape No. 1; Side A; 573

Significant Policy Changes

Ms. Perrigo continued explaining attachment 1 by describing what the fixed costs are, who collects them, and what they are used for (see Exhibit 2). She moved on and explained attachment 1A. **EXHIBIT 6**

Tape No. 1; Side A; 808.

REP. QUILICI asked what the difference is between rental rates that agencies pay for state vs. private facilities.

Debbie Fulton, Administrator of the General Services Division, answered that they are struggling to keep allowable rental rates for private facilities at \$8.50 sq. ft. However, in some communities that's impossible, and state agencies are paying \$10.50 or \$11.00 per sq. ft. for rental space.

REP. QUILICI asked about rental rates in Helena. **Ms. Fulton** answered that in Helena they were still able to get \$8.50, and that is the lowest rate they could get.

SEN. BECK asked **Ms. Perrigo** if the average rental rate for state-owned buildings was \$4.24 per sq. ft. **Ms. Perrigo** responded by saying that was correct for office space rent, and that is the amount charged each state agency to recover the costs of maintaining the capitol complex.

Tape No. 1; Side A; 944

Ms. Perrigo continued with attachment 1, on Fish Wildlife and Parks Capitol Grounds Maintenance. She pointed out that the subcommittee would not be hearing the Fish Wildlife and Parks budget (see Exhibit 2).

REP. GARY FELAND asked **Ms. Perrigo** if the State Fund Cost Allocation Program (SFCAP) could use \$640,00 from the Governor's Office instead of charging those costs to agencies. **Ms. Perrigo** stated that the SFCAP was established to help defray a portion of the general fund cost associated with the Office of Budget and Program Planning and some functions within the DofA. These programs receive a direct general fund appropriation and they operate using that appropriation. The collections from SFCAP are then deposited in the general fund to defray some of the general fund operating expenses associated with those programs.

Ms. Perrigo continued explaining to **REP. FELAND** that SFCAP collection is totally general fund supported, but all state agencies receive a benefit from these services.

REP. QUILICI asked **Mr. Gengler** if he could explain to the committee whether some of the general fund agencies would be charge those costs. **Mr. Gengler** explained that no, general funded agencies will not be charged for SFCAP. Charges for SFCAP are only allocated to non-general fund supported programs and agencies. Some of the larger SFCAP collections will come from agencies such as Department of Transportation which has large amounts of state special revenue. Other examples might include Fish, Wildlife and Parks, and the State Fund. These collections are deposited to the general fund to help defray some state government overhead costs such as personnel, accounting, and treasury, which are all supported with general fund.

REP. QUILICI asked if OBPP charged the same for operating expenses within the non-general funded agencies as they do within the general funded agencies. **Mr. Gengler** answered that although they don't actually charge the general fund programs those amounts, the amounts that are charged to the non-general fund are allocated on a fair share basis. If they happen to be a general fund agency the department doesn't give them a bill. They only hand you bill if you are a non-general fund source.

Ms. Perrigo continued with the discussion of policy and structural changes that are included in the current rates. A lot of agencies have asked why their fixed costs have increased so much for the 1997 biennium. That increase is primarily attributable to changes in the way and amount agencies are charged for payroll and warrant writing services and rent. If agencies are primarily general fund-supported, then in this and previous biennia they haven't been charged for warrant writer and payroll services. That's been changed in the way the fixed costs are set up for the 1997 biennium. Now, instead of those programs

receiving a direct general fund appropriation, they have allocated all of their costs out to state agencies. **Ms. Perrigo** explained that the warrant writer change provides an incentive for state agencies to use less costly types of financial transactions because they will be charged less for the less costly type of transaction. Agencies that still want to issue warrants or issue a number of duplicate warrants will be charged for those transactions which are more costly.

REP. QUILICI asked, "When you change from general fund appropriation how does that affect the base?" **Ms. Perrigo** responded that in the analysis the LFA did, it was determined that the warrant writer change would result in an approximate \$17,000 increase in general fund expenditures. When LFA looked at the payroll change from FY94, it appeared that there would be \$120,000 general fund savings, however there are extenuating circumstances and OBPP's position is that the changes are budget neutral. **Ms. Perrigo** started to explain that there had been a change in what was being recovered through state agency rental rates.

{Tape: 1; Side: B; Approx. Counter: 000.}

Ms. Perrigo stated that there was a 24% or 25% increase in state agency rent charges due to two policy changes that are included in that fixed rate: 1) a reduction in the general fund share of capitol complex maintenance costs from 12% of General Services' budget to 6%; and 2) the "rent" charges now include major maintenance costs which were previously funded through the Long Range Building Program.

This change in the capitol complex rent fixed costs does result in the general fund savings for the General Services Division, but some of that is offset by the increased general fund paid by state agencies for rent.

Mr. Gengler commented that in terms of the changes in the capitol complex rent, the bottom line is that the state will be saving 50 cents on the dollar when it comes to general fund money. Previously, General Services had gone to the Long Range Building Subcommittee and received Long Range Building funds (which are essentially 100% state funding) for major maintenance on buildings. If they charge the agencies who use those buildings those costs, some of which include federal programs, only 50% of that money is general fund money. They could accomplish the same thing at half of the cost by being able to spread some of the cost to the federally funded programs.

State Auditor/Accounting for Warrant Writer System

Ms. Perrigo introduced **Mr. Tom Crosser**, Administrator for Fiscal Management and Control Department in the State Auditor's Office.

Mr. Crosser stated that the changes **Mr. Gengler** and **Ms. Perrigo** talked about were moving the Warrant Writer Program towards a more business-oriented operation. Last session was the first session that the Warrant Writer program was not fully funded by the general fund. In previous biennia, the general fund paid the cost of writing warrants for all state government. His predecessor developed the initial cost allocation plan, which **Mr. Crosser** calls Phase 1, to move towards a cost recovery system. As **Ms. Perrigo** stated, they're partially funded from the general fund and partially cost recovered from state agencies in this biennium. One thing that surfaced during the committee hearing during the last regular session was the inconsistency that existed between agencies regarding the actual cost of the transactions utilized. Duplicate warrants cost about \$11 to produce, whereas an electronic fund transfer costs about 14 cents to 15 cents.

Mr. Crosser elaborated on the issue **Ms. Perrigo** had brought up about the \$17,000 general fund switch. The switch is related to charging for the actual cost of the transaction. It relates primarily to the retirement system, as they currently generate a mailer warrant for the retirement system. The State Auditor doesn't pay the postage for the retirement system, but they put the postage on it for all other state agencies. The way the current system works is that they charge everybody the same amount (41 cents for any transaction, whether it's an \$11 duplicate warrant or 15 cents electronic fund transfer).

Mr. Crosser's proposal in the Executive Budget is to shift away from the average cost and go with the actual utilization and actual cost component for each of the type of transaction. This will give the agencies an incentive to look for ways to use electronic fund transfer if it's more economical to do so. Agencies are billed for a fixed number of warrants or transactions that are issued to them. When they average the actual cost of what agencies do with the number they did, they were paying about 27 cents per warrant which did not cover the cost of postage. That's the basis of why **Mr. Crosser** wants to switch to this system: to provide more incentive for agencies to save money if they can.

Mr. Crosser distributed a handout that explained how he made the projections on the number of transactions by agencies and breaks the costs into the different process stages. It provided a historical prospective on how many warrants and electronic fund transfers they've done in the past year. **EXHIBIT**

Questions From Subcommittee Members and Responses:

SEN. FRANKLIN asked if all the agencies were involved in the electronic fund transfer. **Mr. Crosser** responded that they currently had the capabilities to use electronic fund transfer for any state agency. There are certain things electronic fund transfer doesn't work for. For example, if they're making one

payment to one company electronic fund transfer isn't the way to do it, but if they're making a periodic payment to one company on a regular basis it makes a lot of sense.

SEN. FRANKLIN stated that her concern was about some agencies not having the ability to interact electronically. **Mr. Crosser** stated that he felt if the financial incentive was there to go to electronic fund transfers, the problems that they have might be resolved.

{Tape: 1; Side: B; Approx. Counter: 311.}

State Personnel/Payroll Program

Ms. Perrigo introduced **Mr. Mark Cress**, Administrator for the State Personnel Division.

Mr. Cress stated that their rate setting for the payroll program was quite straight forward: they count the number of paychecks and divide it into their budget. Each agency pays the same for each paycheck. The payroll program produces about 300,000 paychecks a year. On the average, they pay 11,500 employees every two weeks. Their rate setting is based on the number of paychecks each agency uses. The internal service funding is appropriate for them in the long run because it saves general fund money.

Questions From Subcommittee Members and Responses:

SEN. BECK commented that he was confused on the differences between the warrant writer and payroll programs. **Mr. Crosser** explained that there are eight different types of financial transactions that the program utilizes, about seven of those are different warrants. One of the type of warrants is a payroll warrant. The actual payroll position system is within the Department of Administration, they administer leave time and all other transactions. What **Mr. Crosser** does is produce the payroll warrant for them, and then charge them 41 cents for each one. One of the advantages of going to the new system is that their cost would drop because **Mr. Crosser** wouldn't be putting postage on any of the payroll warrants.

REP. QUILICI said that the way he understood the difference between payroll and warrant writer was that payroll was the actual check that employees are getting--the 11,500 checks every two weeks. A warrant is, for example, when the Montana Broom and Brush Company sells something to the State Prison, they bill the State Prison, and the warrant writer system produces their check.

CHAIRMAN GRADY asked whether payments to Montana Power could be handled electronically. **Mr. Crosser** said that they could be handled electronically or through consolidation.

CHAIRMAN GRADY asked how **Mr. Crosser** was handling that process. **Mr. Crosser** stated that they were testing the consolidation process with Office Stop in Helena. The recipient of the warrant has to tell them the way they want it so they could go out and sell it. That's one advantage to the financial incentive, **Mr. Crosser** thinks he could get more support out there to say, "Okay, why don't you do it this way, it will cost less and you'll get your money faster."

CHAIRMAN GRADY asked how much it will cost to set it all up. **Mr. Crosser** said that the Medicaid enhancement they did was about a \$6,000 investment.

REP. FELAND gave an example of one case he knew. The State Administration charges a fixed fee every year for gas, and they have a grant from the Long Range Planning Subcommittee to do conservation clean-up. The people in the field do all the work, but when it comes time to pay for it, DNRC takes 10% of that grant for administration fees. Where do those kind of fees show up in their budget and where does that money go? **Mr. Crosser** explained that he wasn't sure whether the 10% goes to DNRC or not. **Mr. Crosser** gave example of another fee that's related to the fixed costs. The central mail surcharge that's added on to the postage rate goes to fund their actual operation. When **Mr. Crosser** pays for his central mail distribution and the postage on their warrants, there's a percentage added above and beyond the cost of postage that pays for central mail to operate their program.

Ms. Perrigo said that she believes that when DNRC takes a 10% overhead fee from any additional funds, it goes to pay DNRC overhead expenses. **REP. FELAND** said, "They had a \$20,000 grant, and the people in the field do all the work, when it comes time to write the check, the \$20,000 overhead charge is dumped into DNRC for telephones." **Ms. Perrigo** said that she was sure they had other charges, but it is their overhead rate for administering the grant.

SEN. BECK asked if that was a flat rate. **Ms. Perrigo** said that she didn't believe it was a flat rate, but it depends on what the program is and what kind of rate they agreed upon. The Oil and Gas Division gets together with the Centralized Services and the head of the DNRC each year and mutually determine the amount they'll pay and the percentage amount for any additional funds that are received by DNRC that will also go for overhead costs.

REP. QUILICI made a suggestion to have **Ms. Perrigo** look into a little bit more and get a specific answer for **REP. FELAND** on how the 10% is allocated.

General Services Division/Rent

Ms. Debbie Fulton, Administrator of General Services Division for the Department of Administration gave a brief explanation of the rent increases. Their rental rate is about \$3.42 per square feet for state agencies. The struggle over the years is that in trying to maintain a steady source of maintenance revenue, they've always looked for a way to increase the amount of money that they have available for capitol complex major maintenance. Over the last couple of years they decided to increase the rental rate to add to the funds available for major maintenance. Half of the space in the capitol complex is rented to agencies that are not supported with general fund money. Non-general fund agencies have been benefiting from money from the Long Range Building program, which has previously been used for major maintenance.

{Tape: 1; Side: B; Approx. Counter: 657.}

Changes to Executive Budget/Data Network Fees

Ms. Perrigo went over attachment 3, showing the comparison of the fixed costs allocation included in the Executive Budget for the FY 1997 biennium. **EXHIBIT**

Ms. Perrigo talked about the change that's being proposed to the Executive Budget in regard to data network fees. In the original Executive Budget, there's a proposal to increase data network fees by \$2 a month in FY96 and \$3 a month in FY97. That proposal is also analyzed in the LFA Budget Analysis. If the proposal would have been approved, it would have increased the data network fees to \$38 in FY96 and \$39 in FY97. However, the Department of Administration Information Services Division has gone back and revised some of their revenue and expenditure projections based on more recent information. They've determined that they no longer need the increase in data network fees.

Ms. Perrigo explained that if they looked at attachment 2, (see Exhibit 3) in the middle column, the network fees account was going to generate significantly more revenue than necessary for a 45-day working capital reserve had the rates stayed at the increased amount. When the department determined that they didn't need the increase in the data network fees, they also determined that they wanted to reduce the revenue going into their account. Therefore, they are now proposing to reduce the computer processing and long distance rates.

Questions From Subcommittee Members and Responses:

REP. QUILICI commented that he had talked to **Tony Herbert, Administrator of Information Services Division (ISD)** about raising the fees for the data network, but the question that always comes to mind is why does the annual percentage change in the budget increase by 25.43%. **REP. QUILICI** said that even

though their unit costs and/or monthly costs get reduced, every biennium the budget goes up tremendously. **Mr. Herbert** responded that the 25.43% increase over 1994 was related to an additional 1500 terminals being connected to the network in FY96. In FY94 there are 6,678 terminals connected to the network. In 1996 there are projected to be 8,260 terminals. The reason the budget goes up even though rates go down, is because of an increase in the number of users paying the reduced rates.

REP. QUILICI asked that if there was 6,678 terminals in 1994 and 8,260, is there any substantial cost anyplace else. **Mr. Herbert** answered, "No." **REP. QUILICI** asked if there was any type of savings from any other agencies from the added terminals. He further stated that a lot of non-technical people had a tough time understanding what benefits and savings they are getting out of technological advances. **Mr. Herbert** said that one of the biggest challenges they as technocrats have is trying to define and explain the savings and the benefits that come from technology. He thinks there's a variety of answers, and a lot of them are hidden inside the actual agency program themselves. What they have to do and are being asked to do by the Legislature is to do things cheaper, with greater efficiency, and serve the public better through technology. If ISD wasn't there doing this through technology, then the committee would see other area increases within the budgets. **Mr. Herbert** added that there's less people in government because of technology.

Mr. Gengler added that although it's not necessarily true, he believes that some of the expansions in technology and the development of the infrastructure is one of the factors that allows them to make the FTE reductions and apply the vacancy savings that are included in the budget.

{Tape: 2; Side: A; Approx. Counter: 028.}

Fixed Cost Summary

Ms. Perrigo wanted to make the distinction between fixed costs and the computer processing and the long distance charges. The reduction that's being proposed to computer processing and long distance charges would be handled through an increase in the deflation factor applied to computer processing and long distance charges. Those two items are not fixed costs. Instead, agencies budget for computer processing and long distance charges for the 1997 biennium based on actual 1994 expenditures for those services.

The amounts that agencies spent for computer processing and long distance in FY94 are carried forward to FY96 and FY97. If all things were equal, agencies would have the same amount in their budgets for computer processing and long distance in the 1997 biennium as they spent in 94. However, during the budget development process, OBPP and the LFA agree on inflation and deflation factors based on information provided by agencies. For

the 1997 biennium, ISD told OBPP and LFA that 12% deflation could be applied to computer processing and 13% deflation rate could be applied to long distance charges in the 1997 biennium.

What that means is when the FY94 expenditures were carried over to the FY97 biennium, they were carried over at 88% of what they were in FY94 for computer processing and 87% of what they were in FY94 for long distance charges, which resulted in a reduction from FY94 expenditures. ISD is now proposing that those deflation rates be further reduced--by an additional 11% in computer processing (taking the deflation to 23%) and an additional 13% on long distance charges (taking the deflation to 26%). Those changes are being proposed for FY97 only. LFA has requested that the General Government & Transportation Subcommittee be allowed to approve or disapprove the deflation rate increases.

SEN. BECK wondered why there has to a global decision about fixed costs and inflation/deflation before the subcommittee votes on this issue. **CHAIRMAN GRADY** asked that if the subcommittee moved to accept the deflationary increases, would it be making a motion accepting the fixed costs. **Ms. Perrigo** explained that the decision about fixed costs and the original inflation/deflation factors was made at a higher level than individual subcommittees. Subcommittees only approve or disapprove the addition of funds to agency budgets for inflation/deflation and fixed costs. The joint committee will be asked to approve the fixed costs and inflation/deflation rates that are proposed in the Executive Budget, subject to any change approved by the General Government Subcommittee.

CHAIRMAN GRADY asked if the \$33.4 million for fixed costs was the increase over the 1994 biennium. **Ms. Perrigo** stated that was the total amount included in the agency budget for the 1997 biennium.

CHAIRMAN GRADY then asked how much was that over the 1994 biennium. **Ms. Perrigo** responded that the \$33.4 million was \$7.2 million more than what was collected in 1994.

{Tape: 2; Side: A; Approx. Counter: 349.}

EXECUTIVE ACTION ON FIXED COSTS

Motion: **SEN. BECK** MOVED TO RECOMMEND TO THE FULL FINANCE AND CLAIMS COMMITTEE AND THE APPROPRIATIONS COMMITTEE THE RECOMMENDATIONS ON FIXED COSTS.

Discussion:

REP. FELAND asked if the motion was accepting the \$7.2 million increase. **CHAIRMAN GRADY** said that all the subcommittee was doing was making a recommendation.

SEN. BECK asked if his motion was to increase fixed costs by \$7.2 million or to decrease computer processing and long distance by \$1.4 million. **Ms. Perrigo** stated that if the recommendation were to accept the reduction of \$1.4 million, that is a recommendation that deflation rates be increased--meaning a bigger deflation.

Mr. Herbert commented that if the subcommittee approved the fixed cost rates, that wouldn't mean that the subcommittee is approving their budgets, it means that the subcommittee would be approving the rates as they show when they flow in all the agencies budgets.

CHAIRMAN GRADY asked what would happen to the fixed costs if programs in the Governor's budget that spend the fixed cost revenues aren't accepted. **Ms. Perrigo** said that under those circumstances, there would be more revenue coming in through the fixed costs collections than would be needed to support the program operations. Then, because there would be less expenditures out of the account where those collections are housed, the account balance would increase over the 45-day guideline. If the programs were not approved, then the program budgets would end up at less than included in the Executive Budget. If that were to happen, the legislature may want to go back and reduce the fixed cost allocations.

Vote: **SEN. BECK** withdrew his motion. However, he stated that he felt the subcommittee should at least make a recommendation to incorporate the increase in deflation rates to computer processing and long distance in order to realize the \$1.4 million savings.

ADJOURNMENT

Adjournment: 11:57 a.m.



ED GRADY, Chairman



ROSA FIELDS, Secretary

ED/rf

Note: These minutes were edited by Terri Perrigo, LFA.

General Government Subcommittee
Fixed Cost Overview

January 5, 1995

- I. Introduction
 - A. Why Discussing Fixed Costs
 - B. What Are Fixed Costs
 - C. Description of Fixed Costs
- II. How Fixed Costs Developed for Present Law Base
 - A. Timing/Process
 - B. OBPP Guidance
- III. Significant Policy Changes
 - A. Proprietary Accounting for Warrant Writer/Payroll
 - B. Capitol Complex Rent
 - C. OBPP/Agency Comments
- IV. Changes to Executive Budget
 - A. No Network Fee Increase
 - B. Decrease Computer Processing and Long Distance
 - C. OBPP/Agency Comments
- V. Comparison of FY 1994 Fixed Cost Expenditures to 1997 Biennium Request & Explanation of Significant Changes
- VI. Language Proposed for 1997 Biennium
- VII. Legislative Action
 - A. Action on Fixed Costs Included in Executive Budget
 - B. Action on Computer Processing/Long Distance Reduction
 - C. Action on Proposed Language

EXHIBIT 2
DATE 1-6-95
HB Fixed Costs

General Government Subcommittee
Fixed Cost Overview

January 5, 1995

Summary of Nine Fixed Cost Items

a) Insurance and Bonds - The Risk Management and Tort Defense Division of the Department of Administration(DofA) collects premiums from state agencies for 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and other risk coverage. Costs are allocated to agencies based on actual loss experience, and according to their proportionate share of total state FTE and vehicles. The total that would be collected for insurance and bonds the 1997 biennium is \$5,957,190 in fiscal 1996 and \$5,958,366 in fiscal 1997.

b) Warrant Writing Services - The State Auditor's Office provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based on fiscal 1994 utilization of the various types of financial transactions. The total that would be collected for warrant writing services in the 1997 biennium is \$781,364 in fiscal 1996 and \$837,914 in fiscal 1997.

c) Payroll Services - The State Payroll program in DofA prepares and distributes payroll for all state agencies, and operates the state payroll, personnel, and position (PPP) system. Costs of these services are allocated to agencies based on the number of paychecks issued for each agency each year. The total that would be collected for payroll services in the 1997 biennium is \$554,157 in fiscal 1996 and \$564,446 in fiscal 1997, which includes funds to support the PPP System Modifications new proposal also included in the Executive Budget.

d) Audit Fees - The Office of the Legislative Auditor charges agencies for costs of financial compliance audits. These charges are included in agency budgets as a biennial appropriation, and allocated according to the estimated number of billable hours for each agency audit. The amount of audit fees included in agency fiscal 1996 budgets is \$2,872,749.

e) Data Network Fees - The Information Services Division of the DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe; and via the mainframe, to other agency computers. Costs of this service are allocated to agencies based on the projected number of personal computers connected to the network each year, utilizing the fixed monthly rate per computer to determine the overall agency

charge. The amount that would be collected from state agencies in the 1997 biennium through data network fees is \$3,138,780 each year.

f) Central Mail - The Mail and Distribution program in the DofA charges state agencies for inter-agency mail pick-up and delivery services. Costs of these services are allocated to agencies based on the volume of mail generated by, and number of daily deliveries to, each agency. In the 1997 biennium, \$160,354 would be collected each year for these services.

g) Rent - The General Services Division of the DofA charges rent to state agencies for costs of maintaining capitol complex buildings (including utility costs, security and janitorial services, etc.) Costs are allocated to agencies based on the amount of square footage each occupies, through a fixed per square footage rate used to calculate individual agency costs. The amount that would be collected through state agency rent payments in the 1997 biennium is \$3,728,340 in fiscal 1996 and \$3,831,792 in fiscal 1997.

h) Fish, Wildlife, & Parks (FWP) Capitol Grounds Maintenance - The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based on the amount of office space square footage occupied by each agency. In the 1997 biennium, the capitol grounds maintenance rates would generate revenue of \$265,338 in fiscal 1996 and \$263,768 in fiscal 1997.

i) State Fund Cost Allocation Plan (SFCAP) - The DofA administers the SFCAP, which charges non-general fund agencies and/or programs for operating costs of state government that cannot easily be identified with particular funding sources. These collections are deposited to the general fund to offset a portion of those programs' costs. The total that would be collected through SFCAP collections in the 1997 biennium is \$618,230 in fiscal 1996 and \$641,230 in fiscal 1997.

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EXHIBIT 3
 DATE 1-5-96
 HB Fixed Costs

***Fixed Cost* Rates**
 OBPP Analysis of Internal Service Funds
 Original Executive Budget Recommendations
 03-Jan-95

Guideline: Rates sufficient to fund projected executive budget recommendations, including new proposals and contingencies, resulting in FY97 working capital reserves approximately equal to 45-days personal services and operating expenses.

Fixed Cost Item Object Applicable Account	Warrant Writing Services Object 2113 AE 02188 (a)		Payroll Processing Object 2114 AE 02803 (a)		Network Fees Object 2174 (b) AE 06522/AE 06526		Messenger Services Object 2307 (c) AE 06523		General Services Rent Object 2527 AE 06528		Grounds Maintenance Object 2770 AE 02770	
	FY96	FY97	FY96	FY97	FY96	FY97	FY96	FY97	FY96	FY97	FY96	FY97
Est. Beginning Balance	10,000	28,730	130,000	96,422	190,000	1,902,224	350,000	371,504	320,000	352,391	25,000	32,515
Projected Revenues	781,942	838,607	554,157	564,446	20,459,823	20,375,456	3,120,262	3,133,751	4,124,869	4,229,121	265,338	263,768
EB Recom. Expend.												
1000 (d)	201,333	206,909	166,597	171,287	4,726,716	4,864,803	318,310	327,404	653,580	672,111	54,848	56,417
2000	561,429	558,991	421,138	378,321	10,865,785	10,435,619	2,675,690	2,734,637	3,332,398	3,484,600	198,975	199,004
3000	450	29,806	0	0	2,187,210	1,748,125	22,109	35,500	6,500	6,500	4,000	0
Other	0	0	0	0	967,888	1,030,495	82,649	82,649	100,000	0	0	0
Total	763,212	795,706	587,735	549,608	18,747,599	18,079,042	3,098,758	3,180,190	4,092,478	4,163,211	257,823	255,421
Ending Balance	28,730	71,631	96,422	111,260	1,902,224	4,198,638	371,504	325,066	352,391	418,301	32,515	40,863
45-day Op. Reserve Difference		95,738 (24,107)		68,701 42,559		1,912,553 2,286,085		382,755 (57,689)		519,589 (101,288)		31,928 8,935

Technical Notes:

- (a) Currently accounted as state special revenue. Proposed as proprietary account in 1997 biennium.
- (b) Network fee revenues commingled with other ISD revenues. Projected balances in AE 06522 cannot be allocated to specific ISD services. Projected working capital balance represents all ISD services. AE 06526 combined with AE 06522 due to use of AE 06526 to record FY94 amounts owed to general fund associated with A-87 repayments to federal government.
- (c) Messenger service fees commingled with central mail processing revenues due to integration of messenger and mail services. Projected working capital balance represents all mail services.
- (d) Personal services includes estimated payroll costs of 2.5% in FY96 and 5.0% in FY97.

Comments Regarding Projected Balances in Excess of 45-Day Guideline:

- Payroll Fees**
Rates did not consider receipt of workers compensation payroll tax revenues for costs associated with and appropriated by HB504, received after proposed rates were submitted to OBPP.
- ISD Services**
Executive budget will propose additional rate reductions.
- Grounds Maintenance**
Rates did not consider executive budget proposed vacancy savings reductions, established after proposed rates were submitted to OBPP.

"Fixed Cost" Rates

OBPP Analysis of Internal Service Funds
 Revised ISD Account
 03-Jan-95

EXHIBIT 4

DATE 1-5-95

HB Fixed Costs

Changes	Fixed Cost Item	Network Fees	
	Object	Object 2174	
	Applicable Account	AE 06522/AE 06526	
		<u>FY96</u>	<u>FY97</u>
	Est. Begin Balance	190,000	1,689,224
	Projected Revenues		
	Original Revenue Est.	20,459,823	20,375,456
====>	Proposed Rate Reductions		
	Computer Processing	0	(885,000) (a)
	Long Distance Charge	0	(540,000) (b)
	Total	20,459,823	18,950,456
	EB Recom. Expend.		
	1000	4,726,716	4,864,803
	2000	10,865,785	10,435,619
	3000	2,187,210	1,748,125
	Other	967,888	1,030,495
	Total	18,747,599	18,079,042
====>	SummitNet (c)	213,000	398,000
	Projected Ending Bal	1,689,224	2,162,638
	45-day Op. Reserve		1,912,553
	Difference		250,085

Notes:

- (a) Reduce statewide deflation factor for object 2172 from -12% to -23%.
- (b) Reduce statewide deflation factor for object 2385 from -13% to -26%.
- (c) Due to uncertainties associated with the availability of federal funding for the executive budget SummitNet initiative, the executive budget proposes language allowing use of proprietary funding in the event federal funding is unavailable for this purpose. The executive budget originally proposed to increase network rates associated with this change. ISD will now forgo this proposed rate increase.

Guideline: Rates sufficient to fund "midpoint" estimated claims and loss adjustment expenses including new proposals, with sufficient reserves to withstand "worst-case" claims expenditures based on historical experience.

	Object 2104	
	FY96	FY97
Begin Balance	5,500,000	5,475,277
Revenues	6,326,619	6,339,451
Expenditures		
ULAE	644,431	632,652
ALAE	1,500,000	1,500,000
Com Prem	946,911	1,090,462
Losses	<u>3,260,000</u>	<u>3,260,000</u>
total	6,351,342	6,483,114
Ending Balance	5,475,277	5,331,614
Allowable Balance (a)		5,800,000

Notes:

(a) Allowable balance based on \$18.4 million biennial "worst-case" expenditures for claims, loss adjustment, and commercial premiums. Claims losses based on FY87 experience, truncated by 3.5% per biennium.

FY97 Biennium ULAE/ALAE	4,275,000
FY97 Biennium Comm Premium	1,895,000
FY87 Truncated Losses (biennial)	<u>12,510,000</u>
Total "Worst-Case" Losses	18,680,000

Schedule of Fixed Cost Adjustments -- Agency Totals
 1997 Biennium Executive Budget

EXHIBIT 6 ATTACHMENT 1A
 DATE 1-5-95 EXHIBIT

AG#	AGENCY NAME	2104 FY00	2104 FY97	2113 FY00	2113 FY97	2114 FY00	2114 FY97	2122 FY00	2174 FY00	2174 FY07	2307 HB EX08	2307 FY07	2527 FY06	2527 FY07	2770 FY07	2770 FY07	2805 FY08	2805 FY07
1101	LEGISLATIVE AUDITOR	13,112	12,399	173	171	3,037	3,032	0	0	0	738	738	31,414	32,316	HB4	2,300	1,670	1,722
1102	LEGIS FISCAL ANALYST	3,495	3,279	29	30	918	920	0	0	0	947	947	16,907	17,393	1,245	1,538	0	0
1104	LEGISLATIVE COUNCIL	10,809	8,367	412	408	1,409	1,946	0	65,376	65,376	2,265	2,265	39,209	40,335	2,888	2,871	659	487
1109	SENATE	0	0	169	353	659	2,602	0	0	0	0	0	0	0	0	0	0	0
1110	HOUSE OF REPS	0	0	429	829	1,044	4,389	0	0	0	738	738	0	0	0	0	0	0
1111	ECC	1,371	1,200	110	137	469	490	0	0	0	0	0	5,514	5,872	408	404	41	42
1112	CONSUMER COUNSEL	991	1,073	134	145	304	300	0	0	0	445	445	0	0	0	0	407	418
2110	JUDICIARY	23,293	25,953	1,297	1,300	4,300	4,309	22,727	21,600	21,600	4,800	4,800	213,841	219,945	15,658	15,563	1,014	963
3101	GVERNOR'S OFFICE	18,088	16,472	484	507	3,326	3,348	41,217	17,280	17,280	5,739	5,739	83,388	85,783	6,142	6,106	215	219
3201	SECRETARY OF STATE	7,753	8,108	782	803	3,000	3,029	22,727	15,048	15,048	3,867	3,867	88,743	98,512	4,537	4,510	3,128	3,219
3202	COMM POL PRACTICES	665	668	32	32	167	187	3,852	0	0	419	419	4,452	4,580	328	328	0	0
3401	STATE AUDITOR	14,614	15,201	1,884	1,855	3,250	3,288	48,922	38,218	38,218	5,075	5,075	73,021	75,011	5,105	5,074	1,588	1,589
3501	OFF PUBLIC INSTRUCT	41,346	40,477	4,838	4,874	6,788	6,840	67,797	44,436	44,436	843	843	118,291	121,651	8,617	8,588	2,435	2,517
3511	BILLINGS VO TECH	11,439	11,464	1,148	1,315	0	0	29,272	2,160	2,160	0	0	0	0	0	0	802	825
3512	BUTTE VO TECH	10,373	10,395	785	866	0	0	35,776	0	0	0	0	0	0	0	0	394	405
3513	GREAT FALLS VO TECH	13,334	13,368	1,142	1,165	0	0	32,524	0	0	0	0	0	0	0	0	641	658
3514	HELENA VO TECH	12,160	12,188	1,014	992	0	0	35,778	6,408	6,408	544	544	0	0	0	0	561	577
3515	MISSOULA VO TECH	17,403	17,442	1,191	1,232	0	0	29,272	0	0	0	0	0	0	0	0	702	720
4107	CRIME CONTROL DIV	4,449	4,471	959	950	957	963	0	0	0	1,099	1,099	28,888	29,705	2,098	2,083	569	618
4108	HIGHWAY TRAFFIC SAFETY	2,565	2,575	144	142	384	389	0	0	0	628	628	10,556	10,859	778	773	107	180
4110	JUSTICE	227,241	227,339	6,960	7,365	31,084	31,333	48,538	318,240	318,240	8,900	8,900	231,642	238,084	16,523	16,425	37,350	40,796
4201	PUBLIC SERVICE REGUL	11,039	10,584	587	653	4,289	4,325	15,409	20,080	20,080	1,549	1,549	0	0	0	0	3,449	3,560
5101	BOARD OF PUBLIC EDUC	798	802	108	102	274	275	3,082	360	360	0	0	0	0	0	0	235	235
5102	COMMISS HIGHER EDUC	9,413	9,457	7,146	10,031	4,069	4,102	31,588	13,752	13,752	3,059	3,059	0	0	0	0	3,424	3,529
5103	UNIVERSITY OF MONTANA	397,372	401,402	28,464	32,621	0	0	130,972	0	0	0	0	0	0	0	0	22,385	22,948
5104	MONTANA STATE UNIVERSITY	460,936	463,022	40,191	41,105	0	0	130,972	0	0	0	0	0	0	0	0	12,963	13,314
5105	MT COLLEGE OF MINERAL SCIENCE	70,331	70,500	6,311	6,790	0	0	63,945	0	0	0	0	0	0	0	0	1,515	1,559
5106	EASTERN MONTANA COLLEGE	111,892	111,574	7,792	7,737	0	0	87,058	0	0	0	0	0	0	0	0	6,109	6,274
5107	NORTHERN MONTANA COLLEGE	63,914	63,626	5,818	5,847	0	0	65,871	0	0	0	0	0	0	0	0	2,048	2,104
5108	WESTERN MONTANA COLLEGE	43,788	43,705	3,563	3,707	0	0	60,093	0	0	0	0	0	0	0	0	1,879	1,930
5109	AGRICULTURE EXPERIMENT STATION	68,671	68,814	0	0	0	0	0	0	0	0	0	0	0	0	0	173	177
5110	COOPERATIVE EXTENSION SERVICE	25,920	26,031	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5113	SCHOOL DEAF & BLIND	31,041	30,593	687	689	5,218	5,231	27,735	0	0	0	0	0	0	0	0	321	362
5114	MONTANA ARTS COUNCIL	1,817	2,022	559	586	552	558	18,371	432	432	602	602	0	0	0	0	784	784
5115	LIBRARY COMMISSION	7,751	7,161	745	803	1,790	1,804	17,720	7,128	7,128	6,328	6,328	161,362	165,984	11,854	11,784	798	804
5116	MT COUNCIL VOCATIONAL	490	507	114	113	121	122	4,237	0	0	361	361	0	0	0	0	0	0
5117	HISTORICAL SOCIETY	48,600	49,420	816	827	3,230	3,249	25,039	9,072	9,072	2,484	2,484	178,561	182,357	9,737	9,679	2,439	2,244
5119	FIRE SERVICES TRAINING SCHOOL	1,451	1,454	0	0	0	0	3,082	0	0	0	0	0	0	0	0	0	0
5201	FISH, WILDLIFE & PARK	253,077	252,877	76,388	89,495	27,216	27,565	60,863	77,040	77,040	3,980	3,980	133,107	136,930	9,805	9,747	52,180	53,595
5301	HEALTH & ENVIRONMENT	86,686	92,881	6,793	7,589	21,135	21,360	69,338	242,712	242,712	8,939	8,939	449,734	462,579	32,945	32,750	25,747	28,900
5401	TRANSPORTATION	1,710,588	1,684,059	23,508	25,635	82,084	83,142	87,058	299,592	299,592	8,031	8,031	5,225	5,375	365	363	158,117	165,182
5501	STATE LANDS	221,006	219,046	5,742	5,933	22,320	22,403	47,981	100,368	100,368	2,796	2,796	888	888	0	0	10,408	10,937
5603	LIVESTOCK	58,850	58,589	1,578	1,603	5,717	5,784	25,039	26,352	26,352	1,291	1,291	66,855	68,775	4,925	4,895	9,107	9,472
5706	NAT RESOURCES/CONSERVATION	68,079	64,374	2,891	2,950	12,319	12,421	61,848	61,848	61,848	4,247	4,247	321,293	330,521	23,687	23,527	15,079	15,436
5801	REVENUE	174,176	180,288	130,178	135,216	38,088	38,241	130,972	290,952	290,952	9,408	9,408	222,654	229,255	16,418	16,318	23,290	23,802
6101	ADMINISTRATION	177,613	175,542	29,101	28,703	14,594	14,741	188,825	68,992	68,992	25,261	25,261	395,100	406,100	28,214	28,047	44,814	48,334
6103	STATE COMP MUT. INS. FUND	59,099	65,632	101,441	100,501	10,396	10,530	53,929	112,320	112,320	120	120	0	0	0	0	49,264	50,872
6104	PUBLIC EMP R RETIRE BD	5,266	5,733	34,452	35,979	918	928	46,225	0	0	0	0	0	0	0	0	7,581	7,738
6105	TEACHERS RETIRE BOARD	2,567	2,580	18,759	19,849	478	484	34,669	0	0	628	628	27,319	28,103	2,012	2,000	4,630	4,968
6201	AGRICULTURE	27,726	29,027	2,405	2,436	6,379	6,444	30,432	38,448	38,448	1,779	1,779	68,379	70,318	4,973	4,943	9,521	9,954
6401	CORRECTIONS/HUMAN SERVICES	702,176	704,504	12,137	12,148	109,677	109,990	142,528	107,784	107,784	4,297	4,297	98,472	101,275	7,189	7,147	18,659	19,093
6501	COMMERCE	80,978	80,456	26,151	26,421	15,462	15,638	953,802	117,578	117,578	12,912	12,912	169,145	173,928	12,287	12,184	37,439	38,512
6602	LABOR & INDUSTRY	142,428	145,437	12,638	12,900	28,503	28,870	100,155	332,280	332,280	9,443	9,443	282,124	289,357	18,549	18,440	19,219	20,563
6701	ADJUTANT GENERAL	74,219	73,731	2,481	2,441	4,521	4,581	33,128	2,592	2,592	628	628	0	0	0	0	274	275
6801	SOCIAL & REHABILITATIVE SERVICES	170,702	176,285	162,226	184,730	41,247	41,662	181,049	412,632	412,632	10,593	10,593	214,052	220,200	15,767	15,674	18,069	18,358
6911	FAMILY SERVICES	152,952	153,985	5,420	6,042	32,462	32,808	138,749	249,898	249,898	4,583	4,583	0	0	0	0	3,931	4,138
	TOTAL--ALL AGENCIES	5,957,190	5,958,368	701,364	637,014	554,157	584,448	2,872,740	3,138,700	3,138,700	160,354	160,354	3,728,340	3,831,702	246,330	263,768	618,730	641,921

Fixed Costs Summary -- Statewide Totals
1997 Biennium Executive Budget

EXHIBIT 7
DATE 1-5-95
HB Fixed Costs

Fixed Cost Item	Object	FY94 Actual Collections	EB Allocations		Percent Annual Change	
			FY96	FY97	FY96	FY97
DoA Insurance	2104	\$4,721,287	\$5,957,190	\$5,958,366	26.18%	0.02%
Warrant Writing	2113	532,389	781,364	837,914	5.35%	7.24%
Payroll Processing	2114	357,089	554,157	564,446	-0.28%	1.86%
Legislative Audit	2122	1,486,806	2,872,749	0	-3.39%	NA
Network Services	2174	2,837,866	3,559,539	3,668,674	25.43%	3.07%
Messenger Services	2307	149,388	160,354	160,354	7.34%	0.00%
Capitol Complex Rent	2527	3,030,750	3,728,340	3,831,792	23.02%	2.77%
Grounds Maintenance	2770	264,583	265,338	263,768	0.29%	-0.59%
State Funds Cost Allocation	2895	<u>315,715</u>	<u>618,230</u>	<u>641,921</u>	-2.09%	3.83%
Total		\$13,695,873	\$18,497,262	\$15,927,235		

Notes:

Percent change for noted items were adjusted due to the following factors:

- (a) Change to proprietary account in 1997 biennium (FY94 general fund expenditures added to FY94 fee collections).
- (b) Biennial appropriation (compare FY94 to 50% of 1997 biennium appropriation).
- (c) FY94 SFCAP collections effective mid-year (2x FY94 collections to annualize).

Comments Regarding Percent Changes

Item	Comment
DoA Insurance	1995 biennium appropriations contained major increase from FY94 to FY95. Change from FY95 to FY96 is approximately 3.5%.
Warrant Writing	Increases due to increased postage costs, increased volume of warrants, equipment replacement, and increased working capital reserves.
Payroll Processing	Decrease due to reductions in computer processing costs.
Network Services	Device-month charges reduced from \$40 to \$36. Increase is due to increased numbers of devices.
Messenger Services	"Deadhead" piece rate unchanged from \$0.21. Increase is due to greater "deadhead" volumes.
Capitol Complex Rent	Increase due to reduction in general fund contribution for "common" areas and proprietary account funding of major maintenance in lieu of long-range building funds.
State Funds Cost Allocation	SFCAP collections are somewhat volatile due to year to year changes in actual agency experience with respect to allocation parameters (eg. # treasury transactions, # SBAS transactions) and/or refinements in allocation methodology.

Proposed General Appropriations Language

"The [agency] shall develop and submit a cost recovery plan for [see list below] to the office of budget and program planning and the legislative fiscal analyst by June 1, 1996 for development of the 1999 biennium present law base. The office of budget and program planning shall, in consultation with the legislative fiscal analyst, develop guidelines for the form and content of agency cost recovery plans by May 1, 1996. The [agency] must develop its cost recovery plan and provide supporting documentation as specified in these guidelines. Agency cost recovery plans must include projected revenues and expenses by line of service and the projected fiscal year-end working capital balances for each applicable accounting entity, unless exempted in obpp guidelines."

State Auditor

warrant writing services

Legislative Auditor

legislative audit costs

Department of Fish, Wildlife, and Parks

capitol complex grounds maintenance

Department of Transportation

motor pool rental rates

Department of Administration

payroll services

ISD services

mail messenger services

P&G services

DoA insurance premiums

general services rent

state funds cost allocation plan