

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT & TRANSPORTATION

Call to Order: By **CHAIRMAN ED GRADY**, on January 23, 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 Quilici (D)

Members Excused: None

Members Absent: None

Staff Present: Terri Perrigo, Legislative Fiscal Analyst
Dan Gengler, 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
Executive Action: None

BUDGET ANALYSIS 1997 BIENNIUM VOL. I, PAGE 1-189

Budget Item: Teachers Retirement Board

David Senn, Director of the Teacher's Retirement System, said the Retirement Board has six members. One of the members is the superintendent of Public Instruction, and the other five are appointed by the Governor. Three of those five are from the field of Education. One has to be a retiree, while the other two members are from the public. The budget for the Teachers Retirement Board is funded with the investment earnings of the pension fund.

The budget introduced on behalf of the Teacher's Retirement Board for the 1997 biennium represents the minimum appropriation necessary for them to continue with current services. He said there are no new-proposals for this biennium, other than the personal services reduction. He said the increases that are

shown over the base budget are results of inflation increases. He said the total budget for the Teachers Retirement Board has not increased a great deal in the last ten years. During the same period of time, there has been an significant increase in the demand for services such as requests for estimates of retirement benefits; the cost of purchasing additional service for out-of-state teaching service; private teaching service; break in-service (leave service); and assistance with the teachers pre-retirement plan.

Mr. Senn said teachers need to set up pre-retirement about five years before retiring. The Board has only been able to provide services through continuing efforts to automate the teachers retirement services. He said the Board received over 3,500 calls and written inquiries last year from inactive, active, and retired members for additional information about their account. This does not include requests for refunds or requests from the general public. He said the requests from active teachers average approximately 280 letters, and they answer 60 letters per month to retirees.

Mr. Senn said the Board is requesting a reduction in FTE from 11.5 FTE to 11.0 FTE in the next biennium.

Mr. Senn addressed the Systems Support and Development Program. He said they had a contract in 1994 with a private company in California to design and develop a system for their new data processing system which became operational in FY95. He said during the contract, the Board did not charge any systems development support costs to the company. He said these expenditures were not incurred, so they were not in the base and are being added through the present law adjustment of \$44,000.

Mr. Senn said the Board is also assigned to a program called a Tax Deferred Annuity (TDA). He said the TDA was started 20 years ago as a retirement plan to public employees. This has become a private sector industry and in 1989 the Board decided to allow a private firm to manage the fund. He asked that the 1995 Legislature repeal 19-20-207 MCA, which takes the teachers retirement system completely out of the private sector area.

EXHIBIT 1

Questions from Subcommittee Members

REP. QUILICI asked **Mr. Senn** to address the Support System and the involvement of the California firm. **Mr. Senn** said the firm specializes in designing, developing, and maintaining private and public pension systems. The company is paid a fee plus an hourly rate to maintain the programs. The monthly fee includes any changes that are required at the federal level at no additional costs. The hourly rate includes maintenance fees, and an eight hour response time to a maximum of 24 hours if a program goes down. He said that Information Systems Division (ISD) assisted

them in writing the RFP to process the bids to find the company with the program they needed.

REP. QUILICI asked **Mr. Senn** about Actuarial Investigations funds and why is the \$9,000 biannual if it hasn't been in the base before. **Mr. Senn** said this has occurred before but it does not occur in a base year. He said the \$9,000 is placed in the budget after each legislative session by re-writing handbooks, and instructions for clerks. With the size of Montana is it impossible to do hands-on training, and this provides a way to communicate with the majority of their members.

CHAIRMAN GRADY asked about the rent inflation. **Terri Perrigo, LFA**, informed the committee that the Teacher's Retirement Board rents a non-DofA building, which is not part of the fixed rent cost. **Mr. Senn** added that the teacher's retirement system owns the building occupied by the Board, and it is one of the investments of the teachers retirement system. **Ms. Perrigo** said the Teachers' Retirement Program pays rent to the Board for the building. The Board is increasing the rent to fair market value in the 1997 biennium which accounts for the costs increase.

Tape 1:A:484

Budget Item: Risk Management and Tort Defense Division(RMTD)

BUDGET ANALYSIS 1997 BIENNIUM - VOL. 1 PAGE A-179

Brett Dahl, Administrator, distributed information and gave an overview of the division. **EXHIBIT 2**

Mr. Dahl said the RMTD provides services to other state agencies through preventing and reduction of agency exposure to property damage, legal liability, loss of revenue, and/or employee injury. The services are described in the handouts. The first one is Exposure Analysis, which means they work with state agencies on a pro-active basis to identify potential losses and causes of lawsuits. They provide training and consultation to 58 agencies of state government. He said there is an increased demand for the services they provide. During the last fiscal year they provided over 600 on-site consultations to state agencies. In addition, they trained over 600 state agency managers, supervisors, employees, through a number of seminars designed to inform the agencies on how to prevent losses by raising the level of awareness regarding how to prevent lawsuits.

They review contracts and develop guidelines for state agencies to develop contracts. He said the division also provides an insurance program for all branches of state government. They self-insure the state's tort liability, risk, general and vehicle liability, in addition to foster care. They go to bid every three years to purchase insurance for major risk coverage to cover commercial property. The state owns 3,100 buildings that are insured for \$1.9 billion. He said the division insures the

fine arts for state government worth \$44 million and mostly in the State Historical Society.

They insure the state aircraft and state airports. They purchase commercial employee fidelity bond coverage for employees who handle money. He said the division has 210 tort claims at this time, and that this increase is credited to the litigation from the Montana State Prison riot in 1991. Mr. Dahl said the division has been very successful in defending the agencies in tort litigation. In FY94, plaintiffs seeking damages against the state of Montana filed suits in excess of \$25 million. The insurance fund paid less than \$1.5 million, or less than 5% of the amount requested in the lawsuits.

Tape 1:B

Questions from Subcommittee Members

REP. BECK asked Mr. Dahl if any of the lawsuits from the prison riot had been settled out of court. Mr. Dahl said yes. They recently settled out of court on the Myhre case, one of the inmates that was killed during the riot.

REP. BECK asked Mr. Dahl what the average hourly rate is for contract attorneys. Mr. Dahl said between \$90 to \$100 per hour. He said there is an initiative in some states to hire more outside counsel to handle tort litigation. He said the state has high tort damage caps and can be sued up to \$750,000 per claim and \$1 million per occurrence.

REP. QUILICI asked Mr. Dahl what the cost is to agencies for in-house attorneys. Mr. Dahl said nothing additional is charged-- but the funds to pay the salaries of those in-house attorneys come from fixed costs in agency budgets for insurance coverage.

Budget Item: Personal Services

Mr. Dahl said the RMTD is proposing a reduction in personal services. A full-time attorney position was vacated during the biennium, leaving a 0.43 FTE after vacancy savings reductions. The 0.43 FTE is what the division proposed to eliminate. This will give them 12 FTE in the Executive Budget in FY96 and FY97 for a savings of approximately \$22,000 per year.

Budget Item: Operating Expenses

Mr. Dahl said they are proposing a present law base adjustment for commercial insurance coverage of \$118,080 in FY96 and \$256,553 in FY97. He said they let bids every three years to purchase this insurance for the agencies. The division projects the cost of the insurance based on estimates from the underwriters and brokers, and stated that property insurance is expected to increase by 15% each year, commercial insurance is

expected to increase by 5% each year and aviation insurance is expected to increase by 25% each year. He said the commercial insurance increases are related to the worldwide catastrophic losses that have occurred in the past few years.

Budget Item: Contract Legal Services

Mr. Dahl said the executive adds \$60,533 per year to purchase outside legal services. He said that outside counsel handles approximately 40% of the tort cases that are litigated.

Mr. Dahl informed the committee members that the division hires an actuary every other year to help project what the losses will be, and to work with the division to find where the funding requirements are. The actuarial evaluations are used to determine the comprehensive financial reports for purposes of bonding, and the general accounting for statement #10, requires the division to have the evaluations done.

Tape 2:A

BUDGET ANALYSIS 1997 BIENNIUM - VOL. 1 PAGE A-142

Budget Item: Accounting and Management Support Program

Connie Griffith, Administrator, gave an overview of the program and distributed information. **EXHIBIT 3**

The program was created in FY 1994 through the consolidation of the former Accounting and Management Support Division with the Director's Office. The program includes: 1) the Director's Office; 2) the Legal Unit; 3) the Accounting Program which maintains the Statewide Budgeting and Accounting System (SBAS); and 4) the Management and Personnel Program that provides financial, budgeting, accounting, personnel, payroll, and data processing functions for the department except for the Information Services Division.

She informed the committee that the accounting division is proud to have received the certificate of Achievement for Excellence in financial reporting from a government financial association for the past seven years. She said they are one of 26 states that have received this reward. Ms. Griffith said the division provides technical assistance in education on accounting policies and making sure it is properly implemented.

Tape 2:B

Budget Item: State Tax Appeal Board (STAB)

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Patrick McKelvey, Chairman, gave an overview of his division and distributed a handout. **EXHIBIT 4**

Mr. McKelvey gave a report of the tax appeal system, and informed the members that it cost approximately \$435 per appeal for three board members, the hearing reporter, the cost of the transcription, and travel. He felt that the appeals for FY96 and FY97 will match the same number they had for appeals from FY91 through FY93. He said the appraisal cycle has been shortened to three years, and said his staff will now experience the first year sooner. Consultant services was reduced by \$9,186 each year of the FY96 and FY97 biennium. He said the Executive Budget adds \$3,351 per year to the tax appeal board travel budget to bring them into the level appropriated for FY95 in the amount of \$7,900. He informed the committee members that there are no equipment purchases budgeted for the next biennium. He gave information to update the LFA budget analyses information regarding the progression of appeals.

Budget Item: Architecture and Engineering Division (A&E)

BUDGET ANALYSIS 1997 BIENNIUM VOL. I - PAGE A-147

Tom O'Connell, Administrator, distributed a handout and gave an overview on the functions of the A&E Division. **EXHIBIT 5 Mr. O'Connell** said the A&E Division was established in 1965 to provide for the construction and repair of state buildings, and administers the Long Range Building Program. He reviewed the duties and responsibilities of the division. Of the 31 buildings owned by the state, the division manages over 75 million square feet of buildings. When the total square footage is broken down into measurements of a 1,500 square foot house, this would equate to approximately 12,000 homes managed by A&E. The total value of these buildings is approximately \$1.7 billion.

At any given time they have from 400 to 600 projects under construction, and currently there are 461 houses (1,500 sq. ft. home) under design and/or construction. He said these projects are funded through the cigarette tax, and said A&E is the only division in the Department of Administration that is funded with this money. The cigarette tax is .18 cents per pack with 79% going into debt service to fund the projects. He said that 20.25% of the remainder goes into the cash account and pays for their operations. The remaining portion goes into the Long Range Building Program (LRBP), to fund cash projects, i.e., fixing roofs on state buildings, etc.

Mr. O'Connell informed the members that with the anticipated revenue and expenditures, it appears there is an unspent balance of \$286,909 in the cash account. **Mr. O'Connell** read a letter written by **Governor Racicot**, dated January 17, 1995, asking the subcommittee to approve an increase in the FTE and operating budget of the A&E Division. The letter stated that the request was not included in the original Executive Budget, but based on the December 1, 1994, Revenue Oversight Committee estimates, it

appears there will be sufficient cigarette tax revenues to fund this recommendation. **EXHIBIT 6**

Tape 3:A

Mr. O'Connell reported on the present base adjustment stating his division does not have any large adjustments. He did present a fact sheet in the back of his handout on LRBP. He said the Board of Regents authorized \$70 million for bonded construction projects throughout the University System, which is not included in the division's cash and bond projects. The Board of Regents is statutorily able to authorize certain projects, but most of the university projects are addressed through the legislature. **Mr. O'Connell** said A&E is asking for more FTE to ease the burden of the increased workload. He said there are more projects he could start on, but is unable to due to lack of FTE.

Discussion:

CHAIRMAN GRADY informed the committee that it is his understanding they cannot take action in HB 2 to implement any legislation until it has passed both houses.

REP. QUILICI said the committee doesn't have to make this decision by a motion, but felt the information should be known that this committee is the one reviewing the A&E Division's budget. He said the committee needs to address the issues of the A&E Division and inform both of the Appropriation Committees of their evaluation. **REP. QUILICI** said if the projections of the buildings program go through for \$193 million, and the \$70 million for the University System with the passage of HB 2, that the 3.5 FTE additional for the A&E Division should be included to perform this increased workload.

Budget Item: State Personnel Division

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Tape 3:B:338

Mark Cress, Administrator, gave an overview of the division's duties, and addressed issues identified by the Legislative Fiscal Analyst. He distributed a handout that outlines the services provided to the agencies. He said the division performs specific services for the agencies, and addressed two categories: the payroll program and the benefit program. There are three bureaus in the division that provide services from health insurance to equal employment opportunity: 1) the Employee Benefits Bureau; 2) the Classification and Pay Bureau; and 3) the Labor and Employee Relations Bureau.

The State Personnel Division projects medical and dental claims will total \$59 million in 1995, while the actuary projection is over \$70 million. The division designs programs, determines who is eligible for insurance, pays premiums, manages contracts with providers, and resolves appeals resulting from the insurance. He

said the actual medical and dental claims are paid through a statutorily appropriation out of the insurance reserve, which is funded through the state's contribution to insure employees, and premiums are paid for retirees and various others who do not receive the state contribution. The division's budgeted administrative expenses are paid off of interest earnings on those reserves, and said the program is a proprietary fund.

The Labor Relations Bureau provides services in negotiations for all agencies that have organized employees. There are currently 81 bargaining units or 70 separate contracts with 19 different unions. He said approximately 55% of the state employees in the executive branch are organized. The division implements state and federal laws that cover employment, and new federal laws have been passed addressing the Americans with Disabilities Act (ADA) and the Family Medical Leave Act. On the state side, there is a new State Employee Protection Act, and a new Employee Incentive Program.

The Systems Development Section performs the classification of all state employees, i.e., title and grade level. The division eliminated two supervisory positions in 1994, and lowered one FTE grade level. He said the Labor & Employee Relations Bureau were two bureaus that were consolidated in 1994, which eliminated a bureau chief's position. He said there is an increase in the workload of the Classification Bureau due to the reorganizations that will be announced through the Executive Branch, and the Retirement Incentive Program that occurred in 1994. The classification and pay functions are funded with general fund, and the division is recommending that the payroll be funded through proprietary funds instead of state special and general fund. **EXHIBIT 7**

Mr. Cress addressed the present law base adjustments in his handout. He said the deferred compensation consulting service currently has a fund balance in excess of \$100 million that is invested by the Nationwide Insurance Company. The contract with Nationwide Insurance will expire on December 31, 1995. He said the cost of the consulting service that designed the bid is \$20,000. He said when the contract expires this year it will be another five to seven years before it expires again.

Tape 4:A

Mr. Cress said there are five new proposals, and addressed three of them:

1. The Hearing Devices and Interpreter new proposal, which is a recommendation of the Governor's Advisory Council on Disabilities (GACD), the entity that advises state government about compliance with the legal mandates in the ADA.
2. The PPP system modification new proposal which would update the 15 year old PPP system to be more user friendly.

Mr. Cress said the PPP System Modifications would be a one time only proprietary fund appropriation of \$150,000.

3. The Flexible Spending Account (FSA) Self Administration new proposal which would give the division the ability to administer the program itself if a cheaper contract rate can not be negotiated with the current contractor. The FSA program allows employees to pay non-covered medical and day care expenses with pre-tax dollars. The cost of operating the FSA is paid for through the \$2.30 that is charged to the employee each month. If the division can have the authority for an FTE they will determine which method (private contract or done by the division) is the least expensive, and if it is determined that it can be done cheaper by the division, they will hire the FTE.

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Tape 4:A:300

Mr. Cress addressed the other two new proposals. The Personal Services Reduction will be a five percent reduction achieved through vacancy savings and elimination of a 0.5 FTE grade 13 position. The Personal Services Contingency new proposal is not connected to the division's budget, instead it is only contained within it, as the Office of Budget and Program Planning administers the fund. He said there is \$2 million in this fund per year for a total of \$4 million for the biennium. He said this money assists small agencies with the five percent vacancy savings when there are no turnovers.

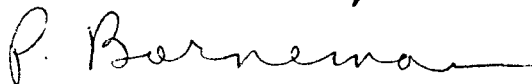
Ms. Perrigo informed the committee they will be touring the Information Services Division (ISD) tomorrow (Tuesday), and hear testimony on Wednesday regarding information technology and its implications across the state.

ADJOURNMENT

Adjournment: 12:00 p.m.



ED GRADY, Chairman



for CLAUDIA JOHNSON, Recording Secretary

EG/cj

EXHIBIT 1
DATE 1/23/95
HB Administration

TEACHERS RETIREMENT DIVISION

Department of Administration

1-23-95

January 1995

1-23-95 /

BUDGET PRESENTATION - TEACHERS' RETIREMENT BOARD
GENERAL GOVERNMENT SUBCOMMITTEE
REPRESENTATIVE GRADY, CHAIRMAN

1997 Biennium

The Teachers' Retirement Board is an administratively "attached to" agency of the Department of Administration. The Board is responsible for the administration of retirement benefits for the educators of Montana. The Board's budget is funded from investment earnings of the pension fund.

The budget submitted by the Retirement Board for the 1997 biennium represents the minimum appropriation necessary to maintain current services to Montana's educators. The Board has not requested any expansion of current services or additional funding for new services. Increases over the present law base are the result of inflation, or adjustments to expenditures that occur in only one year of the biennium.

The total budget for the Teachers' Retirement Board has increased very little over the last ten years. However, in the same period we have seen a significant increase in the demand for services provided to members. Such as, request for retirement estimates, the cost to purchase additional service, and assistance with pre-retirement planning. In addition to providing greater services to Montana's educators, we have also, through the use of computers, greatly improved the accuracy of our calculations and reduced the time it takes to respond to requests.

Last year we received over 3,500 written and phone inquiries from active, inactive and retired members requesting information on their account. This does not include request for refunds or requests from school clerks, the public, and other general correspondence. These request generated an average of 280 letters per month, with over 600 letters in June, to active and inactive members and 60 letters per month to retirees. Again, this does not take into account general correspondence and letters that are automatically generated by the computer.

Last year we experienced over 485 new retirees, a record number, compared to a ten year average of 306. Keep in mind, even though retirements under TRS generally occur at the end of the school year we were still able to process all of last year's applications on time and without delay. We have been able to keep up with this increasing demand only through a continuing effort to automate our services.

Ten years ago there were 18,110 members and 5,524 retirees, today there are over 24,300 members contributing \$38,748,884 annually and 7,198 retirees receiving annual benefits in excess of \$70,580,000. Ten years ago the system had a fund balance of \$335,222,777 today the fund balance exceeds one billion dollars. Ten years ago federal regulation of public pension plans was almost nonexistent, today there are volumes of regulation, with more to implemented in the coming biennium. The Teachers' Retirement Board has continued to do more and to provide greater services to our members with little increase in FTE or operating expenditures. The following table clearly shows the lack of growth in the last ten years.

Exhibit 1

YEAR	1984	1994	1996	1997
FTE	10.58	11.50	11.00	11.00
Personal Services	212,629	319,476	321,590	323,425
Operation Expenses	310,795	249,740	326,656	309,915

The summary report of the Legislative Fiscal Analyst raises several issues most of which I understand are similar to other agencies so I will not cover the same issues but will be available to answer any question you may have. However, I would like to address the fourth issue raised by the LFA regarding systems support and development.

4. Systems Support and Development - During fiscal year 1994, the Teachers' Retirement Board was in the final stages of bringing online a new data processing system. This system was purchased from a private company by the name of BeneSys. BeneSys specializes in developing and maintaining DP systems for pension plans. Under the terms of our contract, we were not charged for systems support until all modules were installed and accepted. Therefore, these charges were not included in our present law base. These charges are estimated at \$44,400.00 per year.

In addition to the system support required through BeneSys we will require the services of ISD to facilitate communications with; the State Auditor's warrant writing system, Department of Labor, Department of Revenue, and other state agencies using the State mainframe. These charges are estimated at \$5,100 in each year of the biennium.

Privatization of Services

In addition to improving our services to Montana's educators over the past few years we have also looked at what and how we provide these services. Not only have we enhanced our services to assist members planning for retirement, we have moved away from providing benefits and services in the area of tax-deferred annuities.

Section 19-20-207, MCA., requires that the board establish a Tax-Deferred Annuity (TDA) program. When this statute was enacted, the TRS was about the only option available to members wishing to use a tax-deferred annuity to supplement their retirement income. In 1989 the Board was at the point where we needed additional staff and funding to service these accounts. We also recognized that these programs had become a thriving private sector industry in which we were in direct competition. Therefore, the Board, through a Request For Proposal contracted with the Variable Annuity Life Insurance Company (VALIC) to take over our tax-deferred accounts. In this legislative session the board is asking the legislature to repeal 19-20-207 and completely remove the TRS from the tax-deferred annuity business.

MONTANA TEACHERS' RETIREMENT SYSTEM

Mission Statement

To maintain a financially sound system that will provide the broadest and fairest possible range of disability, death and retirement benefits to teachers and other eligible members of the State of Montana as prescribed by state statutes.

Description of functions and statutory authority

The Montana Teachers' Retirement System, established by state law in 1937, currently has more than 17,500 active members and 1,105 vested inactive members. Approximately 7,530 retirees or their beneficiaries receive retirement, disability, or survivor benefits.

The Teachers' Retirement System (TRS) administers retirement, disability, and survivor benefits for all state teachers and their beneficiaries (Title 19, Chapter 20, MCA.). The Teachers' Retirement board, comprised of six members, is responsible for the administration of the system which is attached to the Department of Administration for administrative purposes only (Section 2-15-101, MCA). The board is composed of the Superintendent of Public Instruction and five members appointed by the Governor. The responsibilities of the board include:

1. Establishing rules and regulations necessary for the proper administration and operation of the retirement system.
2. Determining the eligibility of a person who is applying for membership in the system.
3. Granting retirement, disability, and other benefits under the provisions of Title 19, Chapter 20, MCA.
4. Designating an actuary to provide consultation on the technical actuarial aspects of the retirement system.
5. Establish and maintain the funds of the retirement system in accordance with the provisions of Title 19, Chapter 20, Part 6, MCA.

Contributions from active members, their employers, and earnings on the system's investments fund the retirement system. Active members' contributions are 7.044 percent of their earned compensation while employers contribute 7.459 percent of earned compensation of all members reported to the system. The contributions are exempt from income tax to the employees until benefits are drawn against those contributions. The Montana Board of Investments invests assets of the system.

An actuarial valuation of the retirement system is performed biennially, as of July 1 of each even numbered year, the most recent of which was as of July 1, 1994. The purpose of the valuation is to determine the financial position of the fund, the normal cost and the unfunded accrued liability based upon present and prospective assets and liabilities of the system. The results of the actuary's valuation indicated the system was funded on an actuarial sound basis and the unfunded accrued liability was \$586.5 million as of July 1, 1994. The amortization period for the current unfunded liability is 31.7 years as July 1, 1994, as compared to 34.9 years at July 1, 1992. The amortization period measures the time necessary for the employer and employee contributions plus investment earnings to fund current employees' future benefits, and pay off the unfunded accrued liability, based on the assumptions used in the valuation.

The assets of the retirement system may not be used for or diverted to any purpose other than for the exclusive benefit of the members and their beneficiaries, and for paying the reasonable expenses of administering the retirement system (Section 19-20-502, MCA.).

Summary of Benefit Provisions

Vesting Period	5 years. No benefits are payable unless the member has a vested right, except the return of employee contributions with interest.
Final Compensation	Average of highest 3 consecutive years of earned compensation.
Normal Form of Benefits	Life only annuity. All benefits cease upon death; however, in no event will the member receive less than the amount of employee contributions with interest.
Normal Retirement Benefits	
Eligibility:	25 years of service or age 60 and 5 years of service.
Benefit:	The retirement benefit is equal to $1/60$ of final compensation for each year of service.
Early Retirement Benefits	
Eligibility:	5 years of service and age 50.
Benefit:	The retirement benefit is calculated in the same manner as described for normal retirement, but the benefit is reduced $1/2$ of 1% for each of the first 60 months early and $3/10$ of 1% for each of the next 60 months early.
Death Benefit	
Eligibility:	5 years of service.
Benefit:	The death benefit is equal to $1/60$ of final compensation for each year of service accrued at date of death, with an actuarial adjustment based on the relation of the member's age at death to the beneficiary's age. A monthly benefit of \$200 is paid to each child until age 18. In addition, a lump-sum benefit of \$500 is paid upon the death of an active or retired member.
Disability Benefit	
Eligibility:	5 years of service.
Benefit:	The disability benefit is equal to $1/60$ of final compensation for each year of service accrued at date of disability. The minimum benefit is $1/4$ of the final compensation.
Withdrawal Benefits	With less than 5 years of service, the accumulated employee contributions with interest are returned. With more than 5 years, the member may elect a refund of contributions with interest or leave the contributions and interest in the System and retain a vested right to retirement benefits.
Contributions	Member: 7.044% of compensation.

EXHIBIT 1
DATE 1-23-95

TEACHERS RETIREMENT SYSTEM
JANUARY 1, 1995

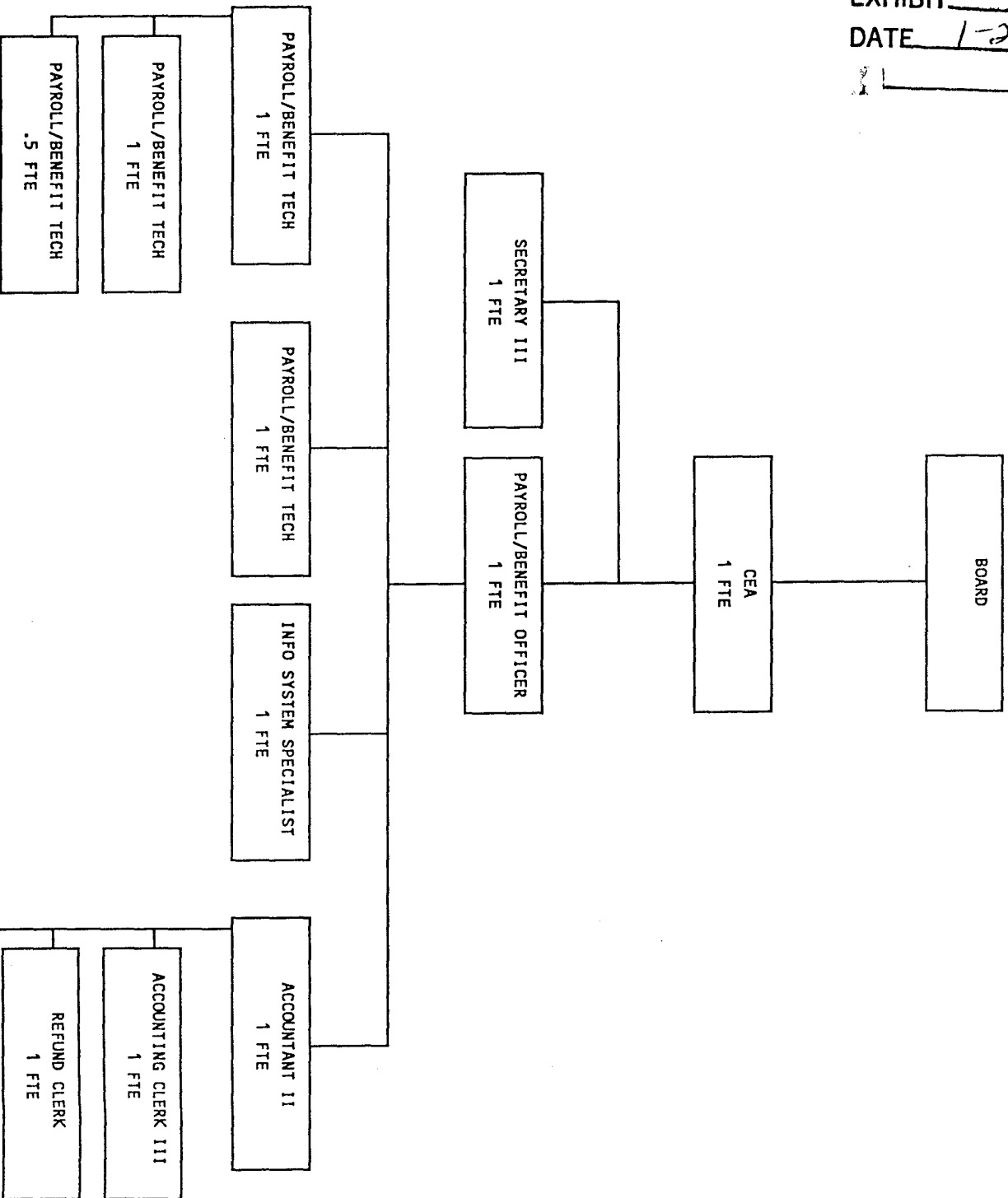


EXHIBIT 2
DATE 1/23/95
HB Admin

RISK MANAGEMENT AND TORT DEFENSE DIVISION

1-23-95

Department of Administration

January 1995

RISK MANAGEMENT AND TORT DEFENSE DIVISION FUNCTIONS/SERVICES

The services provided by the Risk Management and Tort Defense Division (RMTD) are intended to prevent or reduce the state's exposure to property damage, legal liability, loss of revenue, and employee injury and are summarized below:

Exposure Analysis

Identification and analysis of agency risk. RMTD maintains an extensive database of open and closed claims and lawsuits and has prepared a loss control plan to address agency specific risks based upon historical and potential loss trends/patterns.

Loss Prevention

Loss control training and on-site consultation are provided to state agencies. The division has developed an employee safety program for state government and in collaboration with the State Compensation Insurance Fund works with state agencies to establish safety programs. The division also maintains a library of videos, books, and other risk management resources that are available for checkout and use.

Contracts Analysis

Review of agency contracts upon request to minimize tort liability exposure stemming from contractual arrangements.

Insurance Administration

Administration of a comprehensive commercial and self-insurance program for all state property and casualty risks (e.g. tort liability, property, fine arts, boilers & machinery, aircraft & airports, fidelity bond, etc.).

Claims Administration

Evaluation and adjustment of property and liability claims that are filed against state agencies.

Legal Defense

Provision of a cost-effective and quality legal defense to state agencies.

CHAPTER I.



PURPOSE & MISSION Risk Management and Tort Defense Division

As a result of actions taken during the 1972 Constitutional Convention, Article II, Section 18 of the Montana Constitution was modified to abolish the State of Montana's immunity from lawsuit. Legislation enacted subsequent to the 1972 Constitutional Convention provided for the establishment of what today is known as the Risk Management and Tort Defense Division.

The Risk Management and Tort Defense Division defends state employees against tort actions and provides risk management and claims administration services, to state participants, in accordance with Title 2, Chapter 9 (Parts 1 through 3), Montana Codes Annotated (MCA).

The division operates on a legislatively appropriated proprietary account with funding derived from charges to state participants for insurance services. The division also receives revenues from investment earnings on the self-insurance fund. Rates for property and casualty protection for all participants are legislatively approved each fiscal year.

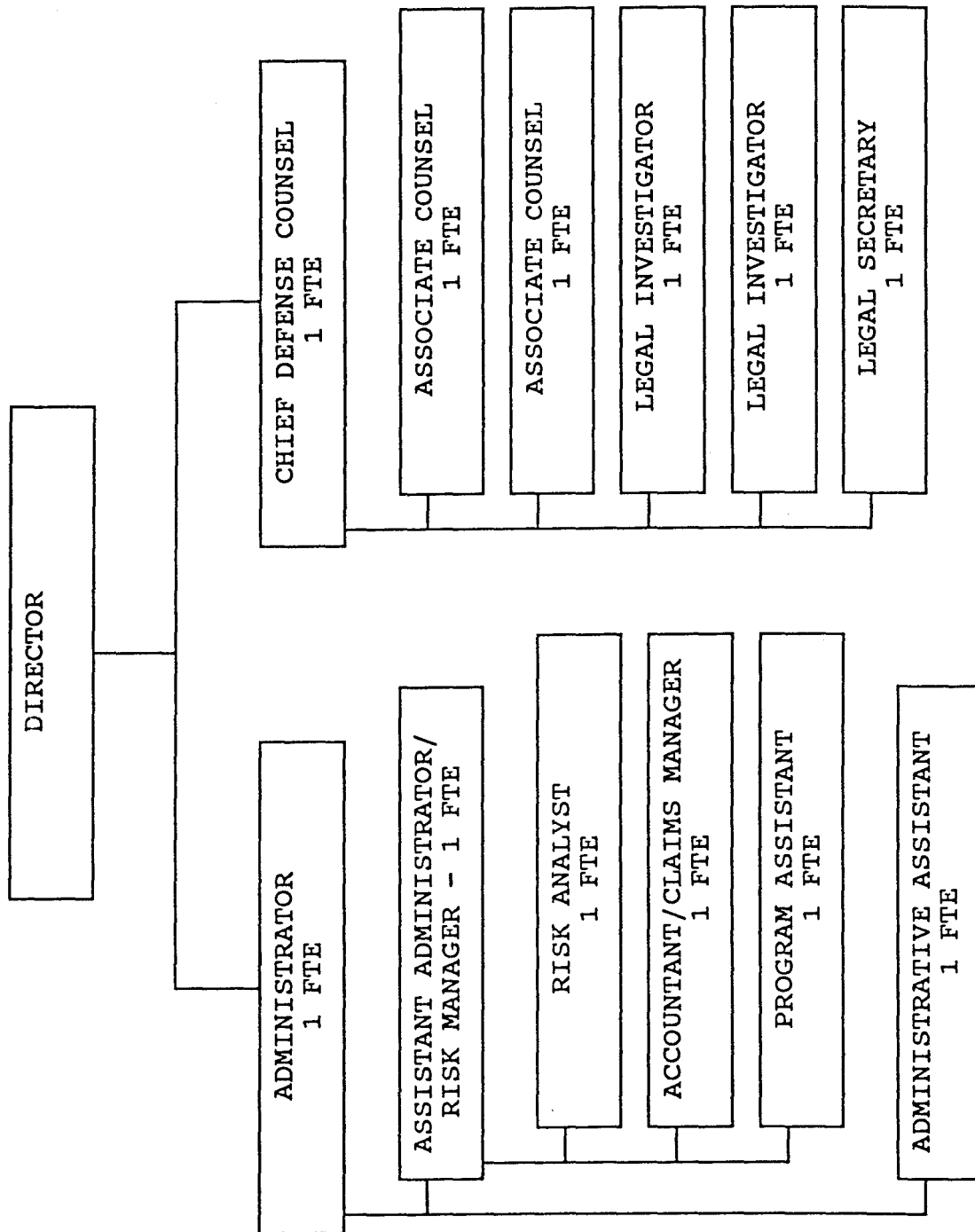
The Tort Claims Act, found in Title 2, Chapter 9, Montana Codes Annotated (MCA), authorizes the Department of Administration to set up and administer a comprehensive and centrally administered property and casualty insurance plan. This plan includes providing commercial and self-insurance programs for state participants. The act also allows the Department of Administration to accumulate and administer a fund which is statutorily appropriated for the payment of claims, and to apportion costs to participants.

The mission of the Risk Management and Tort Defense Division of the Department of Administration is to provide cost effective and comprehensive insurance coverage and risk management services, and to protect and defend the State of Montana against losses stemming from property and casualty claims.

The philosophy of Risk Management and Tort Defense is to investigate, identify, and resolve as quickly as possible, claims and legal cases that have merit. The division prepares the remaining cases for summary judgment or final resolution at trial. In order to accomplish this mission, the division will achieve the following:

- Where feasible, provide cost effective commercial or self-insurance protection to state participants.
- Provide cost effective, quality legal assistance to state defendants through the use of either staff counsel, agency legal services counsel, or contracted counsel.
- Promote the development of risk management principles and techniques through consultation with state participants.
- Serve as a resource in resolving risk management and tort liability defense issues for the protection of state assets and resources.
- Seek timely and cost effective resolution of all property and casualty claims filed against the state.

RISK MANAGEMENT & TORT DEFENSE DIV
JANUARY 1, 1995



RISK MANAGEMENT AND TORT DEFENSE DIVISION
FY95 BIENNIUM
EFFICIENCY/COST REDUCTION INITIATIVES

- **Employee Safety Program.** Projected savings through the establishment of an employee safety program. The program is intended to reduce the incidence of occupational injury and lower workers' compensation premiums.
- **Centralized Insurance Administration.** Savings of \$100,000 annually achieved through centralized insurance administration and the creation of an excess commercial insurance program.
- **Liability Claims Management Program.** Savings of \$20,000 annually are projected over the coming biennium through the implementation of a liability claims management program.
- **STRIMA (State Risk & Insurance Managers Association) Conference host.** RMTD hosted the 1994 STRIMA (State Risk & Insurance Manager's Association) Conference held in Whitefish, Montana. It is estimated that the conference had a positive local economic impact of approximately \$200,000.
- **Cost-Effective Legal Defense.** During FY94, claimants sought in excess of \$23 million in damages against the state. Expenditures for claims and lawsuits totalled less than \$1.4 million (less than 5% of the amount sought).

EXHIBIT 3
DATE 1/23/95
HB Admin

ACCOUNTING AND MANAGEMENT SUPPORT DIVISION

The original of this document is stored at
the Historical Society at 225 North Roberts
Street, Helena, MT 59620-1201. The phone
number is 444-2694.

Department of Administration

1-23-95

January 1995

EXHIBIT 4
DATE 1/23/95
HB Admin

STATE TAX APPEAL BOARD

Department of Administration

1-23-95

January 1995

STATE TAX APPEAL BOARD

The mission of the State Tax Appeal Board is the timely resolution of tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property and new industry taxes. Toward that end, the State Tax Appeal Board has consistently sought to maintain conscientious and thorough methods of review in the face of substantial appeal loads.

The duties of the State Tax Appeal Board (per §15-2-201, MCA), are to

- (a) prescribe rules for the tax appeal boards of the different counties in the performance of their duties and for this purpose may schedule meetings of county tax appeal boards, . . . ;
- (b) grant, at its discretion, whenever good cause is shown and the need for the hearing is not because of taxpayer negligence, permission to a county tax appeal board to meet beyond the normal time period provided for in 15-15-101 (2) to an appeal;
- (c) hear appeals from decisions of the county tax appeal boards;
- (d) hear appeals from decisions of the department of revenue in regard to business licenses, property assessments, taxes and penalties.

TAX APPEAL SYSTEM
JANUARY 1, 1995

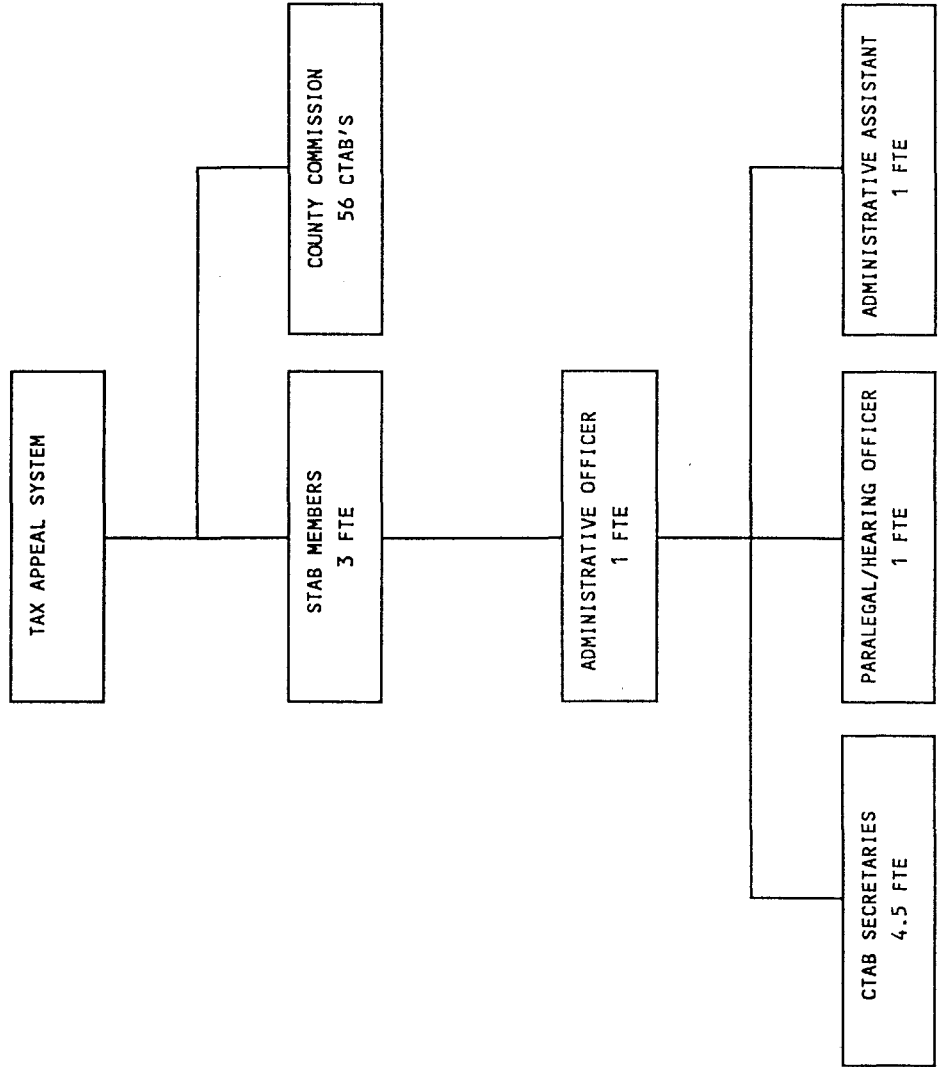


EXHIBIT 5
DATE 1/23/95
HB Admin

ARCHITECTURE AND ENGINEERING DIVISION

The original of this document is stored at
the Historical Society at 225 North Roberts
Street, Helena, MT 59620-1201. The phone
number is 444-2694.

Department of Administration

January 1995

OFFICE OF THE GOVERNOR
STATE OF MONTANA

TC221 P.

EXHIBIT 6
DATE 1/23/95
HB Admin

MARC RACICOT
GOVERNOR

STATE CAPITOL
HELENA, MONTANA 59620-0801

January 17, 1995



Representative Ed Grady, Chairman
General Government Joint Appropriations Subcommittee
Montana House of Representatives, Seat 95
State Capitol
Helena, MT 59620

Dear Ed:

As you are well aware, for many years our government has postponed normal maintenance and necessary repairs on many state facilities and structures. I have recommended to the 1995 Legislature an ambitious rebuilding plan to halt the deterioration. However, this rebuilding plan will not succeed unless adequate staff is available to oversee the program.

I am writing to urge support from your General Government Subcommittee members for an increase in the operating budget of the Architecture and Engineering Division of the Department of Administration in House Bill 2. This request was not included in the Executive Budget, but based on the December 1 Revenue Oversight Committee estimates, there is now known to be sufficient cigarette tax revenue to fund this increased recommendation.

As you may know, the A & E Division presently is administering a significant Long-Range Building Program which involves 461 active projects and approximately \$200 million. As a result of the expanded 1993 biennium building program, the division experienced a major workload increase. Between FY93 and FY94, there was a 49% increase in contract agreements with architects, engineers, and/or contractors and a 37% increase in payments to architects, engineers, contractors, and/or miscellaneous vendors. Based on December 1994 data, the A & E Division anticipates an additional 25% increase in contract agreements and an additional 45% increase in payments in FY95, resulting in an overall increase of 74% in contract agreements and 82% in payments between FY93 and FY95. There has been no increase in staff for this workload. Indeed, the position of one employee who took early retirement has not been filled.

Moreover, in FY94, the accountant for the A & E Division, in conjunction with the bond team, became responsible for administration of the "bond act" relating to issuance of General Obligation bonds. The accountant and the bond team will continue to be responsible for administration of the bond act.

Representative Ed Grady
January 17, 1995
Page 2

It is my recommendation that an additional 3.50 FTE and operating expenses be added to HB2 for the purpose of assisting with the 1997 biennium proposed, expanded building program in addition to completing the current building program. The staff will be an accounting technician (grade 12), a field project manager (grade 15), an architect (grade 15), and a half-time architect (grade 14). The operating expenses include only direct costs like travel and exclude overhead costs such as rent. This recommendation provides a 25% increase in staff, compared with the 75% plus workload increase.

The reason we are able to make and support this recommendation now is because there is currently projected to be a 1997 biennium balance of \$286,909 in the cigarette tax capital projects fund (CPF). Funding for the FTE and operating expenses would be provided through a transfer from the cigarette tax capital projects fund to the special revenue fund as authorized in 17-5-404, MCA. Our specific first-level proposal is as follows:

Expenditures:

	<u>FY96</u>	<u>FY97</u>
	<u>Difference</u>	<u>Difference</u>
FTE	3.50	3.50
Personal Services	110,192	110,574
Operating Expenses	<u>20,192</u>	<u>20,869</u>
Total	130,384	131,443

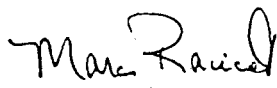
Funding:

State Special Revenue (02)	130,384	131,443
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Assuming passage and approval of even a portion of the recommended House Bill 5 and 15, the FTE and operating expenses will be required for several biennia until the building program is completed. Of course, the staffing levels and the recommended budget would be reassessed for the 1999 biennium Executive Budget.

Thank you very much for your consideration of this request.

Very truly yours,


Marc Racicot
Governor

c: General Government Subcommittee Members
Rep. Ernest Bergsagel, Chairman, LRB Subcommittee
Terri Perrigo, Office of the Legislative Fiscal Analyst
Dan Gengler, Office of Budget and Program Planning

EXHIBIT 7
DATE 1/23/95
HB Admin

STATE PERSONNEL DIVISION

Department of Administration

January 1995

STATE PERSONNEL DIVISION

Employee Benefits Bureau

1. Design and administer the self-insured group benefits plan to provide health and dental insurance for over 29,000 employees, former employees and their dependents.
2. Design and administer a deferred compensation program for all state employees in accordance with applicable state and federal tax regulations.
3. Administer the incentive awards program.
4. Administer the sick leave fund program.

Statutory Authorization:

Administration of self-insured health and dental program and life insurance program: 2-18-808 through 2-18-814, MCA.

Administration of deferred compensation program: 19-2-101 through 19-2-206, MCA.

Administration of the incentive awards program: 2-18-1101 through 2-18-1106, MCA.

Administration of the Sick Leave Pool: 2-18-618 and 2-18-1016, MCA.

Labor and Employee Relations Bureau

1. Provide Labor Relations support to executive branch agencies.
Negotiate contracts and assist in contract administration.
Represent agencies before the Board of Personnel Appeals.
Represent agencies in arbitration cases.
2. Develop administrative rules for personnel in order to comply with state and federal laws.
3. Inform state agencies about and provide technical assistance on the administration of federal laws and regulations and state and federal court decisions.
4. Staff the Governor's Advisory Council on Disability and assist state agencies to comply with the Americans with Disabilities Act.

3. Develop and present training tailored to meet specialized agency needs.

Statutory Authorization:

2-18-102(a)(b), MCA.

Systems Development Unit:

1. Develop software programs to provide data to personnel officers and managers.
2. Provide support to the Health Benefits Program by developing programs for maintaining member records and eligibility.
3. Support personnel functions of the automated payroll/position control/personnel (PPP) system.
4. Develop systems to compile statistical workforce profiles and to create management information on pay projections, health benefits administration, equal employment opportunity, and leave administration.

STATE PERSONNEL DIVISION
PRESENT LAW BASE ADJUSTMENTS

1.) STATE INSURANCE INFORMATION SYSTEM

	<u>FY96</u>	<u>FY97</u>
▪ Software Maintenance License	\$33,020	\$34,671
▪ Systems Development	\$16,176	\$16,176
▪ Operating Costs	\$47,395	\$47,395
▪ Computer Printing	\$ 8,640	\$ 8,640

2.) DEFERRED COMPENSATION CONSULTING

	<u>FY96</u>	<u>FY97</u>
▪ To rebid carrier contract	\$20,000	
▪ To review carrier compliance	\$ 2,000	\$ 2,000

3.) PAYROLL SYSTEMS DEVELOPMENT

	<u>FY96</u>	<u>FY97</u>
▪ System maintenance	\$ 9,928	\$ 9,928
▪ Production recovery		
▪ Tax changes		

4.) REPLACEMENT EQUIPMENT

	<u>FY96</u>	<u>FY97</u>
▪ PCs, printers, VCR	\$ 8,834	\$ 6,124

5.) MISCELLANEOUS

	<u>FY96</u>	<u>FY97</u>
▪ GACD expenses	\$18,137	\$21,446
▪ Training operating costs		
▪ postage		

**NEW PROPOSAL
STATE PERSONNEL DIVISION
Hearing Devices and Interpreter Services**

EXHIBIT 7
DATE 1-23-95
1

- Recommended by the Governor's Advisory Council on Disability (GACD). (Advises state government about compliance with the legal mandates in the Americans with Disabilities Act.)
- Hearing impairments is the top priority access problem.
- The need for hearing devices was established through a survey of state agencies.
- Avoids separate agencies acquiring equipment on their own and others having no equipment available.
- State must provide interpreter services or they will be mandated following a legal claim.
- Good faith efforts to provide access to programs is essential to prevent complaints and to provide a legal defense in the almost certain event that ADA complaints occur.
- University of Montana already successfully challenged for not providing qualified interpreter services.
- Separate from the TDDs and the state Telecommunications Access Program. TDDs allow communication via telephone. This proposal allows individuals with hearing impairments, the most common form of disability, to participate in meetings, conferences, hearings and training.

THE PROPOSAL HAS THREE PARTS:

Assistive Listening Devices

(1) \$8,250 General Fund in FY 96.

- 5 sets of portable assistive systems
 - Allow hearing impaired individuals to hear and participate in meetings.
- 5 decoding devices to allow viewing of closed caption TV and video presentations.

Interpreter Services

(2) \$10,000 general fund in each year.

- Establish standard contracts for qualified interpreter services.
- Provide contracted interpreter services to general fund programs.

(3) \$40,000 state special revenue in each year.

- Provide services through a central state contract to non-general fund programs make for service basis.

Hearing Devices/Interpreters:	<u>FY96</u>	<u>FY97</u>
■ General Fund	\$18,750	\$10,000
■ State Special Revenue	\$40,000	\$40,000

NEW PROPOSAL STATE PERSONNEL DIVISION

PPP System Modifications

- Payroll/Personnel/Position Control software is 15 years old.
- Users of PPP are asking for a system that is:
 - More user friendly;
 - Communicates with other applications;
 - Provides data faster, easier and cheaper.

Position Control/SBAS Adjustment Transaction.

- A single transaction to adjust both systems at the same time.
 - Corrections are made separately and the two systems often do not agree.
- The Legislative Auditor suggested this enhancement in the 1990 audit of the PPP system.

Funding Source for Position.

- There is no effective way to track the funding source for each position. Much effort is expended by agencies to track these different funding sources through SBAS and in-house systems.
- Accurate data regarding the funding source for positions would result in more accurate budgeting and monitoring of personal services cost and vacancy savings.
- It would improve the consistency of data between SBAS and Position Control.

Year 2000.

- The "year" date fields in the system are expressed as two digits; e.g., 95 for 1995.
- Dozens of date fields in system will have to be modified to recognize the year 2000.

FMLA leave.

- Add a field to the database to record the use of Family and Medical Leave Act time.

On line reports.

- Develop menu driven reports to enable non-technical users to access data.

Conduct a thorough systems analysis.

- A through study of the system should be done to:
 - determine the life of the system and identify database design changes to extend the life of the system.
 - reduce the time and cost it takes to process all the biweekly transactions.
 - provide more cost effective access to data.

P/P/P System Modifications
Proprietary Funds

FY96
\$150,000*

FY97

* Biennial Appropriation - Funds are included in payroll fees in Governor's Budget.

EXHIBIT 7
DATE 1-23-95
X

**NEW PROPOSAL
STATE PERSONNEL DIVISION**

Flexible Spending Accounts (FSA) Self Administration

- Allows employees to pay non-covered medical expenses with pre-tax dollars.
- Currently administered through contract with Blue Cross and Blue Shield and paid through statutory appropriation for claims.
- All costs recovered through employee fees (\$2.30/month).
- Increased contract cost must be passed to employees through higher monthly fees.
- New proposal will only be used if less expensive to participating employees than contracted amount.*
- Projected biennial contract costs if rate of increase continues = \$137,504.

	<u>FY96</u>	<u>FY97</u>
FSA Self Administration	\$41,264	\$43,541
FTE	1.00	1.00

***Recommended Bill language:**

"The department's appropriations in item [] include \$41,284 in FY96 and \$43,541 in FY97 from proprietary revenue authority for self-administration of flexible spending accounts contingent upon the department's determination that self-administration is cost effective."

HOUSE OF REPRESENTATIVES
VISITORS REGISTER

General Government SUB-COMMITTEE DATE 1-23-95

BILL NO. _____ SPONSOR(S) _____

PLEASE PRINT

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NAME AND ADDRESS	REPRESENTING	Support	Oppose
GEORGE H. HARRIS RMTD OGA	Administration		
Lee Ann Nelson 1209 8th Ave	State Tax Appeal Bd/Adm		
Terry Atwood Acctg Bureau	Administration		
Mark Cress	Administration		
Connie Griffith	Administration		

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

HR:1993

wp:visbcom.man

CS-14