

MINUTES

MONTANA SENATE 55th LEGISLATURE - REGULAR SESSION

FREE CONFERENCE COMMITTEE ON HOUSE BILL 2

Call to Order: By **CHAIRMAN CHUCK SWYSGOOD**, on April 22, 1997, at 9:49 a.m., in Room 312-2.

ROLL CALL

Members Present:

Sen. Charles "Chuck" Swysgood (R)
Sen. Arnie A. Mohl (R)
Sen. Linda J. Nelson (D)
Rep. Tom Zook (R)
Rep. Beverly Barnhart (D)
Rep. Ernest Bergsagel (R)

Members Excused: None

Members Absent: None

Staff Present: Clayton Schenck, Legislative Fiscal Division
Sharon Cummings, Committee Secretary

CHAIRMAN SWYSGOOD I called this meeting to get a handle on where we currently are and to ask some questions. Putting this budget together has not been an easy task for any of us. I consider the job we have done is as good as we can do given the revenues we had to work with. There is some concern on the part of the executive and the legislature about this budget. The purpose of this meeting is to get some direction on where we will ultimately end up. **(EXHIBITS #1, 2 & 3)** handed out and explained. We are constitutionally mandated to balance the budget within the revenues that are given to us, I feel we have done that to this point. The Governor's budget highlight booklet states on page 39, "The administration recognizes that the budget process under current law is driven by the legislature's estimates of available revenue. If legislative estimates differ markedly from those used to develop the executive budget and result in a projected ending fund balance below \$25 million the administration will review budget recommendations in an effort to maintain a \$25 million ending fund balance." **Dave Lewis**, as we struggle to try to come up with additional revenue to meet the requests that have been given to us, how do we address this when I feel we had a marked difference in revenue projections, approximately \$30 million, between the legislature and executive budget?

Dave Lewis, Office of Budget and Program Planning There are a series of answers to that question. I'm looking at the grey sheet which is the last status sheet I have, if you look at the

comparison of legislative action over or under the executive budget request your sheet shows \$86 million under the executive proposal which doesn't count the \$47 million in HB 47. By my analysis, at that point, you were \$39 million under the executive recommendations. You cut the budget by a significant amount. We have proposed, in these final dying moments of the legislative session, a couple of items that we think are worth discussing since you have passed HJR 2 with a lower number than we originally recommended. We are projecting that agencies will revert about \$5 million per year, you used an estimate of \$2.5 million per year. The revenue increase from this is \$5 million. Several times we proposed changes to HB 578, the science and technology bill, that has approximately \$3 million of unanticipated earnings. We propose that you transfer \$2 million of that to the university system to help close the gap in that area. If the legislature is interested, we would be willing to propose the amendments we brought forth several times to change the way we handle RIT funding and backfill that change with the diversion of non-discretionary dispersal from the school trust lands. This could generate \$6.4 million worth of revenue this biennium. This is one-time money that we could use for one-time expenditures in this budget. The \$12 million in HB 47 that is set aside for K-12 is clearly a one-time expenditure. In the process you would fix a long standing problem by putting RIT back into an appropriate area. We have an opportunity, if the legislature is interested, to do Governor's amendments to HB 584. These proposals amount to approximately \$15 million that would allow us to solve the few remaining issues that the Governor has with this budget and increase the ending fund balance. There may be other options, if there is a willingness on the part of the legislature to discuss those compromises with the Governor.

CHAIRMAN SWYSGOOD Lets go back to the \$39 million you say we have underfunded. Would you agree that \$32-34 million of that underfunding is the difference in the revenue projections between the Governor's executive budget and the legislative revenue estimates contained in HJR 2? **Mr. Lewis** Yes, I would assume that \$32 million of that is caused by the difference in revenue projections.

CHAIRMAN SWYSGOOD Given that, we are actually \$7 million under what the Governor requested, right? **Mr. Lewis** I would agree that you decreased the Governor's revenue estimates by \$32 million.

CHAIRMAN SWYSGOOD Is it true that funding for K-12 enrollment, medicaid increases and miscellaneous requests that were withdrawn amounted to a reduction of \$31.9 million from the Governor's budget? **Mr. Lewis** I wouldn't want to diminish the work the legislature has done. I believe you are suggesting that those weren't real cuts because they came forth as part of the appropriations process. I think you have gone through this budget with a fine tooth comb and done everything you could to make changes that were necessary. We are finding that is

difficult to do because the budget was reasonably tight when it was submitted to the legislature.

CHAIRMAN SWYSGOOD I'm trying to get to where we currently are and our insistence that there is no more money available. Also included in the executive budget was the property tax mitigation, school facilities funding switch and reversion estimates totaling \$21 million. If you add the \$21 million and the \$31 million together we have \$52 million. If you take the \$40 million off that, we have given you more than you asked for. **Mr. Lewis** I admire the analysis but I can't get to the point that you've given us more than we asked for. I need a little more time to think about that.

CHAIRMAN SWYSGOOD We understand the concerns the executive has with this budget. We also understand our concerns with trying to balance a budget with the revenues that were given to us, not putting in one-time money and not using funny money to do this. We think we have reached our saturation point, that the revenues that are available to us are just about gone. We will be going out of here with an ending fund balance of \$25 million which contains \$22.5 million in one-time money. We will begin the next biennium with approximately \$3 million, which many of us are not comfortable with. We are feeling uneasy with some of the additional requests and where we will find the money to fund them. We're willing to look at your ideas. **Mr. Lewis** I don't believe we've done anything fiscally irresponsible with the ending fund balance. The reversions, science and technology money and RIT issues are decisions you have to make, we think those are options worth pursuing to help us close the gap.

CHAIRMAN SWYSGOOD We aren't spending that money because we know it won't be there to rely on next session and we can't afford to spend it.

REP. ERNEST BERGSAGEL What would you do if the \$5 million in reversions were not to come in? **Mr. Lewis** While recently looking at the medicaid numbers I was struck by the fact that the caseload was 65,000 in December 1995 and 42,000 in December 1996. That is a problem program that seems to be leveling out. As we look at our spending to date, we think we will have reversion increases. Since passage of HB 169 reversions have gone up and we think our projections are reasonable.

REP. BERGSAGEL What are you going to do if the money doesn't come in? **Mr. Lewis** We are convinced that the revenue estimates are conservative so that will probably offset that to some extent. If we drop below \$20 million we have the ability to recommend reductions in appropriations across the board. We look at revenues and expenditures on a monthly basis, I don't think that \$5 million reversion estimate is overly risky.

REP. BERGSAGEL What is your plan if you don't get the reversions? **Mr. Lewis** We have a process that we go through to

present to the legislature, the oversight committee and the finance committee. We then proceed with across the board reductions in spending. I don't think that will happen.

REP. BERGSAGEL I believe the statutory requirement is an 8% cut? Have you identified those cuts? **Mr. Lewis** I believe it allows you to go as high as 10%. No, we have not identified those cuts.

REP. BERGSAGEL Would you agree that the \$9 million outstanding science and technology loans are essentially bad loans to the university system? They are making payments of \$275,000 per year, how long will it take them to pay off that loan? **Mr. Lewis** No, I would not agree there are bad loans, they are making regular payments. I'm not sure how long it will take to pay them off, sometime in the future.

REP. BERGSAGEL We haven't had the will to recognize those are bad loans to the university system from the Coal Tax Trust that will probably not be paid back in my lifetime. Now we're being asked to put more money into research and development. Some of us believe the \$3.2 million should go to the Coal Trust. Why do you have a different view? **Mr. Lewis** The investment we have to make in the future for this state, to expand our manufacturing base, is in research. We think this is an important investment and critical to the future of the state.

{Tape: 1; Side: A; Approx. Time Count: 10:09; Comments: None.}

REP. BERGSAGEL Would you explain your school trust lands proposal? **Mr. Lewis** This was in the form of LC 175. We use forestry receipts to pay for forest management. We are proposing to do the same thing on the rest of the state trust lands. The non-distributable receipts are revenue we could tap into to pay for the management costs of state trust lands. That would free up RIT money that currently pays for those programs. We could use RIT for orphan mine reclamation and the kinds of programs that RIT should be used for. The problem with that on the out years is that there would be a General Fund hit. We propose the diversion from the school trust to backfill the General Fund revenue in those out years. Our proposal is to start the administration of state trust lands from state trust land's income in this biennium. Many states in the west do this now. That would generate approximately \$6.4 million to apply to one-time expenditures as it is one-time money. In the off years this would be a self balancing situation.

CHAIRMAN SWYSGOOD I feel the \$32 million difference we had between the executive revenue projection and HJR 2 is a marked difference. Have you looked at the budget and come up with any suggestions for us? I know what you believe the budget projections are, but I can't budget on beliefs. How can we address the additional concerns? **Mr. Lewis** We made suggestions. **Mr. Lewis** listed the changes the executive recommended and supported. Those changes total approximately \$37 million. I

suggest that we have complied with the spirit of the statement made in that publication.

CHAIRMAN SWYSGOOD We are still looking at a \$6 million request. I'd like to ask if anyone is willing to come up with any money.

CHAIRMAN SWYSGOOD asks department directors if they have wiggle room to give money to this committee. All replied no except for: **Bud Clinch, DNRC** The department has \$6.4 million of General Fund that could be removed and replaced as revenues; **Madalyn Quinlan, OPI** We tried to offer you \$48,000 Friday night which you did not take, we believe that is available to you.

REP. TOM ZOOK When we look at the percentage of increase that is based on total funds, a 6.7% increase is a very hefty increase. Isn't it interesting that government seems to get increases while many of us not attached to government often take decreases?

REP. BERGSAGEL It seems so easy to go to the taxpayers and ask for money but it seems so hard, after an increase of over \$200 million, to say you don't have any money to give up. It is ironic that it has been suggested that the world will come to an end for hundred thousand dollar numbers after departments received millions of dollars. It amazes me that we have to dump another \$2 million into the university system when they still have \$9 million in bad debts. I think the taxpayer is getting ripped off and it is about time they got a break. I wish we would change our attitude around here.

SEN. LINDA NELSON I'm concerned about the one-time money and feel this is not the way to go. Many of our bills that have spending in them are being pushed to 1999 or 2001. I feel we are setting ourselves up for a big crash in the next session. Corrections should be doing a better job with the money they have and, I feel, this is the wrong way to be spending money cut from other programs. They could tighten their belt and we could fund some other programs with that money.

SEN. ARNIE MOHL 6.7% real dollars is \$289 million, 4.5% is \$92 million. Conrad Burns said "A million dollars here, a million dollars there, pretty soon we're talking real money." I think we're over the real money.

{Tape: 1; Side: B; Approx. Time Count: 10:20; Comments: None.}

PRESIDENT GARY AKLESTAD Mr. Chairman, to answer the question you asked the directors, as a taxpayer my answer is also no, I have no more to give. As President of the Senate part of my job is to put a budget together that covers the needs of the people in the State of Montana and see that they are adequately protected from criminal elements. I know, first hand, what this committee is going through, I sat on Finance and Claims for 17 years. I also know that 99% of the time this committee only sees and hears one side of the story, that is the story of those who want dollars. I know there has been concern pertaining to the Department of

Corrections. I believe the director's analysis is not constant and reliable. The Governor, to his credit, is very loyal and dedicated to his people. When that loyalty interferes with the taxpayers getting the bang for their buck someone else has to step up to the plate and that is why I am here today. I have always thought it more important to help bring about solutions without making headlines rather than making headlines. It is with regret that I come before this committee to express these concerns regarding the budget. That is normally not my forte. The corrections budget has increased by approximately \$48 million addition General Fund money which is a 40% or better increase. The total budget is about \$154.5 million. The numbers I spoke of that are not reliable are the number of prisoners that the department says we have. I would like to share these figures with you. On May 23, 1996 the department projected 8,008 prisoners by the year 2001, 10 months later the department projection is 3,833, 800 more prisoners. I don't know if they need a new Ouija board or what but I don't find those figures very credible. We have, within 30 prisoners, the same number of prisoners at Montana State Prison projected for 1998 as there actually was in 1995 according to the corrections population management plan. At the same time the legislature, after reexamination, gave the department 37 more FTE's of which 15 were guards to guard the same number of prisoners they have had since 1995. Still that was not enough. The department, with the backing of the administration, asked and got 17 more guards at the cost of approximately \$1 million from this committee to guard the same 1,352 prisoners that we had over the last few years. I think this budget is out of control and takes away from other budgets that this committee is trying to fund. The people of Montana are not under taxed, Helena over spends. As we stand here today we only have a \$25 million ending fund balance, the smallest ending fund balance of almost any western state. With a downturn in the economy that would disappear almost overnight. We are now sitting here costing the taxpayers of Montana approximately \$45,000 per day and the administration is still asking taxpayers for just a few million more dollars. You are asked to take all of the greenbacks for corrections, now you are being asked to take all the change out of the taxpayers pocket for education and the university system. I recommend that this committee make the minor adjustments needed to put this bill in proper form. If there are additional dollars desired by the administration those dollars should come out of the existing revenues available. The Department of Corrections would be the first place I would look. There are no more tax dollars available. If there were, I think the taxpayers should be able to keep them. So far this budget has increased over \$100 million in General Fund. I feel government is growing fast enough. I apologize to the committee for the time I've taken here but I think the taxpayers had to have equal time.

{Tape: 1; Side: B; Approx. Time Count: 10:43; Comments: None.}

SEN. EVE FRANKLIN I feel it is important to reframe the discussion when we talk about the taxpayer. I know **PRES. AKLESTAD** is very sincere and works hard in the service of what he sees to be his priorities. We all represent the taxpayers, each one of us is elected to do that. I represent one of the most middle class districts in the State of Montana. I believe we go down a dangerous path if we say they are separate from their government and that they are not their government. I believe my taxpayers and constituents are the government and when we set them apart we are not doing service to the entire process. I agree with corrections concerns, both sides of the aisle has struggled with this issue. But, we also owe our taxpayers a decent quality of services. The one area the Governor has been clear on is that is still an unresolved problem is the higher education budget. We are \$3 million below funding for the last cycle, \$3 million real money below the last level of funding. That means 2,400 students will not be permitted to enroll this fall because there is not instructional money. Those students and parents are taxpayers and if you can't provide them the quality of service they expect, then I feel we are doing a disservice to our taxpayers.

CHAIRMAN SWYSGOOD Ultimately those of us sitting here have to make these final decisions. We will take into consideration the requests that have been put before us and will address them as best we can with the revenue that is currently available.

Dismissal: 10:48 a.m.

Reconvene: 4:40 p.m.

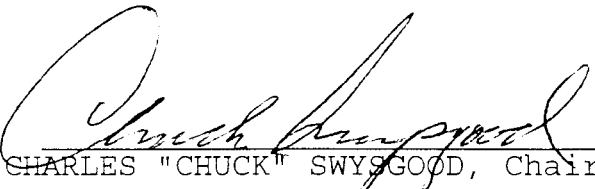
SPEAKER JOHN MERCER I've never seen a legislative session quite in the predicament that it is in right now. I've never seen an executive so insistent on trying to spend money that does not exist. I spoke with **GOVERNOR RACICOT** and urged him to accept the budget in a form in which we would put \$2.5 million back into it. That is unacceptable to him. He has indicated that his threat to veto the budget remains and that is a dark cloud over the taxpayers of this state. As a result, I have a proposal for you. **GOV. RACICOT** has outlined the sorts of things that he wants to spend additional money on: \$2.4 million for the universities, even though they already have the nearly \$10 million increase in the current budget; additional money for the highway patrol; a new program dealing with schools; the list goes on and on and on. The bottom line is that I think we can meet that and here is how we do it. Don't ask the directors because I think the directors are the wrong people to talk to, I think you should ask the fiscal people from each of the departments of state government to go home tonight and bring forward to you some budget reductions to raise this amount of money. Ask them to propose some FTE eliminations throughout the over \$4.5 billion of state government money to fund the full amount that the Governor has insisted upon. You'll have to get the whole who of government back here to get their fiscal people to come forth with this small amount

of cuts. I never thought we'd ever get in a situation where an absolutely minuscule amount of money could not be swallowed by state government. One of the people who should be on that list is the fiscal people from the Department of Corrections, they have absolutely held up state government this session, every dime of money that we have is sitting in that position. I'd like the Senators, members of the House and the Democratic party to think about the Today and Tomorrow program. If the Today and Tomorrow program had passed, that would have freed up \$5.5 million of General Fund money. That could have been used to solve this budget crisis, it would have paid for the R & D problem that we're facing right now and it also would have paid for Virginia City. Since HB 14 has failed, I would like you to put into HB 2 the remaining balance of the Cultural Trust in order to fund and purchase Virginia City. I ask that you put some contingency language there that in the event there are enough votes in the House to pass HB 14 that wouldn't occur, but at least we would know that Virginia City could be purchased. I feel there is a tremendous weight on your shoulders, you should not have to do this. The people behind me should not have to go through and make these budget reductions but, frankly, I think it is the most important thing we can do because if we send the bill down in the form it is in now, even with the additional \$2.5 million, the Governor will reject it. Therefore, I think it is important that we give the Governor every single solitary thing that he has asked for. We have to hold up our obligation to the citizens of this state and not spend money we don't have and in order to do that you have got to cut throughout state government. I believe the best people to tell you that are the fiscal or financial officers for each of those departments. I hope they can bring that information to you tomorrow morning, make those budget cuts, fill in the money for **GOV. RACICOT** and we could adjourn this session tomorrow.

CHAIRMAN SWYSGOOD With the inability to negotiate to a comfortable position on this budget I don't have any other choice than to get another \$2.5 million. There is some money left in the ending fund balance. I ask the agencies to have their fiscal people look at their budgets and tell me whether you can get it. We are not going to put one-time money in this budget, we are not going to use the school trust to supplement RIT funds and we are not going to use reversions. I would like to have that list by 8:30 tomorrow morning.

ADJOURNMENT

Adjournment: 4:52 p.m.


SEN. CHARLES "CHUCK" SWYSGOOD, Chairman


SHARON CUMMINGS, Secretary

CS/SC