MINUTES

MONTANA HOUSE OF REPRESENTATIVES
55th LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT

Call to Order: By CHAIRMAN ED GRADY, on January 8, 1997, at 8:05, in Room 402.

ROLL CALL

Members Present:
Rep. Edward J. "Ed" Grady, Chairman (R)
Sen. Loren Jenkins, Vice-Chairman (R)
Sen. Eve Franklin (D)
Rep. Bob Keenan (R)
Sen. Dale Mahlum (R)
Rep. Joe Quilici (D)

Members Excused: None

Members Absent: None

Staff Present: Cindy Weaver, Legislative Fiscal Division
Jim Turner, Legislative Fiscal Division
Elaine Benedict, Committee Secretary

Committee Business Summary:
HEARING(S) & DATE(S) POSTED: 01/06/97
Executive Action: None

{Tape: UNABLE TO RETRIEVE SOUND FROM TAPE. FOLLOWING IS SUMMARY OF NOTES OF MEETING.}

Cindy Weaver, Associate Fiscal Analyst, distributed a copy of HB 576 from the 1995 legislative session. **EXHIBIT 1**

Jim Turner, Associate Fiscal Analyst, presented an overview of the budget as it relates to the matters to be heard by the subcommittee. The presentation was in large part a summary of pages 99 through 106 of the Overview and General Reference Volume of the Legislative Fiscal Division 1999 Biennium Budget Analysis. The Personal Services Present Law Adjustments presented in the budget tables includes a 3% vacancy savings that has since been rejected by the Joint Meeting of the Senate Finance & Claims and House Appropriations Committees.

CHAIRMAN ED GRADY inquired whether the base includes money agencies were appropriated but did not spend.

Mr. Turner responded that one-time costs, depreciation and other variables have been excluded from the base.

John Patrick, OBPP, added that the budget for Personal Services is based on a "snap-shot" and estimation of future needs. Actual costs were used in determining the base budget for Operating Expenses. Also, if money was moved from the operating budget to the Personal Services budget, it is not included in the base.

Mr. Turner stated that if the moving of funds was a one-time occurrence, the moved funds would be subtracted from the base, therefore the program's base would still be an accurate reflection of the needs for the next biennium.

SEN. EVE FRANKLIN asked what the prohibitions are for moving money within an agency.

Mr. Patrick answered that there is a 5% limit on transferring funds from one department to another.

Ms. Weaver added that the flexibility for transfer of funds within a program limit is extensive.

SEN. FRANKLIN inquired whether transferring money from operations to personal services causes the reflection of that money to be lost from both base budgets.

Mr. Turner stated that it does.

SEN. DALE MAHLUM asked what would happen to the extra money not used in the event that an increase in expenditures does not take place as predicted.

Ms. Debbie Fulton, General Services Administrator, answered that the agency could then spend the money in other areas or could pass the savings on to other agencies by reducing rates. Also, in the event that the agency finds costs to be higher than anticipated, it must then pay those costs by taking the funds from somewhere else in the budget.

SEN. MAHLUM asked if there is a savings plan in place for surplus money.

Ms. Fulton responded that this is an option available to each agency, but not a requirement.

SEN. FRANKLIN inquired about reversions.

Mr. Patrick stated that reversion is the difference between what is spent and what is appropriated and the money goes back to the general fund.

REP. KEENAN stated that $5 million is going back to the General Fund as reversion. $9,500 of this is from the legislative branch.

SEN. FRANKLIN explained that a law was put into effect approximately six years ago to allow agencies to keep 30% of surplus appropriations in order to prevent agencies from spending all excess funds to affect the next budget.

SEN. MAHLUM inquired what would happen if an agency encountered a large unexpected expense.

Mr. Turner answered that the agency could request a budget amendment. The legislature would then have to approve or deny the amendment during the next session, but the money would already have been spent.

CHAIRMAN GRADY cited fire fighting as an example of an expenditure that is difficult to anticipate and budget for, and stated that it is also difficult to micro-manage each agency in regards to budgeting.

Mr. Turner noted that a majority of agencies project deflation in many budget categories.

Mr. Turner then presented an overview of the Fixed Costs Budget. The contents of this presentation are contained on pages 103 through 105 of the Overview and General Reference volume.

Mr. Turner also referred the committee to HB 576 from the 1995 Legislative Session. He explained that the budget as it was determined by HB 2 caused double appropriation. In the past, funds were appropriated to Agency 'A' so it could pay Agency 'B' for internal services. The funds received by Agency 'B' were then appropriated to Agency 'B' in order for agency 'B' to pay its actual costs. The expenses of Agency 'B' then had to be accounted for to the legislature. HB 576, in contrast, appropriates the money to Agency 'A' and allows the money to be passed along to Agency 'B' to be used a part of its budget. Agency 'B' is then entitled to spend this money as it deems necessary, allowing the agency the flexibility to run itself much like a business.

The restrictions incorporated in HB 576 are as follows: rates charged by the agency must be commensurate with costs, the legislature approves the rates charged by an agency, and rates cannot be increased during the biennium. This raises two possible difficulties for the committee. First would be accounting for each detail of the agencies' rates (such as the rate Central Stores of the Department of Administration charges for pencils) when approving rates. The second is attempting to predict external costs, such as postal rates.

REP. JOE QUILICI stated that postal rates will increase in 1998 and asked Ms. Fulton how the Dept. of Administration plans to account for this.

Ms. Fulton answered that this will be discussed when the agency presents its budget and that a 3% increase is calculated as the inflation rate for postal rates.

CHAIRMAN GRADY responded to the concern about unforeseen expenses, stating that agencies can still receive extra funds through budget amendments.

Mr. Turner, Mr. Patrick and **Ms. Fulton** clarified that HB 576 does not allow for budget amendments.

Mr. Turner suggested the committee may wish to recommend a statutory change in order to accommodate the inability of an agency to increase rates. Rates are controlled to some extent by competition from the private sector and by the federal government.

Mr. Tony Herbert, Administrator of Information Services, spoke in favor of HB 576 and the flexibility it allows the agencies.

CHAIRMAN GRADY suggested the committee will want to explore the agencies' alternatives if unexpected costs arise rather than consider a statutory change.

A tour of the Dept. of Administration's upgraded mailing bureau and Information Services Division was then scheduled for Tuesday, January 14, 1997.

REP. QUILICI and **SEN. JENKINS** commended the Legislative Fiscal Division on the excellence of the Overview and General Reference volume of the 1999 Budget Analysis.

ADJOURNMENT

Adjournment: 9:25

REP. EDWARD J. "ED" GRADY, Chairman

ELAINE BENEDICT, Secretary

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