

## **MINUTES**

### **MONTANA SENATE 55th LEGISLATURE - REGULAR SESSION**

#### **COMMITTEE ON FINANCE & CLAIMS**

**Call to Order:** By **CHAIRMAN CHUCK SWYSGOOD**, on March 4, 1997, at 8:03 a.m., in Room 108.

#### **ROLL CALL**

##### **Members Present:**

Sen. Charles "Chuck" Swysgood, Chairman (R)  
Sen. Larry Baer (R)  
Sen. Thomas A. "Tom" Beck (R)  
Sen. James H. "Jim" Burnett (R)  
Sen. B.F. "Chris" Christiaens (D)  
Sen. Eve Franklin (D)  
Sen. Loren Jenkins (R)  
Sen. Greg Jergeson (D)  
Sen. John "J.D." Lynch (D)  
Sen. Dale Mahlum (R)  
Sen. Ken Miller (R)  
Sen. Arnie A. Mohl (R)  
Sen. Linda J. Nelson (D)  
Sen. Mike Taylor (R)  
Sen. Daryl Toews (R)  
Sen. Mignon Waterman (D)

**Members Excused:** Sen. Thomas F. Keating, Vice Chairman (R)

**Members Absent:** None

**Staff Present:** Taryn Purdy, Legislative Fiscal Division  
Sharon Cummings, Committee Secretary

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

##### **Committee Business Summary:**

Hearing(s) & Date(s) Posted: HB 18, 2/19/97; HB 21,  
2/19/97; HB 358, 2/19/97  
Executive Action: HB 18, BCC; HB 358, BCC

#### **HEARING ON HB 358**

**Sponsor:** REP. BOB KEENAN, HD 75, BIGFORK

**Proponents:** Frank Cote, Deputy Insurance Commissioner

**Opponents:** None

Opening Statement by Sponsor:

REP. BOB KEENAN, HD 75, BIGFORK This is an Appropriations Subcommittee general government bill. The 1991 legislature approved a \$10 annual fee for non-resident insurance agents which the State Auditor decided wasn't worth collecting. The 1992 special session legislature removed \$41,800 from the State Auditor's budget and replaced it with special revenue for collecting this fee. The Auditor has since complied and this bill will align statute with the practice of collecting this fee.

Proponents' Testimony:

Frank Cote, Deputy Insurance Commissioner I agree with everything REP. KEENAN said.

Opponents' Testimony: NoneQuestions From Committee Members and Responses: NoneClosing by Sponsor:

REP. KEENAN closes.

{Tape: 1; Side: A; Approx. Time Count: 8:06; Comments: None.}

HEARING ON HB 21

Sponsor: REP. JOHN COBB, HD 50, AUGUSTA

Proponents: None

Opponents: Laurie Neils, University System  
Connie Griffith, Department of Administration

Opening Statement by Sponsor:

REP. JOHN COBB, HD 50, AUGUSTA HB 21 addresses "A" accruals which is when an agency makes purchases at the end of the fiscal year and receives the goods or services the next fiscal year. Doing this doesn't give a true picture of what is actually spent on services in that fiscal year. HB 21 will allow agencies to continue doing "A" accruals, which are not generally accepted accounting principles, but they won't be in the base for budget purposes. Approximately \$40 million were spent on "A" accruals in FY96. When looking at the base budget I want to know what is actually being spent for that fiscal year. Currently "A" accruals are in the base but the services and goods are not received until the next fiscal year. Doing this makes it possible to roll money through the system. If HB 21 had been in effect for FY96, there would be \$10 million less General Fund in the base. HB 21 will require agencies to ask for this money and explain what it is needed for, this will help the legislature

balance priorities. This bill won't affect the budgets of the Departments of Fish, Wildlife & Parks and Transportation because they are on special revenue accounts.

**Proponents' Testimony:** None

*{Tape: 1; Side: A; Approx. Time Count: 8:10; Comments: None.}*

**Opponents' Testimony:**

**Laurie Neils, University System** The University System is opposed to HB 21. We think it is a misconception to label "A" accruals as extra money which is used to inflate the base for unnecessary items. Too many factors are unknown until the end of the fiscal year for a university campus to fully commit to an expenditure level even for necessary items such as equipment or deferred maintenance. For example, enrollments are not known until February or March, utilities cannot be accurately projected until after the winter's bills, hourly wages for students are not known until late in the second semester and personnel may retire or quit. The University System has made the commitment that General Fund money will be returned for every resident student less than the budgeted level. Therefore, not only is our tuition revenue which is 50% of our budget difficult to estimate, but so is our General Fund revenue. This year MSU-Billings is approximately \$800,000 below its tuition revenue estimates, in addition to that they are going to have to return about \$200,000 in General Fund because they didn't meet their resident student targets. This campus is going to have to maintain a tight budget. Even though there are equipment needs and deferred maintenance for MSU-Billings they will have to be put behind the more necessary expenditures such as salary commitments and operating expenses. If they should have some money left at the end of the fiscal year the campus will record "A" accruals because it is too late in the year for them to expect to receive the equipment or have the services be rendered before June 30. Even under normal circumstances the campus' will want to enter into contracts for equipment or deferred maintenance but not want the work to begin until after the students are out of the classrooms. Even though the University System did not have to worry about losing reversions, we recorded over \$1 million in "A" accruals in FY96. The campus' were not inflating their budgets or dumping surplus authority, these entries were mainly for needed instructional and laboratory equipment and deferred maintenance projects. We will get the money back in reversions but it takes over a year to do so. The University System has worked hard to be more efficient, we ask that you continue to allow us to make the best use of our resources and not eliminate our ability to purchase needed equipment and services near the end of the fiscal year and allow it to be in the base budget.

**Connie Griffith, Department of Administration** As the state accountant I oppose HB 21. The purpose of "A" accruals, in an area that is so dependent and controlled by a budget operation,

is to allow agencies to appropriately manage that budget. Many times agencies sign contracts at the end of the year to have work done that may carry over into the next year. As a result, in managing their budget, they will accrue the services that are left on that contract. There may be equipment that is ordered in February that will not be received by the agency until August, they need to accrue that because it was appropriated in that years budget. The concern I have with this particular bill and the way it is written in that they would take the "A" accruals out of the base. These are primarily on-going operations that have been appropriated by the legislature and are not for additional items. Agencies shouldn't have to come in and justify these expenditures as new proposals and have them approved again when they are part of their on-going operations. Most of the "A" accruals are for contracted services and equipment which are zero based, before we can get them into our base budget in the next biennium we have to justify them to the Office of Budget & Program Planning (OBPP). I think "A" accruals enable agencies to operate their programs and manage their budgets efficiently.

*{Tape: 1; Side: A; Approx. Time Count: 8:16; Comments: None.}*

Questions From Committee Members and Responses:

**SEN. ARNIE MOHL** You didn't sign the fiscal note. **REP. COBB** I didn't have time to sign it before the bill was heard. The figure for "A" accrual amount is the amount reported on SBAS but is a rough estimate.

**SEN. MOHL** Are you considering the money accrued but not spent if it is obligated? **REP. COBB** An "A" accrual doesn't come in until after the fiscal year. Agencies can do that but it is misleading. We want to know what was actually spent for services in that fiscal year for base budget purposes. If money was budgeted for the same equipment in the next fiscal year it should be free to use for something else.

**SEN. LOREN JENKINS** You said the budgets are looked over by the OBPP before they are approved. Is there a possibility that this money was approved by the legislature but not for that specific item and the OBPP can approve it? **Ms. Griffith** If you are asking if money could be transferred from areas in a different way than it was originally appropriated, I expect that could happen. What I am saying is that any amount that is spent on contracted services or equipment during a base year would have to be scrutinized when it goes to the OBPP as we have to put in the amount we expect to spend in the next biennium and justify that expenditure.

**SEN. JENKINS** Would it be reviewed by the legislature? **Ms. Griffith** That could happen. You may have expenditures that are spent differently than what was originally line itemed but transfers are allowed between personnel services, operating

expense and capital equipment by state statute. We always have to send a budget amendment request to make those transfers.

**SEN. JENKINS** Why can't the University System know winter expenditures before July for the previous years expenditures?

**Ms. Neils** We do know what our utility bills are before June 30. I was trying to make the point that we get close to the end of the fiscal year before we know how much money we have available for things like equipment and deferred maintenance projects. That is why we end up recording them as "A" accruals.

**SEN. JENKINS** If expenditures are less than you expected that year, will you use it to buy equipment. **Ms. Neils** Probably.

**SEN. TOM BECK** Please explain what 21xx means in #3 of the fiscal note. **REP. COBB** This is an expenditure code.

**SEN. GREG JERGESON** Wouldn't passage of this bill provide an incentive for agencies to spend their money earlier in the year to preserve their base? **REP. COBB** Currently "A" accruals are done with money left over at the end of the fiscal year. Good managers should be buying their higher priority equipment earlier. "A" accruals are usually used for lower priority items. Agencies could spend their money earlier as a way to build their base up, HB 21 will give a more accurate picture of what the base is right now.

**SEN. JERGESON** We expect a good manager to manage their cash flow so they have money to meet unexpected emergencies and not have to come asking for supplementals. Won't this bill dissuade agencies from being good managers of their cash flow because they will lose it when the next budget cycle arrives? **REP. COBB** They would need to ask for it and explain what they did with the money. I think the bad managers are using "A" accruals more than the good managers. My concern is that we give them money to buy equipment in FY97, if they can buy it in FY96 it frees up FY97 money that can be rolled through the system. They may use this money for other things that the legislature has no say in. A few sessions ago the legislature line itemed personnel services saying agencies couldn't move money from personnel services or operating expenses, "A" accruals dropped from \$27 million to \$17 million in one year. The legislature doesn't get a true picture of what was actually spent in a fiscal year. General Fund for FY96 was over budgeted by \$10 million, this is money that was not spent for services in that year which are available for FY97.

**SEN. JERGESON** Have you compared the agencies "A" accruals with their supplemental requests? **REP. COBB** An agency asking for a supplemental request cannot do "A" accruals. A bill was passed last session addressing this.

**SEN. JERGESON** The School for the Deaf and Blind had money left at the end of the fiscal year and they used it for a portion of a court judgement related to salaries. Consequently the

supplemental they requested was reduced by the amount of money they had saved. Isn't that a practice we'd like to encourage? Is that a practice agencies would not be able to follow if this bill is passed? **REP. COBB** They can still do it, they would have to come to the legislature to explain what they did with the money.

**SEN. JENKINS** Didn't we pass a bill in the 1980's allowing agencies a percentage to carry over that wouldn't go against their budget? **REP. COBB** In the last session we passed a bill saying agencies saving money through efficiencies can roll over 30%.

Closing by Sponsor:

**REP. COBB** This bill does not stop the agencies from doing "A" accruals. The base budget would show what was actually spent for services rendered in that fiscal year and not the next fiscal year.

{Tape: 1; Side: A; Approx. Time Count: 8:31; Comments: None.}

HEARING ON HB 18

Sponsor: **REP. JOHN JOHNSON, HD 2, GLENDIVE**

Proponents: **Jim Jacobsen, Montana Veteran Affairs Division**  
**Hal Manson, American Legion of Montana**  
**Joe Brand, Veterans of Foreign Wars**  
**Jim Kembel, City of Billings**

Opponents: None

Opening Statement by Sponsor:

**REP. JOHN JOHNSON, HD 2, GLENDIVE** HB 18 was requested by the interim subcommittee on veterans needs and establishes a system to establish a veterans cemetery in eastern Montana. **REP. JOHNSON** explains the bill. There is no General Fund money involved in this because the construction costs come out of the license plate fund with a matching amount from the federal government.

{Tape: 1; Side: A; Approx. Time Count: 8:34; Comments: None.}

Proponents' Testimony:

**Jim Jacobsen, Montana Veteran Affairs Division (EXHIBIT #1)** explained.

**Hal Manson, American Legion of Montana** We see a great need for this cemetery in eastern Montana. Our experience with the cemetery at Fort Harrison has shown us that a great number of

veterans prefer to be buried in a veterans cemetery. We have very few from eastern Montana buried at Fort Harrison because people want their family members buried where they can visit the grave. People from eastern Montana are not going to come to Fort Harrison to visit graves. The people in eastern Montana have a right to a military cemetery.

**Joe Brand, Veterans of Foreign Wars** We support HB 18.

**Jim Kembel, City of Billings** We would be honored to have such a facility in Billings and have a number of sites in mind. We ask your support of this legislation.

Opponents' Testimony: None

{Tape: 1; Side: A; Approx. Time Count: 8:40; Comments: None.}

Questions From Committee Members and Responses:

**SEN. JERGESON** What criteria will be used for site selection? Would one of the criteria be a community that has contributed more than the state average in people enlisting and serving in the armed forces? **REP. JOHNSON** That could be a valid criteria. Page 2, lines 6-9 lists criteria. **Mr. Jacobsen** Yes, that is a factor in the criteria. The federal VA sets out guidelines for this.

**SEN. JERGESON** Billings might be looking at this as an economic development project but if the number of veterans is lower than the statewide average that ought to be a consideration as compared to a smaller town with a higher ratio. **Mr. Jacobsen** It will be a factor but not an overwhelming factor. The other factors involved in the equation would overcome that.

**SEN. MIGNON WATERMAN** Why isn't there a fiscal note with this bill? **CHAIRMAN SWYSGOOD** The bill has an appropriation in it for administration purposes. As I understand it, the funding for the construction is contained in HB 5. **Mr. Jacobsen** This bill contains a \$10,000 administrative cost.

**SEN. LINDA NELSON** Who are the Board of Veterans Affairs. **Mr. Jacobsen** The Board of Veterans Affairs is a statutory board that has been in existence for 75 years. Members are from throughout the state, are appointed by the Governor and serve a five year term. The Board is administratively attached to the Department of Military Affairs.

**SEN. CHRIS CHRISTIAENS** Where are the veterans affairs offices in eastern Montana? **Mr. Jacobsen** There are eight offices in the state, Helena, Billings, Miles City, Bozeman, Butte, Great Falls, Kalispell and Missoula.

**CHAIRMAN SWYSGOOD** Is the license plate fund used to maintain the Fort Harrison cemetery? **Mr. Jacobsen** Yes, it is used for

operation and maintenance of the cemetery. The other amount of money is used for construction.

**CHAIRMAN SWYSGOOD** \$105,000 of the construction is contained in HB 5 which is 50% each federal and license plate fund. How will the cemetery in eastern Montana affect the balance in the license plate fund as it relates to the other obligations and the ongoing cost of running the cemetery in eastern Montana? **Mr. Jacobsen** We receive approximately \$50,000 per year to operate and maintain the Fort Harrison cemetery and expend about \$30,000 per year on construction. Construction on the Fort Harrison cemetery will conclude this summer. Construction on the cemetery in eastern Montana won't start until 1999 by which time there will be money saved.

**CHAIRMAN SWYSGOOD** You don't foresee coming to ask for General Fund money to run these cemeteries? **Mr. Jacobsen** Not as long as you good veterans buy those license plates.

*{Tape: 1; Side: B; Approx. Time Count: 8:49; Comments: None.}*

Closing by Sponsor:

**REP. JOHNSON** The process is in place at a cost of \$10,000 from the license plate funds. I urge a positive vote on this bill.

EXECUTIVE ACTION ON HB 358

Motion/Vote: SEN. J.D. LYNCH MOVES HB 358 BE CONCURRED IN. THE MOTION CARRIED UNANIMOUSLY. SEN. LYNCH will carry this bill

*{Tape: 1; Side: B; Approx. Time Count: 8:51; Comments: None.}*

EXECUTIVE ACTION ON HB 18

Motion/Vote: SEN. LYNCH MOVES HB 18 BE CONCURRED IN. THE MOTION CARRIED UNANIMOUSLY. SEN. HARGROVE will carry this bill.

EXECUTIVE ACTION ON HB 21

Motion: SEN. JENKINS MOVES HB 21 BE CONCURRED IN.

Discussion: SEN. LYNCH I think we should wait to act on this. There seem to be conflicting views on what this will do to accounting procedures.

**CHAIRMAN SWYSGOOD** REP. COBB has been trying to get a handle on the budget bases. "A" accruals are a complicated, complex mechanism. I believe he makes some valid points as it relates to the base and whether they are asking for money in one year for items they aren't getting until the next year and then get funded that next year for the same things. Giving the agencies



flexibility to move their money has created a problem. This may not be the right tool but it is a valid idea.

**SEN. MOHL** When you get authorization to buy a vehicle that is a one time purchase and doesn't become part of the base, does it?

**Ms. Taryn Purdy, Legislative Fiscal Division** Yes, that is a one time only purchase. When an agency comes in for an equipment budget they have to justify every dollar they spend regardless of the amount of money they spend in the base year. Sometimes the base is used as a guide for ongoing expenditures.

**SEN. LYNCH** An agency buying five new vehicles doesn't need additional maintenance because generally they are replacing old vehicles. I don't see budgets jump up because of purchased equipment.

**SEN. CHRISTIAENS** Shouldn't we be able to see exactly what is in there because of the zero base for contracted services? **Ms. Purdy** That is essentially right in that an agency coming in for contracted services has to tell the legislature, LFD and the OBPP every contract that makes up the total amount they are requesting for that vehicle.

**SEN. JENKINS** We saw that a lot of money was shifted around in the agencies in the last few years, money they might have shifted out of operations to buy computers. I believe that is what **REP. COBB** is trying to get a handle on, if they shifted the money somewhere else we should be able to see it and we're not. We need to pay attention to the fact that the FY96 base budget is higher than the FY94 budget and the next one will be a higher base than what we are looking at now. We're due to hit a crash, we're \$48 million short on what we had 2 years ago because of Workman's Compensation being \$20 million over budget and the \$28 million we sent back to the citizens last session. We're talking about a balanced budget next session, when they start doing that budget they will have a higher base and I don't know how they will fund it.

**SEN. EVE FRANKLIN** Please comment on the accounting issues of what **SEN. JENKINS** stated. **Ms. Griffith** **REP. COBB** is correct, use of "A" accruals is not generally accepted accounting principles. Because operation of the state is budget driven we have to have the ability to utilize "A" accruals to manage our operations appropriately. "A" accruals are allowed in state statute and are common in other states. We do not use "A" accruals in our financial reporting.

**SEN. JERGESON** One of the revenue sources we have for balancing the budget is the interest income from the short term investment pool. This is when cash flow management becomes an important issue. If this bill is passed we will provide an incentive for agencies to spend their money sooner in order to maintain their base which will reduce interest income on short term investments. Having done that they will be less likely to have money at the

end of the biennium and will be asking for more supplementals because they will not be able to deal with emergencies since the money has been spent. Many of the "A" accruals cover deferred maintenance when they discover they have additional money at the end of a fiscal year. I think there are clear reasons why this bill may end up costing more rather than saving.

**SEN. LYNCH** We need to determine if this truly is the operating budget and if it is why do agencies keep dipping into it for other things. We don't intend to have the operating budget as a slush fund, we need to know what they need to operate. We shouldn't force anyone to spend money as fast as they get it. There are pros and cons to this bill.

**SEN. JERGESON** I don't think it is fair to characterize it as a slush fund. If an agency has a year that they don't need as much money as usual they should be encouraged to use the extra money for things they don't have to come back and ask us for, like deferred maintenance.

**SEN. LYNCH** What if you can see a continual pattern of the operational budget always being used but not for operational expenses?

**SEN. JERGESON** You can get that information and if you see it as a pattern in an agency then do something with respect to their budgets instead of applying this standard to all of the agencies who may have various reasons to use "A" accruals periodically.

**SEN. WATERMAN** Who will point out if an agency consistently moves money from the operational budget to another area? **Ms. Purdy** One of the things the LFD tries to do in an analysis is start off where the legislature started and see where an agency did perhaps move that around. This will be done formally if we see major shifting from one to the other. On a regular basis we won't report this for everyone but we do try and look at it.

**SEN. WATERMAN** Would it be highlighted if they were consistently moving 10% of their operating budget out to other areas? **Ms. Purdy** It may or may not be depending on whether it was viewed as something that seemed to be endemic to the agency or seemed to be because they were trying to subvert what the legislature had intended for that agency to spend its money on. Normally we would not point it out because it is often viewed as normal procedure for an agency, to allow them some flexibility with their budgets.

**SEN. MIKE TAYLOR** I believe an agency would get supplements if they had a bad winter. I feel this bill may make it possible to see actual budgets year in and year out. This is important considering term limits and the fact that much of this knowledge will be going away. The same people will not always be on the committee and we need a system. Maybe this is the start of that.

**CHAIRMAN SWYSGOOD** What will this do to the current budget process? **REP. COBB** said agencies can come and ask for the money back but the legislature isn't here in the off year. If they "A" accrual from FY98 to FY99 who will they ask for the money? **Ms. Purdy** They would ask for it from the legislature with budget requests for FY00 and FY01.

**CHAIRMAN SWYSGOOD** If they need to pay for something they had rolled the money for, they would have to wait until we come back to get it under this bill? **Ms. Purdy** If an agency rolled the money forward and received the service or goods in the second year the agency has a flexibility within what they can spend the money on that would allow them to spend that second year how they saw fit within the policies that you established. If you were talking about the legislature being extremely specific about what they allow agencies to spend the equipment budget on, it would be a little different story but you really don't do that. You provide guidelines within what they thought they would need.

**Motion:** SEN. WATERMAN MAKES A SUBSTITUTE MOTION TO TABLE HB 21.  
MOTION FAILED ON ROLL CALL VOTE.

**SEN. JERGESON** Do we need to take action on this bill today?

**CHAIRMAN SWYSGOOD** No, if the committee would like to look at this bill and get some more information that would be fine.

**SEN. LYNCH** Just looking at it isn't going to help much. I don't want to see the agencies spend their money fast because they can't revert it and I also don't think it should be consistently artificial in the operations budget. Is there someplace in the middle?

**CHAIRMAN SWYSGOOD** I think all of us have some concerns on the impact of this bill but believe there are some valid points being made. **Ms. Purdy** I have a suggestion on a possible middle ground. The LFD will look at those things but not necessarily speak on them in the budget analysis. We take our direction from the Legislative Finance Committee and we could see if the committee would be amenable to having the LFD do this in a more formal manner during budget analysis. There may be a section that speaks specifically about accruals within that context, for instance, what seems to be the nature of these accruals, rather than leaving it to the discretion of the analyst on whether or not they view it as an issue.

**CHAIRMAN SWYSGOOD** There are many members of the budget committee that don't know what "A" accruals are going on because they are never brought up. Having it highlighted and explained in the budget may help members of the subcommittees view this and ask questions. **Ms. Purdy** You may not need to change legislation at all if that is the course you would like to go. This could be a direction or will of the committee to the Finance Committee who would then provide direction to the LFD.

**SEN. MOHL** Why can't it be put in that whatever is funded is for that particular item and the money can't be transferred? I have some concerns that if we pass this as it is we'll be doing the opposite of what we want and the money will be spent immediately. I don't want anyone coming in for supplementals.

**CHAIRMAN SWYSGOOD** I believe that is what **Ms. Purdy** is saying when the LFD reviews it and puts an analysis in for us to look at during the next session. **Ms. Purdy** Regarding **SEN. MOHL'S** issue, the legislature can line item certain items in the budget which precludes the agency from using that appropriation for any other source.

**SEN. WATERMAN** As I recall we've chosen not to line item everything feeling that becomes a disincentive. **CHAIRMAN SWYSGOOD** We had a tendency to micro-manage a while back. As we started reducing their budgets we allowed them the flexibility of managing the money.

*{Tape: 1; Side: B; Approx. Time Count: 9:18; Comments: None.}*

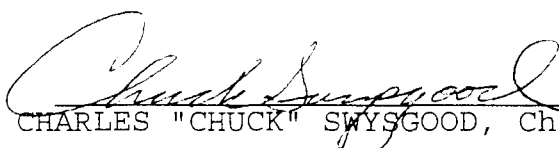
Motion: **SEN. JERGESON MAKES A SUBSTITUTE MOTION THAT WE PASS CONSIDERATION OF HB 21 UNTIL ONE WEEK FROM TODAY.**

**SEN. LARRY BAER** We shouldn't delude ourselves into thinking that the use it or lose it base building mentality does not already exist. Perhaps a combination of this bill and **Ms. Purdy's** recommendation could make this more appropriate and remedial.

Vote: **THE SUBSTITUTE MOTION CARRIED UNANIMOUSLY.**

ADJOURNMENT

Adjournment: 9:21 a.m.

  
SEN. CHARLES "CHUCK" SWYSGOOD, Chairman

  
SHARON CUMMINGS, Secretary

CS/SC