

1 HOUSE BILL NO. 21

2 INTRODUCED BY COBB

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT REMOVING THE REQUIREMENT THAT MOST STATE AGENCY
5 ENCUMBRANCES BE TREATED AS EXPENDITURES FOR ACCOUNTING PURPOSES; ALLOWING CERTAIN
6 CONTRACTUAL ENCUMBRANCES TO BE TREATED AS EXPENDITURES FOR ACCOUNTING PURPOSES;
7 AMENDING SECTION 17-1-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN
8 APPLICABILITY DATE."

9
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

11
12 **Section 1.** Section 17-1-102, MCA, is amended to read:

13 **"17-1-102. Uniform accounting system and expenditure control.** (1) The department shall establish
14 a system of financial control so that the functioning of the various ~~agencies of the state~~ state agencies may
15 be improved, ~~duplications~~ duplication of work by different state agencies and employees may be eliminated,
16 public service may be improved, and the cost of government may be reduced.

17 (2) The department shall prescribe and install uniform accounting and reporting for all state
18 agencies and institutions, showing the receipt, use, and disposition of all public money and property in
19 accordance with generally accepted accounting principles, ~~and~~ The department shall develop plans for
20 improvements and economies in the organization and operation of state agencies and institutions, which
21 must be submitted to the respective heads of state agencies and institutions. Copies of all plans must be
22 delivered to the governor, and additional copies must be retained in the office of the department for
23 inspection by the members of the legislature.

24 (3) The uniform accounting and reporting system must contain three levels of expenditure. The first
25 level must include general categories, such as personal services, operating expenses, equipment, capital
26 outlay, local assistance, grants, benefits and claims, transfers, and debt service. The second level of
27 expenditure must include specific categories of expenditures within each first-level category. The third level
28 of expenditure must include specific items of expenditure within each category of the second level.

29 (4) The department shall examine all financial affairs of each state agency and institution for the
30 purpose of developing plans for improvements and economies in the organization and operation of the state

1 agencies and institutions and for the purpose of enabling the department to properly perform any of the
2 duties imposed upon the department by this part.

3 (5) (a) ~~All Except as provided in subsection (5)(b), all~~ state agencies, including units of the
4 university system but excluding community colleges, shall input all necessary transactions to the accounting
5 system prescribed in subsection (2) before the accounts are closed at the end of the fiscal year in order to
6 present the receipt, use, and disposition of all money and property for which the state agency is
7 accountable in accordance with generally accepted accounting principles, ~~except that for budgetary control~~
8 ~~purposes, encumbrances that are required by generally accepted accounting principles to be reported as~~
9 ~~a reservation of fund balance must be recorded as expenditures and liabilities on the accounting records.~~

10 (b) Encumbrances for highway construction contracts and encumbrances for other contracts that
11 are subjected to the condition contained in this subsection (5)(b) in a general appropriation act, as provided
12 in 17-8-103, must be recorded as expenditures and liabilities in the accounting records."

13
14 NEW SECTION. Section 2. Applicability. [Section 1] applies to contracts entered into or renewed
15 on or after [the effective date of this act].

16
17 NEW SECTION. Section 3. Effective date. [This act] is effective on passage and approval.

18 -END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0021, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

A bill removing the requirement that state agency encumbrances be treated as expenditures for budgetary control purposes ("A" Accruals) with the exception of certain contractual encumbrances that may be treated as expenditures for accounting purposes.

ASSUMPTIONS:

1. "A" accruals are defined as: accounting entries recorded at fiscal year-end, for budgetary control purposes, to record expenditures of budgeted goods or services ordered but not received at June 30th.
2. The new language in 17-1-102(5)(b) allows use of "A" accruals for highway construction contracts and contract expenditures included in a general appropriation act.
3. "Contract" expenditures generally include only those expenditures recorded in the 21xx objects of expenditure; however, certain other categories may include expenditures for services and/or items purchased through a "contract", e.g. computer equipment purchased from a "term contract"; janitorial services provided through a "maintenance contract"; or grant monies paid to an organization with which a state agency has a contract for services. A state purchase order for any goods and services is generally considered to be a contract when properly executed by both parties to the purchase order.
4. The following funds are not appropriated in the general appropriations act, and accordingly may not be able to record "A" accruals: proprietary funds, expendable trust funds, nonexpendable trust funds and all university funds except the current unrestricted fund.
5. There may be additional administrative expenses incurred by state agencies if "A" accruals are restricted or modified. The expenses are not subject to reasonable estimate but may include the execution and processing of additional contracts, additional requests and accounting for biennial appropriations, additional preparation and processing of operating plan/budget adjustment forms, particularly for programs operated in proprietary funds, and adjustments to procurement, bidding, and product or service delivery timelines and schedules.

For informational purposes, the following table represents the "A" accruals recorded at fiscal year-end 1996:

<u>Category</u>	General Fund (000's)	State Spec. (000's)	Federal Spec. (000's)	Prop. (000's)	Univ. Unrestrt. (000's)
Contracted Services	\$ 5,290	\$11,697	\$10,158	\$ 159	\$
Grants	2,874	3,457	719	0	
Equipment	671	3,283	590	1,651	488
Benefits & Claims	345	0	1,230	0	
Repair & Maintenance	237	1,573	0	307	395
Land & Buildings	501	440	0	0	
Supplies & Materials	323	608	0	124	
All other	167	652	569	244	216
Total	\$10,408	\$21,710	\$13,266	\$ 2,485	\$ 1,099

(continued)

Dave Lewis 1-11-97
 DAVE LEWIS, BUDGET DIRECTOR DATE
 Office of Budget and Program Planning

 JOHN COBB, PRIMARY SPONSOR DATE

Fiscal Note for HB0021, as introduced

HB 21

FISCAL IMPACT:

A significant portion of the "A" accruals in FY 1996 - \$37.6 million, or 83 per cent - in the general, state special, and federal special funds are for contract services, grants, benefit and claims payments, and repair and maintenance expenditures. Most of these expenditures could fall into the "contract" area. An additional \$4.5 million, or 10 per cent of the "A" accruals in these funds are for equipment purchases, some of which are purchased under a contract and most of which are appropriated for in a general appropriations act. All other "A" accruals, which may or may not comply with the intent of HB21, together represent only 7 per cent of the total, or slightly more than \$700,000 of the general fund.

Further, managers will change the timing of their purchasing decisions for items not covered by a "contract" to ensure delivery and payment prior to June 30. This behavioral change will further reduce potential reversions.

TECHNICAL NOTES:

Language in 17-7-302 and 17-7-303, MCA, may conflict with the intent of HB21.

1 HOUSE BILL NO. 21

2 INTRODUCED BY COBB

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT REMOVING THE REQUIREMENT THAT MOST STATE AGENCY
5 ENCUMBRANCES BE TREATED AS EXPENDITURES FOR ACCOUNTING BUDGET PURPOSES; ALLOWING
6 ~~CERTAIN CONTRACTUAL ENCUMBRANCES TO BE TREATED AS EXPENDITURES FOR ACCOUNTING~~
7 ~~PURPOSES~~; AMENDING SECTION ~~17-1-102~~ 17-7-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE
8 DATE ~~AND AN APPLICABILITY DATE.~~"

9
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

11
12 ~~Section 1. Section 17-1-102, MCA, is amended to read:~~

13 ~~"17-1-102. Uniform accounting system and expenditure control. (1) The department shall establish~~
14 ~~a system of financial control so that the functioning of the various agencies of the state state agencies may~~
15 ~~be improved, duplications duplication of work by different state agencies and employees may be eliminated,~~
16 ~~public service may be improved, and the cost of government may be reduced.~~

17 ~~(2) The department shall prescribe and install uniform accounting and reporting for all state~~
18 ~~agencies and institutions, showing the receipt, use, and disposition of all public money and property in~~
19 ~~accordance with generally accepted accounting principles, and The department shall develop plans for~~
20 ~~improvements and economies in the organization and operation of state agencies and institutions, which~~
21 ~~must be submitted to the respective heads of state agencies and institutions. Copies of all plans must be~~
22 ~~delivered to the governor, and additional copies must be retained in the office of the department for~~
23 ~~inspection by the members of the legislature.~~

24 ~~(3) The uniform accounting and reporting system must contain three levels of expenditure. The first~~
25 ~~level must include general categories, such as personal services, operating expenses, equipment, capital~~
26 ~~outlay, local assistance, grants, benefits and claims, transfers, and debt service. The second level of~~
27 ~~expenditure must include specific categories of expenditures within each first level category. The third level~~
28 ~~of expenditure must include specific items of expenditure within each category of the second level.~~

29 ~~(4) The department shall examine all financial affairs of each state agency and institution for the~~
30 ~~purpose of developing plans for improvements and economies in the organization and operation of the state~~

1 agencies and institutions and for the purpose of enabling the department to properly perform any of the
 2 duties imposed upon the department by this part.

3 ~~(5) (a) All Except as provided in subsection (5)(b), all state agencies, including units of the~~
 4 ~~university system but excluding community colleges, shall input all necessary transactions to the accounting~~
 5 ~~system prescribed in subsection (2) before the accounts are closed at the end of the fiscal year in order to~~
 6 ~~present the receipt, use, and disposition of all money and property for which the state agency is~~
 7 ~~accountable in accordance with generally accepted accounting principles, except that for budgetary control~~
 8 ~~purposes, encumbrances that are required by generally accepted accounting principles to be reported as~~
 9 ~~a reservation of fund balance must be recorded as expenditures and liabilities on the accounting records.~~

10 ~~(b) Encumbrances for highway construction contracts and encumbrances for other contracts that~~
 11 ~~are subjected to the condition contained in this subsection (5)(b) in a general appropriation act, as provided~~
 12 ~~in 17-8-103, must be recorded as expenditures and liabilities in the accounting records."~~

13
 14 ~~NEW SECTION. Section 2. Applicability. [Section 1] applies to contracts entered into or renewed~~
 15 ~~on or after [the effective date of this act].~~

16
 17 **SECTION 1. SECTION 17-7-102, MCA, IS AMENDED TO READ:**

18 **"17-7-102. Definitions.** As used in this chapter, the following definitions apply:

19 (1) "Additional services" means different services or more of the same services.

20 (2) "Agency" means each state office, department, division, board, commission, council,
 21 committee, institution, university unit, or other entity or instrumentality of the executive branch, office of
 22 the judicial branch, or office of the legislative branch of state government, except for purposes of capital
 23 projects administered by the department of administration, for which institutions are treated as one
 24 department and university units as one system.

25 (3) "Approved long-range building program budget amendment" means approval by the budget
 26 director of a request submitted through the architecture and engineering division of the department of
 27 administration to transfer excess funds appropriated to a capital project within an agency to increase the
 28 appropriation of another capital project within that agency or to obtain financing to expand a project with
 29 funds that were not available for consideration by the legislature.

30 (4) "Approving authority" means:

- 1 (a) the governor or the governor's designated representative for executive branch agencies;
- 2 (b) the chief justice of the supreme court or the chief justice's designated representative for judicial
3 branch agencies;
- 4 (c) the speaker for the house of representatives;
- 5 (d) the president for the senate;
- 6 (e) appropriate legislative committees or a designated representative for legislative branch agencies;
- 7 or
- 8 (f) the board of regents of higher education or its designated representative for the university
9 system.
- 10 (5) "Base budget" means that level of funding authorized by the previous legislature, but excluding
11 encumbrances under 17-1-102(5).
- 12 (6) "Budget amendment" means a legislative appropriation to increase spending authority for the
13 special revenue fund, proprietary funds, or unrestricted subfund, contingent on total compliance with all
14 budget amendment procedures.
- 15 (7) "Effectiveness measure" means a criterion for measuring the degree to which the objective
16 sought is attained.
- 17 (8) "Emergency" means a catastrophe, disaster, calamity, or other serious unforeseen and
18 unanticipated circumstance that has occurred subsequent to the time that an agency's appropriation was
19 made, that was clearly not within the contemplation of the legislature and the governor, and that affects
20 one or more functions of a state agency and the agency's expenditure requirements for the performance
21 of the function or functions.
- 22 (9) "Necessary" means essential to the public welfare and of a nature that cannot wait until the
23 next legislative session for legislative consideration.
- 24 (10) "New proposals" means requests to provide new nonmandated services, to change program
25 services, to eliminate existing services, or to change sources of funding. For purposes of establishing the
26 present law base, the distinction between new proposals and the adjustments to the base budget to
27 develop the present law base is to be determined by the existence of constitutional or statutory
28 requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those
29 requirements is considered a new proposal.
- 30 (11) "Present law base" means that additional level of funding needed under present law to maintain

- 1 operations and services at the level authorized by the previous legislature, including but not limited to:
- 2 (a) changes resulting from legally mandated workload, caseload, or enrollment increases or
- 3 decreases;
- 4 (b) changes in funding requirements resulting from constitutional or statutory schedules or
- 5 formulas;
- 6 (c) inflationary or deflationary adjustments; and
- 7 (d) elimination of nonrecurring appropriations.
- 8 (12) "Priority listing" means a ranking of proposed expenditures in order of importance.
- 9 (13) "Program" means a combination of resources and activities designed to achieve an objective
- 10 or objectives.
- 11 (14) "Program size" means the magnitude of a program, such as the size of clientele served or the
- 12 volume of service in relation to the population or area.
- 13 (15) "Program size indicator" means a measure to indicate the magnitude of a program.
- 14 (16) "Requesting agency" means the agency of state government that has requested a specific
- 15 budget amendment.
- 16 (17) "University system unit" means the board of regents of higher education; office of the
- 17 commissioner of higher education; university of Montana, with campuses at Missoula, Butte, Dillon, and
- 18 Helena; Montana state university, with campuses at Bozeman, Billings, Havre, and Great Falls; the
- 19 agricultural experiment station, with central offices at Bozeman; the forest and conservation experiment
- 20 station, with central offices at Missoula; the cooperative extension service, with central offices at Bozeman;
- 21 the bureau of mines and geology, with central offices at Butte; the fire services training school at Great
- 22 Falls; and the community colleges at Miles City, Glendive, and Kalispell."

23

24 **NEW SECTION. Section 2. Effective date.** [This act] is effective on passage and approval.

25

-END-

HOUSE BILL NO. 21

INTRODUCED BY COBB

A BILL FOR AN ACT ENTITLED: "AN ACT REMOVING THE REQUIREMENT THAT MOST STATE AGENCY ENCUMBRANCES BE TREATED AS EXPENDITURES FOR ACCOUNTING BUDGET PURPOSES; ALLOWING ~~CERTAIN CONTRACTUAL ENCUMBRANCES TO BE TREATED AS EXPENDITURES FOR ACCOUNTING PURPOSES~~; AMENDING SECTION ~~17-1-102~~ 17-7-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

~~Section 1. Section 17-1-102, MCA, is amended to read:~~

~~"17-1-102. Uniform accounting system and expenditure control. (1) The department shall establish a system of financial control so that the functioning of the various agencies of the state state agencies may be improved, duplications duplication of work by different state agencies and employees may be eliminated, public service may be improved, and the cost of government may be reduced.~~

~~(2) The department shall prescribe and install uniform accounting and reporting for all state agencies and institutions, showing the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles, and The department shall develop plans for improvements and economies in the organization and operation of state agencies and institutions, which must be submitted to the respective heads of state agencies and institutions. Copies of all plans must be delivered to the governor, and additional copies must be retained in the office of the department for inspection by the members of the legislature.~~

~~(3) The uniform accounting and reporting system must contain three levels of expenditure. The first level must include general categories, such as personal services, operating expenses, equipment, capital outlay, local assistance, grants, benefits and claims, transfers, and debt service. The second level of expenditure must include specific categories of expenditures within each first level category. The third level of expenditure must include specific items of expenditure within each category of the second level.~~

~~(4) The department shall examine all financial affairs of each state agency and institution for the purpose of developing plans for improvements and economies in the organization and operation of the state~~

1 ~~agencies and institutions and for the purpose of enabling the department to properly perform any of the~~
 2 ~~duties imposed upon the department by this part.~~

3 ~~(5) (a) All Except as provided in subsection (5)(b), all state agencies, including units of the~~
 4 ~~university system but excluding community colleges, shall input all necessary transactions to the accounting~~
 5 ~~system prescribed in subsection (2) before the accounts are closed at the end of the fiscal year in order to~~
 6 ~~present the receipt, use, and disposition of all money and property for which the state agency is~~
 7 ~~accountable in accordance with generally accepted accounting principles, except that for budgetary control~~
 8 ~~purposes, encumbrances that are required by generally accepted accounting principles to be reported as~~
 9 ~~a reservation of fund balance must be recorded as expenditures and liabilities on the accounting records.~~

10 ~~(b) Encumbrances for highway construction contracts and encumbrances for other contracts that~~
 11 ~~are subjected to the condition contained in this subsection (5)(b) in a general appropriation act, as provided~~
 12 ~~in 17-8-103, must be recorded as expenditures and liabilities in the accounting records."~~

13
 14 ~~**NEW SECTION. Section 2. Applicability.** [Section 1] applies to contracts entered into or renewed~~
 15 ~~on or after [the effective date of this act].~~

16
 17 **SECTION 1. SECTION 17-7-102, MCA, IS AMENDED TO READ:**

18 **"17-7-102. Definitions.** As used in this chapter, the following definitions apply:

19 (1) "Additional services" means different services or more of the same services.

20 (2) "Agency" means each state office, department, division, board, commission, council,
 21 committee, institution, university unit, or other entity or instrumentality of the executive branch, office of
 22 the judicial branch, or office of the legislative branch of state government, except for purposes of capital
 23 projects administered by the department of administration, for which institutions are treated as one
 24 department and university units as one system.

25 (3) "Approved long-range building program budget amendment" means approval by the budget
 26 director of a request submitted through the architecture and engineering division of the department of
 27 administration to transfer excess funds appropriated to a capital project within an agency to increase the
 28 appropriation of another capital project within that agency or to obtain financing to expand a project with
 29 funds that were not available for consideration by the legislature.

30 (4) "Approving authority" means:

- 1 (a) the governor or the governor's designated representative for executive branch agencies;
- 2 (b) the chief justice of the supreme court or the chief justice's designated representative for judicial
- 3 branch agencies;
- 4 (c) the speaker for the house of representatives;
- 5 (d) the president for the senate;
- 6 (e) appropriate legislative committees or a designated representative for legislative branch agencies;
- 7 or
- 8 (f) the board of regents of higher education or its designated representative for the university
- 9 system.
- 10 (5) "Base budget" means that level of funding authorized by the previous legislature, but excluding
- 11 encumbrances under 17-1-102(5).
- 12 (6) "Budget amendment" means a legislative appropriation to increase spending authority for the
- 13 special revenue fund, proprietary funds, or unrestricted subfund, contingent on total compliance with all
- 14 budget amendment procedures.
- 15 (7) "Effectiveness measure" means a criterion for measuring the degree to which the objective
- 16 sought is attained.
- 17 (8) "Emergency" means a catastrophe, disaster, calamity, or other serious unforeseen and
- 18 unanticipated circumstance that has occurred subsequent to the time that an agency's appropriation was
- 19 made, that was clearly not within the contemplation of the legislature and the governor, and that affects
- 20 one or more functions of a state agency and the agency's expenditure requirements for the performance
- 21 of the function or functions.
- 22 (9) "Necessary" means essential to the public welfare and of a nature that cannot wait until the
- 23 next legislative session for legislative consideration.
- 24 (10) "New proposals" means requests to provide new nonmandated services, to change program
- 25 services, to eliminate existing services, or to change sources of funding. For purposes of establishing the
- 26 present law base, the distinction between new proposals and the adjustments to the base budget to
- 27 develop the present law base is to be determined by the existence of constitutional or statutory
- 28 requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those
- 29 requirements is considered a new proposal.
- 30 (11) "Present law base" means that additional level of funding needed under present law to maintain

1 operations and services at the level authorized by the previous legislature, including but not limited to:

2 (a) changes resulting from legally mandated workload, caseload, or enrollment increases or
3 decreases;

4 (b) changes in funding requirements resulting from constitutional or statutory schedules or
5 formulas;

6 (c) inflationary or deflationary adjustments; and

7 (d) elimination of nonrecurring appropriations.

8 (12) "Priority listing" means a ranking of proposed expenditures in order of importance.

9 (13) "Program" means a combination of resources and activities designed to achieve an objective
10 or objectives.

11 (14) "Program size" means the magnitude of a program, such as the size of clientele served or the
12 volume of service in relation to the population or area.

13 (15) "Program size indicator" means a measure to indicate the magnitude of a program.

14 (16) "Requesting agency" means the agency of state government that has requested a specific
15 budget amendment.

16 (17) "University system unit" means the board of regents of higher education; office of the
17 commissioner of higher education; university of Montana, with campuses at Missoula, Butte, Dillon, and
18 Helena; Montana state university, with campuses at Bozeman, Billings, Havre, and Great Falls; the
19 agricultural experiment station, with central offices at Bozeman; the forest and conservation experiment
20 station, with central offices at Missoula; the cooperative extension service, with central offices at Bozeman;
21 the bureau of mines and geology, with central offices at Butte; the fire services training school at Great
22 Falls; and the community colleges at Miles City, Glendive, and Kalispell."

23

24 **NEW SECTION. Section 2. Effective date.** [This act] is effective on passage and approval.

25

-END-