

MINUTES OF THE MEETING
JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS
AND
SENATE FINANCE AND CLAIMS

January 7, 1985

The meeting of the Joint Subcommittee of House Appropriations and Senate Finance and Claims was called to order by Chairman Bardanoue on January 7, 1985 at 3 p.m. in Room 104 of the State Capitol.

ROLL CALL: Roll call was not taken. However, present were Representatives Bardanoue, Donaldson, Manuel, Thoft, Waldron, Winslow and Senators Regan, Bengtson, Jacobson, Stimatz and Boylan. Representatives Quilici and Moore later entered the meeting and their entries are noted in the body of these Minutes.

(This meeting was not taped.)

INFLATION FACTORS: Judy Rippingale, Legislative Fiscal Analyst (LFA), handed committee members material titled "Inflation Factors used in Budget Analysis" (EXHIBIT 1). She said inflation factors in the Executive Budget book and LFA book are different; and in some agencies, the '86 and '87 Executive Budget carried no inflation factors. Representatives Donaldson and Waldron said they were uncomfortable with zero inflation factors. Judy Rippingale said the computers can change the factors to produce new dollar amounts.

Rent Inflation Factors: Judy Rippingale said subcommittees must find out from the Department of Administration (DOA) what the inflation factor is for rent and each subcommittee must be consistent in using that factor.

Telephone Inflation Factors: Judy Curtis Waldron, Associate Analyst, LFA's office, said the Public Service Commission and the Communications Division, DOA, were contacted for telephone inflation factors, not Mountain Bell.

E X E C U T I V E A C T I O N :

Representative Donaldson made a motion to tentatively accept the inflation factors of the LFA for telephone services, but have the LFA periodically review them with the Public Service Commission for adjustments. A voice vote was taken and the motion carried with Senator Boylan voting no.

(End of Executive Action)

Representative Quilici entered the meeting.

PERSONAL SERVICES: Judy Rippingale submitted to committee members a sheet showing an example of personal services information (EXHIBIT 2). She said that in subcommittee meetings her staff will call to the attention of subcommittees any dollar amounts which significantly differ between the Executive Budget and LFA figures. She prefers subcommittees use LFA figures when only small amounts of dollars are different.

E X E C U T I V E A C T I O N :

Representative Waldron made a motion that subcommittees use the LFA's methodology for computing full-time equivalent (FTE) figures. A voice vote was taken and the motion carried unanimously.

(End of Executive Action)

VACANCY SAVINGS: Judy Rippingale said her office used 4 percent for 20 FTE and above to figure vacancy savings. She said the Executive Budget office used a variation of percentages.

Representative Moore entered the meeting.

FUND BALANCES: Judy Rippingale gave committee members a sheet titled "Summary of Budget Issues" (EXHIBIT 3). She said subcommittees should take a hard look at agency fund balances. For instance, the Highway Department and the Library Commission have fund balances requiring scrutiny. Representative Bardanouve said subcommittees should require agencies to trace excessive fund balances.

CURRENT LEVEL BILL DRAFTING: Judy Rippingale provided committee members written, sample motions they should use in drafting bills (EXHIBIT 4). She said the bill drafted by each subcommittee should be the amount needed to carry out current level services. Any increases - modifications costing additional money - should be presented to House Appropriations Committee as a recommendation to the current level bill.

Representative Donaldson said the proposed motions are good, but reductions should also be presented as a separate motion as well as increases in money.

Representative Waldron said subcommittees will determine the current level. Judy Rippingale agreed and said subcommittees should make motions encompassing whether they are using the Executive Budget or LFA figures. She said subcommittees must distinguish between modified level and current level. Representative Bardanouve said that most of the time subcommittees will determine current level.

Representative Winslow said items taken out of budgets should be listed as well as items increasing budgets. Judy Rippingale said her staff can list reductions in cost in the staff narratives to subcommittees. Senator Regan said she would like to have this done.

E X E C U T I V E A C T I O N :

Senator Regan made a motion that the LFA use the approach of a narrative explanation to subcommittees which have reductions and increases to current level budgets. A voice vote was taken and the motion carried unanimously.

ARTS COUNCIL:

Cultural and Aesthetic Projects: Judy Rippingale said the bill proposed for the Arts Council presents a conflict in the law in that it requires cultural and aesthetic project requests be heard in the Institutions subcommittee, when it appears it is the intent of the Appropriations Committee that they be heard in the Long-Range Planning subcommittee.

E X E C U T I V E A C T I O N :

Senator Regan made a motion that when the present bill is drafted, the hearings on cultural and aesthetic project requests be conducted in the Long-Range Planning subcommittee. A voice vote was taken and the motion carried unanimously.

Adjourn: The meeting adjourned at 4:40 p.m.


FRANCIS BARDANOUE, Chairman

INFLATION FACTORS USED IN BUDGET ANALYSIS

The Office of the Legislative Fiscal Analyst has developed inflation factors to use in budgeting for the 1987 biennium. When applied to expenses in the fiscal 1984 base year, the inflation factor shows how much expenditures must be increased in future years to purchase the same quantity of goods and services due to rising prices. Inflation factors were developed for individual categories of operating expenses and for equipment; none was projected for or applied to other types of expenses such as personal services.

Table 1 lists the inflation factors used for projecting current level expenses for fiscal years 1985, 1986, and 1987. Most categories of operating expenses and all equipment were inflated 4.0 percent in fiscal 1985, an additional 4.5 percent in fiscal 1986, and an additional 5.0 percent in fiscal 1987.

Table 1
 Inflation Factors Used in Budgeting for the 1987 Biennium

<u>Expenditure Category</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Computer Charges by			
Department of Administration	0	0	0
Rent by Department of Administration	0	(6.0)	4.0
Petroleum Products	(6.0)	0.0	4.0
Local Telephone Service & Equipment	10.0	7.0	8.0
Long Distance Service	(5.0)	(3.0)	0
Leased Line Service	25.0	11.0	20.0
State Telephone System Usage	0	0	0
Travel-Meals & Lodging	0	0	0
Electricity	20.0	10.0	6.0
Natural Gas	0	6.0	7.0
Merchandise Purchased for Resale	0	0	0
Other Operating Expenses & Equipment	4.0	4.5	5.0

Several methods were employed to develop inflation factors. In some cases, such as petroleum products, the rate of price change forecast by Chase Econometrics was input. For utility costs, Montana-specific forecasts were developed from information supplied by the utility companies, the Department of Administration, and the Public Service Commission.

When weighted by the proportion of total disbursements falling in each category, the overall inflation rate for operating expenses and equipment is 6.5 percent between fiscal 1984 and 1986 and 3.9 percent for fiscal 1987.

The LFA current level budget includes \$10.4 million in fiscal 1986 and \$17.1 million in fiscal 1987 for inflation. Reducing each inflation factor 1 percent each year for all categories of operating expenses and equipment eliminates \$8.2 million from projected inflation for fiscal 1986 and \$11.2 million for fiscal 1987. Of this total, \$1.5 million in fiscal 1986 and \$2.2 million in fiscal 1987 are general fund. The remaining \$6.7 million in fiscal 1986 and \$9.0 million in fiscal 1987 come from all other funds.

In preparing its budget, the executive did not use inflation factors; it relied instead on base adjustment factors. Base adjustment factors were applied to the fiscal 1984 base for categories of operating expenses to determine budgeted costs for fiscal 1986 and 1987. For most categories of operating expenses, the base adjustment factors were 4 percent, meaning that costs budgeted for each fiscal 1986 and 1987 were 4 percent higher than the fiscal 1984 base and that there was no difference in costs budgeted for fiscal 1986 and 1987. The exception to this general rule was the communications category which includes postage, advertising, and telephone charges. For these categories of operating expenses, the base adjustment factor was 12 percent for fiscal 1986 and 19 percent for fiscal 1987. Fiscal 1986 costs, then, were budgeted 12 percent higher than the fiscal 1984 base and fiscal 1987 costs were budgeted 6.25 percent higher than fiscal 1986 costs.

The base adjustment factors used in the executive budget for most categories of operating expenses does not include an allowance for overall price increases after fiscal 1985. According to Chase Econometrics' forecasts, the overall level of prices as measured by the consumer price index will rise 4.0 percent between fiscal 1984 and 1985. If prices do rise 4 percent, 4 percent base adjustment factors for fiscal 1986 and 1987 hold budget costs at the fiscal 1985 level.

OFFICE OF BUDGET & PROGRAM PLANNING
EXECUTIVE BUDGET SYSTEM
AGENCY/PROGRAM/CONTROL -- BUDGET DETAIL COMPARISONS

REPORT EBSR99
DATE : 12/03/84
TIME : 17/08/29

AGENCY : 4110 DEPARTMENT OF JUSTICE
PROGRAM : 06 AGENCY LEGAL SERVICES
CONTROL : 00000

EXECUTIVE RECOMMENDATIONS

AE/OE	DESCRIPTION	ACTUAL FY 84	BUDGET FY 85	REC. CUR FY 86	REC. MOD FY 86	TOTAL FY 86	REC. CUR FY 87	REC. MOD FY 87	TOTAL FY 87
0000	FULL TIME EQUIVALENT (FTE)	9.75	9.00	9.00		9.00	9.00		9.00
1100	SALARIES	240,629.40	262,168	269,011		269,011	269,236		269,236
1200	HOURLY WAGES	952.00							
1400	EMPLOYEE BENEFITS	45,537.48	49,140	38,697		38,697	38,865		38,865
1500	HEALTH INSURANCE			10,800		10,800	10,800		10,800
1600	VACANCY SAVINGS		-29,541	-12,740		-12,740	-12,756		-12,756
	TOTAL LEVELL	287,118.88	281,767	305,768		305,768	306,145		306,145

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AGY-4110-DEPARTMENT OF JUSTICE
ANALYST: CLIFF ROESSNER
DATE: 11/24/84
ACTUAL 1984

EXPENDITURE	ACTUAL 1984	ADJ 1984	APPROP 1985	LFA CURRENT LEVEL 1986	1987	% CHANGE 1986 1987
1101-SALARIES	240202	227844	262168	268577	268577	+8.6 +0.0
1113-LONGEVITY	0	0	0	434	659	+100.0 +51.8
1400-BENEFITS	35240	33458	49140	38697	38865	+7.5 +0.4
1403-HEALTH	10299	9487	0	10800	10800	+6.7 +0.0
1888-OTHER	1379	1379	29541	0	0	-100.0 +0.0
1893-OTHER	0	0	0	0	0	+0.0 +0.0
1898-VACANCY SVNG	0	0	0	12722	12729	+100.0 +0.1
1999-TOTAL	287120	272168	281767	305786	306172	+6.0 +0.1

INFORMATION AGENCY LEGAL SERVICES
PGM-06-AGENCY LEGAL SERVICES
TIME: 14:21 VSP: 0.040

SUMMARY OF BUDGET ISSUES

1. General Fund Balance In our view the general fund revenue will not be sufficient to to maintain a general fund balance if all current level services are provided under present funding policies. The legislature is faced with service reductions, tax increases, and shifting funds between programs so resources are devoted to highest priority items. We feel it is sound fiscal policy for the legislature to maintain their practice of anticipating a fund balance which equals 3 percent of biennium revenues. For the 1987 biennium, this is \$22 million.

2. General Fund Revenue Comparison The LFA budget analysis projects general fund revenue totaling \$739.9 million for the 1987 biennium. In contrast, the executive budget forecasts revenue of \$780.4 million or \$40.5 million over the LFA projection. Major differences occur in the oil severance tax where the executive is \$9.5 million higher than the LFA and interest on investments where the executive is \$6.0 million higher. The executive also proposes increasing the cigarette tax 8 cents per package which it forecasts will raise revenue \$12.8 million during the 1987 biennium.

3. Increasing Fund Balance As illustrated in Table 1, the executive budget shows a ~~\$120~~³⁷³ million increase in the fund balance of the state special, federal, and proprietary funds.

Table 1
Changes in Fund Balance from Fiscal 1984 to 1987--Governor's Budget

Fund	Fiscal 1984	Fiscal 1987	Change	
			Dollars	Percent
State Special	\$194,767,852	\$377,258,485	\$182,490,633	94
Federal Special	1,896,044	114,258,027	112,361,983	4,926
Proprietary	61,438,627	144,179,118	82,740,491	135
Total	<u>\$258,102,523</u>	<u>\$635,695,630</u>	<u>\$377,593,107</u>	<u>146</u>

If the executive budget expects these funds to grow 146 percent, the legislature should: (1) scrutinize closely all fund balances and utilize them before general fund when possible; (2) determine whether earmarked fees or

The bill which is drafted by each subcommittee should be the amount needed to carry out current level services. Any increases, modifications costing additional money, shall be presented to House Appropriations committee as a recommendation to the current level bill presented.

Motion 1: I move to appropriate \$120,000, of XXX funds to the Arts Council in fiscal 1986 to maintain current services.

Motion 2: I move we recommend to House Appropriation that \$40,000 be appropriated to the Arts Council to add 2 FTE to teach expanded artist-in-the-schools programs.