MINUTES OF THE MEETING
GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE
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June 12, 1986

The meeting of the General Government and Highways Subcommittee was called to order by Chairman Quilici on June 12, 1986 at 8;30 a.m. in Room 104 of the State Capitol.

ROLL CALL: All members were present. Also present was Cliff Roessner, Senior Analyst from the LFA office.

DEPARTMENT OF REVENUE

John D. LaFaver, Director, Department of Revenue, addressed the Governor's proposal to reduce the General Fund by $850,125 and to reduce the appropriation of other funds by $850,000; which include motor fuels, earmarked tax that supports the administration of said tax, and the legal division earmarked funds. The major cuts contained within the $850,000 are: The director's office will reduce 1.5 FTE and operating expenses paid to the Department of Administration paid to the Proprietary Funds; DP costs, telephone costs, etc. Within the Centralized Service area, the department is reducing expenses by $54,000; which includes reduction in staff by 2 FTE's and the operating expenses to the Department of Administration. The Research and Information division will reduce 1 FTE and operating expenses line items. LaFaver stated the department originally recommended to cut Medicaid Fraud Enforcement Bureau, but would be flexible concerning where the cut would be made. LaFaver offered the department's rationale for suggesting that the cut be made in the Medicaid Fraud Enforcement Bureau. The department has had few successful medicaid fraud prosecutions, and that the responsibility for the prosecution is at the county attorney level. The bureau was set up as a liaison between the SRS and the county attorneys.

(A:1:054) LaFaver discussed the matching rate of federal to state ratio and stated that the ratio goes to 50/50 in October. If the Medicaid Fraud Unit is not abolished, the unit would have to be reduced substantially to accomplish the $45,000 reduction.

(A:1:070) Senator Keating asked what department is delegated to the concern of the Medicaid Fraud Unit. LaFaver responded that the Investigations and Child Support Division was responsible.

(a:1:074) LaFaver stated that large cuts would be designated to the income tax area. The department offered a proposal of $139,700 General Fund reduction which would be implemented by lower computer processing rates, a new short form return policy would be continued, cuts would be made in executive travel, and equipment purchases. The department is confident in maintaining past performance levels.

(A:1:099) LaFaver quoted the five percent (5%) in the Natural Resource and Corporation area would result in a $29,000 savings. The department proposed to reduce audit travel. In the property assessment area, the General fund reduction will be $478,000. The reductions include making a fifteen county FTE cut, a savings of $214,400. The assessor staff and the appraiser staff at the county level will assure a cooperative working relationship between offices at the county level, and will eliminate work duplication as it now exists.

(A:1:140) The miscellaneous tax area proposal is to cut $68,200 by implementing more efficient tax functions. Also, the department will hold FTE positions vacant and cut by redistributing administrative functions. In the motor fuel tax area, the reductions will be made in the amount of $36,920. This earmarked revenue amount constitutes gasoline and diesel tax. This cut is accomplished by leaving vacant an audit position, by not purchasing an appropriated vehicle, and by reducing audit travel.

(A:1:158) LaFaver discussed the other item contained in the executive budget: the state liquor system. LaFaver stated that the special session's bill put a moratorium on the liquor store closures until July 1986. The bill mandated that the department work with the revenue oversight committee to establish a recovery plan that was to be brought to this special session of the legislature. The process has been ongoing. While the process was ongoing, the department also had to comply with the Governor's five (5%) percent cut in spending. So the proposal that would increase the General Fund by $1,085,000 was submitted. The proposal included closing two state liquor stores, reducing the commissions paid to the agency stores from 10% to 8% and revising the price structure of the liquor sales.

(A:1:188) Chairman Quilici asked what the percentage was concerning the revised price structure. LaFaver stated the idea is to allocate costs to assure that the prices of items sold are commensurate with cost. The department must pay to put the product on the shelf and is currently losing money on the sales of the more popular items. The proposal is to have smaller markups; the higher the price of the item, the lower the price of the markup. The result is an analysis of the product by product assurance that the price received is commensurate with the department's cost.

(A:1:216) Senator Keating asked if the proposal would gain $800,000 in additional revenue. LaFaver reported that the state would gross $800,000 in additional profit due to the price restructure.

(A:1:239) Representative Lory asked LaFaver to comment on the increase of the number of auditors made last session. LaFaver reported that within the corporation tax area, the department is on schedule, but the personal income tax area falls short. The auditors are more than paying for themselves. LaFaver reported the department has had the first two consecutive one-million collection months in history.

(A:1:261) Senator Stimatz asked for a report concerning the child support enforcement division. LaFaver reported that FY 86 will be the largest year in terms of collection. As of May, the department is forty (40%) percent higher in collections than the state was at the same time last year.

(A:1:268) Senator Stimatz asked where the money is utilized that is received in the child support collections. LaFaver stated that if the mother had been on AFTC, then the money is reimbursed to the agency. If the mother has not been on state assistance, the mother will receive the money collected. The program collects for people that are not on welfare. The program is staff by forty lawyers or investigators.

(A:1:315) Senator Keating asked how much money was allocated within the Department of Revenue for promotions; increases in grades or steps concerning salaries. LaFaver said the department will submit a prepared report to the Senator concerning said information for the past six months.

(A:1:313) Senator Keating asked whether the department accepted the 20.5 FTE reduction within the proposal. (A:1:347) Senator Gage asked how many of the 20.5 FTE reductions are vacant at present. LaFaver stated that he assumed that the majority of the positions were vacant at the present time.

(A:1:359) Concerning the $18,000,000 unpaid taxes in the 1985 Montana accounts receivable data at present was $16,900,000. LaFaver reported that a substantial amount of the collection figure must be "strongarmed" in order to be collected.

(A:1:397) Senator Keating asked if the law provides a penalty system that deals with the taxpayers that can pay their taxes, but refuse to pay the tax. LaFaver stated in his opinion, the penalty provisions are not adequate.

(A:1:429) Senator Stimatz asked what was done with the annual list of taxpayers who do not pay their taxes. LaFaver replied that the Department of Revenue is required to submit such a list to the President of the Senate and to the Speaker of the House of Representatives.

(A:1:457) Chairman Quilici requested Roessner to give an overview of the county assessor's salaries. Referring to the Page A81 of the LFA Budget Analysis, Roessner reported the total property assessment budget if $10.3 million for FY 87 and consists of 441.4 FTE. Of the appropriation, $1.8 million is for the fifty-five county assessor's salaries and the fifty-four deputy county assessor's salaries. The balance of the division's funding pays for the county appraisal staff, the operating expenses and equipment for the assessor's offices, the staff and operating expenses for the centrally assessed property, the administrative staff to supervise the property appraisals. The 742203 statutes state that the county assessors are officers of the county and may be elected or be appointed. The county governing bodies fix the county assessor and county deputy assessor's salaries and gives the assessor the right to appoint the deputy assessors. Neither are employees of the state. According to the Attorney General's informal opinion, the state has no legal liability to fund county assessors and a county deputy assessors due to the fact that the positions are not considered to be filled by state employees, nor are the positions supervised by the state. The major benefits of property appraisals are accrued to schools, to counties, and to cities. This proposal is an option presented to the subcommittee to be considered, and will account for $1,861,000. Quilici further stated that the bulk of the collected money is used for county tax purposes, city and towns tax purposes, and for public schools.

(A:1:531) Senator Keating asked about the relationship between the county assessor and the county appraiser. LaFaver reported that the assessor has functions that are distinct and separate from the appraiser. The assessor assess all personal property, but does not get involved with such items as equipment, machinery, livestock and so on.

(A:1:565) Gordon Morris, Executive Director for the Montana Association of Counties, spoke on assessor's salaries. Morris pointed out that HB 500 passed in the 1985 legislative session, called for a thirty (30%) percent cost-back to counties for the county assessor's salaries. Relative to the action taken at that time, a court case is currently pending in the Helena district court pending the constitutionality of the cost-back. The counties believe they will win the decision base upon the facts that the Attorney General's informal opinion of November 27, 1985 was at the request of a county, and that an erroneous citation on the statutorial authority for the funding of the county assessor's salaries was made. Morris further discussed the need to challenge the General Fund's obligation to fund the needed $1.8 million.

(A:1:703) Dolly Price, president of the Montana Assessor's Association, stated that the authority of the Assessors is to be split down the line and she requested the committee to take a hard look at these issues. (See Exhibit A.)

(A:2:056) Senator Keating asked if there were fifty-six county assessors and do some of the counties combine their offices. Price stated that there are four counties with combined forms of government and one office that will be consolidated by January 1, 1987: Flathead County.

(A:2:057) Senator Stimatz asked if the counties have paid the salaries since 1972. Price replied that the salaries have been paid since 1974 from the state. The salary problem has arisen since the last legislative sessions' inability to balance the budget. The state wants to shift the responsibility of the salaries to be paid by counties.

(A:2:103) LaFaver addressed the recommendation of the executive budget to reduce data processing costs that would be shared with the counties. This proposal would eliminate the cost and create an impact due to the fact that the state shares an uneven cost ratio with the counties. (See Exhibit B.) The reality in property assessment is that if the five (5%) percent cuts are made, then some of those cuts must be shared by the counties.

(A:2:134) Greg Groepper stated that in the 1983 session, the department was given the authority to buy into certain county computer systems, which accounts for the uneven funding for various counties. Up until 1983, the department had paid their respective share of the operating costs of the assessment process costs for the county computers. When the Legislature appropriated approximately $360,000 in 1983, the department stated that it was cheaper to buy in on the front end of the county computer system to operate the assessment and tax going process than it would be to become involved in lease arrangements. On that argument, the department received the appropriation in 1983, and in turn the funds were disbursed to the counties in 1984.

(A:2:173) Senator Keating stated that for the purpose of limited use and share equipment, the state bought in on the service to facilitate computer needs at reduced costs. Groepper stated that the 1983 department proposal was submitted and contained commensurate reductions in staff. Senator Keating asked why cuts were being made at this time. Groepper discussed the previous three years budget. (See Exhibit C.) Groepper stated the hardship placed on the assessor's ability to produce cuts.

(A:2:209) Senator Keating asked if these prior needs of the assessors' are no longer considered needs. Groepper stated that the assessments must be sent out. The real property data has been submitted to the main frame computer in Helena. Personal property assessments still must be made. Groepper stated that it was his opinion that some counties will reject the approach and refuse to let the assessor's office use their computer and hand assessment would have to be once again implemented.

(A:2:233) Senator Keating stated that 1986-1987 is the end of the reappraisal period, and asked if after that time the next appraisal period would begin. Yes, that was true, Keating also asked if the appraisal services would be just as valuable in the future as they have been in the past. Again, this was true. Groepper also replied that being on the county computers saves department staff time and money.

((A:2:241) Senator Keating asked what other areas could the department take budget reduction. Groepper replied that fifteen FTE could be cut, but acknowledged that after the fifteen FTE would be cut, approximately $250,000 would still have to be cut in order to complete the five (5%) percent budget cut.

(A:2:253) Representative Lory asked what would happen if the county refused to store the data on their mainframe because the full share is not being paid by the assessors. Groepper replied that the department expects some of the counties to refuse service. Groepper further stated that in his judgment, the parcels of information contained on the Helena mainframe could be used to make future assessments. These parcels of information are the data on the 530,000 parcels of real property in Montana and do not count the agriculture or timber land. The Mitchell Building computer data is updated by the input from the field. This method suggests that the department could use the store information to make the appraisal within the department.

(A:2:287) Representative Lory questioned the cost concerning the extra computer time charged by the Department of Administration. Groepper stated that the computer costs are down this fiscal year. The system must be operated at the Mitchell building to keep the real property updated for reappraisal on a yearly basis. The costs associated within in the department will be a once-a-year cost of printing out the assessment list.

(A:2:313) Chairman Quilici asked if the $235,367 was the five (5%) percent budget reduction proposal of the property assessment bureau. Groepper stated that the $235,367 amount is 2 1/2 or 3 percent of the budget cut and the remainder is being made up by leaving the fifteen FTE positions vacant.

(A:2:317) Chairman Quilici asked if the department is still paying the counties approximately $112,000 for equipment, supplies and materials. Groepper stated that the department tries to pay all costs associated with the job. The equipment budget next year is approximately $59,000 to $57,000. Calculators are replaced every three years and typewriters are replaced every four years. This amount is less than $500 worth of equipment that was in the office when the office was initially opened after the Constitutional Convention ended in 1972.

<u>DEPARTMENT OF ADMINISTRATION</u>

(A:2:370) Ellen Feaver, Director of the Department of Administration, stated that the department planned to achieve and maintain sufficient service levels for each program within the department, but still make the five (5%) percent cuts.

Another objective of the department was to avoid layoffs whenever possible and leave positions vacant. The department also planned to cut services such as free architectural services. Feaver stated that the department will repair furniture rather than replace furniture.

(A:2:419) Other reductions will include cuts in operational expense, and computer charge expense. The results of the five (5%) percent cuts, in essence, will put the department in a position that difficulties will be created if the "unexpected" happens. A harsh, extreme winter will cause budget hardships because the utility budget is based on current rates based on the previous winter. Telecommunications has been an area that the department has acted aggressively in order to reduce the budget.

(A:2:491) Director Feaver discussed the inflation factors used to compute agency budgets, and based upon the services provided for the benefit of the other agencies. Feaver discussed the hypothetical situation of each department taking inflation cuts in utility rates, computer charges, and rent costs, and then the possibility of the Department of Administration opting to take a straight across the board cut in regards to the inflation rates adjustment. Chairman Quilici stated that the subcommittee will not touch the inflation factors while making the five (5%) percent cuts.

(A:2:533) Feaver responded to the issue identified by the LFA proposal concerning taking the director's office and the central service accounting division costs and then charging those costs back to the rest of the department. Feaver stated that the number one impact of this proposal is when the costs are charged back it will raise the computer charges and the rent. The department cannot make the decreases in rates that are planned to be made if all the charges are charged back to the various divisions. These costs make a six cent a square foot difference in the rent charge. The calculation is $388,000 cost for the two divisions. The option to this proposal is to create a proprietary account for the charge backs concerning the costs. Feaver stated that this is a "make-work" project that would increase government expenses at a time expenses should be cut because it does not benefit the general fund. On the average, the general fund would only benefit forty to fifty (40-50%) percent of the total charge back and would create excess paperwork and instill animosity. Feaver stated that not all of the agencies were being charged for the charge backs: those being the retirement systems. So, therefore, all divisions must be treated equally.

(A:2:603) Feaver addressed the proposal that the cost would be redistributed based upon personal services. The department of Administration must have a lot of support function internally and it makes sense that the department has their own payroll and accounting facilities.

(A:2:608) Senator Keating asked what the rationale was for charging back rent for a state office located in that same state office building. Feaver stated that the charge backs give a visible account for the total cost of each program; such as the janitorial costs and maintenance costs. Another reason, Feaver stated, was to recoup federal money from the federal programs and the earmarked programs. Otherwise, the General Fund would have to absorb a disproportionate amount of the rent costs. It is a cost-saving technique for the General Fund. To participate in federal funding of overhead expenses or indirect costs, a fair allocation method must be approved by the federal government, so the determination is made by rent or janitorial costs computed on a square foot basis.

(A:2:655) Senator Keating asked what actual charge-out evidence does the federal government require. Does the federal government accept a fair estimate amount, or actual charge-outs. Feaver responded that in some cases, estimates can be submitted: SRS provides time and function studies. The less definite the cost allocation method, the more difficult it is to provide factual information. Also, if the method is definite, the department will be more certain to collect the federal funds without being challenged.

(A:2:682) Senator Keating asked if the federal government relied on audits for percentages. Feaver confirmed that the federal government relied on annual based audits. This information is included within the statewide allocation plan; a confirmation of the rates that are charged back for various programs. The federal government will specifically audit those charge-back costs on the annual basis.

(B:1:001) Senator Keating asked if the "means justified the end" concerning the cost involved and the methods of providing proof to the federal government concerning audit costs and rebilling. The department has not taken the time nor adopted a project to evaluate all charge backs, and Feaver questioned the feasibility of doing so in the future.

(B:1:001) Senator Keating asked if the method being used was justified statutorily. No, it was not.

(B:1:011) Senator Gage asked if the federal government has ever been told by the state of Montana that only a certain amount per square foot would be paid per program. According to Feaver's recollection, no previous quotation had been made to the federal government. The rates have been examined on an after-the-fact basis. There was no significant problem on the last accepted federal audit, and all previous cost allocations figures have been accepted.

(B:1:023) Senator Keating discussed the fact that Montana has "established" a cost-allocated, historic, cost-allocation plan for the federal government and suggested the idea that Montana could eliminate the many steps of arriving at a cost-allocation figure without rebilling, and billing and reaccounting and accounting procedure for allocating overhead expense.

(B:1:034) Representative Lory stated that if all probability, the federal government would still require such specific information, that the state would still be required to do what it has been doing.

(B:1:043) Feaver stated, in summary, that the department would prefer not to charge back the director's office cost and the charge-back on the central service cost. Feaver then addressed the charge-back cost for preparing state-wide financial statements to other agencies and to charge the cost-back to agencies that issue bonds. The Department of Administration perspective to this recommendation is as follows. This biennium schedule or method is how the state-wide audit is being paid for. About fifty-nine (59%) percent of the state-wide audit costs have been charged back to various bond issuing agencies. The agencies have been reluctant to pay from the bond issued proceeds, or reluctant to pay for the preparation of the state-wide financial statements. Housing economic development and health facilities have had to pay for a share of these costs do not include the state-wide financial statement amounts when the bonds are issued. The primary benefit is to the General fund, and the management document, the state-wide financial statement, is beneficial for the investors to examine and the rating agencies to examine. By adding these expenses to the other agencies, the bond issuance costs to the agency's loans or program become more costly.

(B:1:077) Representative asked what the amount of money involved. Feaver responded that $103,000 is the amount estimated by the LFA office. The amount that was estimated by the Department of Administration was $52,000 for the state-wide financial statement preparation.

(B:1:092) Feaver addressed the tax reform act, being considered presently in congress, may mean an end to bond issuance and an end to some of the programs that the state depends on to pay for the costs. Feaver stated that the department may not be able to count on the said funds and would then have two options. The first would be to not prepare the state-wide financial statement because it may be necessary to obtain another loan to pay it back. The second difficulty of the option would be that the loan could not be issued because of the congressional ruling. The incorrect assumption of this proposal is that only state agencies that issue bonds would benefit from the state-wide financial statement, the fact is that all agencies would benefit from the state-wide financial statements. The reason, in part, is because the agencies risk the loss of all federal funding.

(B:1:121) Representative Lory asked if the five (5%) percent cut was acceptable to the department. Feaver acknowledged that the cut was acceptable.

(B:1:141) Senator Gage asked how many people were employed by the Department of Administration. Feaver responded that approximately four hundred people were employed.

(B:1:146) Senator Keating asked what the number of promotions or ingrade increases were made in the Department of Administration within the last six months. Feaver stated that the department statistics are not compiled until the end of the year, but the current information will be submitted to the committee this date.

(B:1:164) David Ewer, Montana Economic Government Board's Bond program manager, offered reasons why the proposal to shift the GAAP reporting and financial statement costs onto the bond program are not sensible. Ewer pointed out that the board is supported by general funds and bond fees. The additional administrative costs must be charged to the bond program users. The number of the bonds issued each year is not constant, the number fluctuates each year. The tax bill in congress will cause great ramifications concerning the state bonding programs should it pass congress. the legal concern is that the board may not have the ability to charge the fees onto the users of the said programs. Ewer further discussed the bond issuance fee. (Also, see Exhibit D.)

(B:1:223) Cliff Roessner questioned the FY 86 issuance cost for the respective bonds issued by the Montana Economic Government Board. Ewer stated that approximately $313,000 was the issuance cost. Roessner further questioned the board's share of the $73,000 which was the budget office allocation for the MEGB state-wide audit. The recommendation was approximately $.54 per bond, or approximately $9,700. Of the total issuance cost of $18.5 million, the state-wide audit costs were three (3%) percent of the total figure.

(B:1:246) Jack Nielson, Montana Health Facility Authority, which is a non-general fund bond issuing agency for the health associates, stated that bonds the authority issues are all conduit type financings. The actual credit that is involved is with the agency itself and not with the state of Montana. Nielson stated that the authority derives as much benefit from the state-wide financial statement and from the audits as any other non-debt issuing state agency does. The costs that incur are passed onto the health institutions that participates in the programs. Some of these programs can be duplicated at the local level. Additional fees that are charged to the MHFA discourage the health facilities from participating in the MHFA program because it causes higher costs. Nielson stated that the proposal will decrease the effectiveness of the tax-exempt bond financing program. This program was set up by the legislature originally to finance the health facilities. (See Exhibit No. E.)

(B:1:275) Cliff Roessner asked what the issuance cost was for the FY 86 period and asked what the share was for the allocation of the $73,000. Nielson replied that the issuance cost was approximately $2.9 million and that the cost of the state-wide audit allocation share was $37,000. One million eight hundred thousand dollars of the total of $2.9 million was for an insurance policy that provided the credit rating for the major bond issuance.

(B:1:288 Senator Keating asked what department had authority for the Montana Health Facility Authority. Nielson stated that the main authority was the Department of Commerce for the purpose of administration.

(B:1:294) Senator Keating asked what the total amount was for bond issuances. Nielson answered that the total FY 86 amount was $66.9 million. Of this amount, $23.5 million was for refunding of a prior issuance. The new bonding amount was approximately $40 million.

(B:1:301) Sneator Keating asked Doug Booker to comment on bond issuance. Booker addressed the saddled condition the state felt in regards to the collection of the costs of the state-wide financial statements. The stature is not clear concerning the agencies that sells the bonds. Booker acknowledged that the expertise was sought from the state financial advisor. Therefore, the agency estimated what kind of bonds would be sold in FY 86, and for billing purposes, the agency charged $1.08 per 1000 for the direct benefited agencies and charged $.54 per 1000 for the indirect benefited agencies. Booker stated that the procedure was not a realistic endeavor to account for the specific charge to be made for the billing purpose because of the many upfront-unknown factors involved.

EXECUTIVE ACTION

Department of Administration

(B:1:400) Representative Lory made a motion to cut the Department of Administration budget by five (5%) percent; The general fund was reduced by $192,463; the states special revenue fund was cut by $13,498, and the proprietary fund was cut by $1,192,564. The tentative motion passed UNANIMOUSLY.

Department of Revenue

(B:1:404) Representative Lory made a motion to reduce the Department of Revenue's budget by five (5%) percent. The general fund was redced by $638,306; the state special revenue fund was cut by $48,158. The subcommittee also voted to reinstate the thirty (30%) percent cut to fully fund the county assessors' salaries: The amount restored t the budget would be $326,100. The tentative motion PASSED five to one (5-1) with Chairman Quilici voting nay.

(B:1:49) Senator Keating stated for the record, that it is the Department of Revenue's proposal to reduce the profit in the state liquor stores from ten (10%) percent to eight (8%) percent profit. Keating acknowledged that a real reduction in the stores will cause many of the stores to go out of business. As long as the state is in the liquor business, the outcome of this proposed profit increase will be the reduction in the purchasing ability of the general public. Keating suggested that the committee ask the Department of Revenue to resist any change in profit percentages, and to leave the profit at ten (10%) percent so the liquor stores can serve the public. The increase in the price of liquor is a net increase of $800,000. The state has a captive market, and anyone purchasing liquor must purchase that liquor from the state stores. The state is raising the cost of the product, and in essence, the state is doing so to pay for the overhead increases. So, therefore, Keating asked to committee to instruct the Department of Revenue not to raise the price of liquor, which would effect the purchasing ability of the general public.

(C:1:006) Representative Ted Schye, House District No. 18, introduced the Governor's proposal which deals with the transfer of the social security money into the general fund.

(C:1:006) Linda King, assistant administrator of the public employees retirement division, stated that the bill is a mechanism for the immediate transfer in FY 86: prior to June 30, 1986. King stated that approximately $2 million excess investment earnings in the social security contributions account will be transferred to the general fund. This transfer will alleviate part of the anticipated short fall in the general funds revenue. The current projection will show the FY 86 ending balance will be approximately $1 million. Due to rapid fluctuation, a $2 million cushion will be added to the $1 million and if the money is not necessary, the money will go to the general fund in FY 87. The bill will transfer the excess current income from the previous Fiscal year, and, beginning in FY 88, will appropriate all future investment social security money to the general fund. Since the money at present represents a funding source for the public employees retirement division; which administers to both the state social security program and to the seven other retirement systems within state government, there must be statutory changes made. King stated that prior to 1981, the cost of administering the retirement system was funded by an administrative fee. This bill will reinstate the administrative fee which will be set at no more than .2%. In reality the fee will be set at closer to .175%. The department will calculate each year the amount of the actual cost and then fund the administrative costs in FY 87 for administering the retirement systems out of the interest earnings from the retirement system monies. Then the division will be reimbursed at the end of the fiscal year by instituting a fee that would refund exactly the amount of money that was taken out of the system.

(C:1:004) Senator Keating asked who was considered to be the employer. King stated that the employer is anyone that has a PERS covered employee. The county, state, city, the school district, the weed control district, are some of the agencies that qualify as employers of PERS. To fund the retirement system, a maximum of .2% of the employees wages must be applied to the administration of the PERS retirement system.

(C:1:058) Senator Keating stated every employee under the PERS has their employer pay a wage percentage into the social security. Keating asked if this money is paid to the federal government. King replied that the money is paid to the federal government and the excess earnings has been invested by the state since 1965. The float is the money that is invested in the time period of when the money was collected and when the money was sent to the federal money: term investment. In the past, an agreement with the federal government was made to collect social security contributions. The federal government required quarterly investment payments and the state required collection each payroll period, thus the interest was built. Now the money is at the state level for approximately five (5) to seven (7) days.

(C:1:096) Senator Keating asked for an explanation of the phrase, "excess earnings". King replied that the earnings are in excess over what the division needed to send to the federal government: Earnings on money that is collected.

(C:1:104) Senator Keating asked how long a period the excess earning fund has been building. King replied that the amount has been invested since 1965. In 1967, the earnings was used to defray the cost of the social security administration: before that time an administrative fee funding procedure was followed. In 1977, the fund was supplemented and in 1981, the fund was used instead of the administrative fee that was colelcted to fund the administration of the retirement system. Keating asked if the account has grown or has it gotten smaller. King replied that the account is now diminishing because the administrative costs are now exceeding the interest that is being currently earned. At the current rate, the current funding program would last approximately three or four years. The year 1989 would be the deadline. In summary, Keating stated that the mchanism will transfer the balance of the fund to the general fund to cover teh current shortfall and then cover the cost of administration.

(C:1:143) King stated that if the PERS system budget remains exactly the same as now, and the payroll stays the same, the administrative fee to cover the expenses will be .175% of the salaries.

(C:1:148) Senator Keating asked if the federal government allow any proportion of the funds to be used for the administrative costs. King replied that the funds cannot be used for administrative costs. PERS is collecting exactly what is owed to the fund, the only excess is from the excess earnings.

(C:1:168) Senator Keating asked about the current authorized rate of .2%. King stated that there is no limit set in the statutes for the amount of the social security administrative fee. King further described the impact of this transfer.

(C:1:208) Tom Schneider, executive director of the Montana Public Employees Association, stated that the association does not oppose the bill. Schneider agree that the PERS should be properly funded out of an administrative fee paid by the people involved.

(C:1:218) King stated that Montana is one of the few states that interest incurred to the social security contributions is not general fund income.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

(C:1:247) Linda King, assistant administrator of the Public Employees Retirement Division, stated that a reduction of the PERS budget will not accrue funds into the general fund. The $2 million transfer will be made from the excess earnings fund into the general fund. King further stated that the governor's and the LFA's proposals do not include any further cuts to the budget. The department assumes that if there are salary freezes in terms of what is funded, and the pay matrix stays in place, or other changes made by the legislature, there could be problems at PERS, but the division believes the budget is acceptable.

MILITARY AFFAIRS

Major Kenneth Cottrill, Centralized Service Administrator, stated that the Military affairs had to cut funds that were federally matched in order to make the five (5%) percent cut. The disaster emergency service division is matched on a 50/50 basis, as is the Air National Guard. Cottrill stated that the area of primary concern is the cuts in the federal and state matched funds. The Army National Guard program of support in the day-to-day military operations is funded by the federal government by seventy-five (75%) percent basis. The repair and maintenance budget has been reduced approximately $34,000; a lost of $15,000 federally matched funds. The Air National Guard Program attempted to make the five (5%) percent cut in only the areas that received one hundred (100%) percent federal support. The full cut was not made in the Air Guard Program due to General Duffy's policy of not cutting federal funds. The army program, in a sense, made up the difference between the cuts and accounted for approximately $2,000. Repair and maintenance program of the Air Program was reduced by $712 of general funds. The Air Program is supported at a ratio of eighty-twenty (80-20%) percent for a reduction of $3,500. In the disaster and emergency service, the ratio of federal-state funds if 50/50 basis. For every dollar of federal funds, the state funds were also reduced.

(C:1:381) Cottrill stated that the Military Affairs maintained the euphoria in case the federal money could be matched in the future. The department did not submit the reduction of the federal share as shown on A104 of the LFA proposal.

(C:1:381) Chairman Quilici asked what the total amount was that was lost in the federal fund matches. Representative Lory stated the amount lost was $28,984.

VETERANS AFFAIRS

(C:1:436) Rich Brown, Administrator, Veteran's Affairs Division, Department of Military Affairs, spoke in opposition to the LFA proposed cuts. Brown stated that all three of the proposed cuts were unacceptable options. (See Exhibit No. F.) Brown stated that 1919 Montana Legislature established the Board of Veteran's Affairs. In 1945, the board reached the peak of employment within Montana with fifty (50) FTE's and twenty-three (23) field offices. During this time period, the Veteran's Administration has twelve (12) field offices for the veteran's affairs.

(C:1:530) Brown stated that in 1984, the VA spent $88 million in Montana, and in 1985, the VA spent $94 million in Montana.

(D:1:002) Senator Keating addressed the LFA's proposal of contacting the veterans by telephone rather than by individual travel. Keating asked if the VA sought out claim advise for veterans or advised upon claim receipt. Brown stated that the VA is specifically prohibited from soliciting business, although the Montana Veteran's Affairs division does solicit. The specific difference is how the information is requested. The VA will offer the entire package of benefits to the individual. Travel by the field officers and newspaper advertisement are the vehicles used to inform the general public.

(D:1:044) Senator Keating asked if the veteran's affairs division keeps track of the number of contacts made by the field representative. brown replied that the division tracks transmittals. the information concerning the action taken during the interview is forwarded to the senior service office within the VA.

(D:1:057) Brown reported that claim amounts are remaining the same within the division. Brown stated that the procedure used to track veterans benefits are unique, and was effective July 1, 1985. The benefits awards total over $12 million. For the calendar year comparing 1984 and 1985, the division shows a sixty-seven (67%) percent increase in power of attorney sign-overs. The average for the year 1975 to 1985 was 1,400 power of attorney sign-overs each year. In 1986, the first eleven (11) months produced a thirty (30%) percent increase or 1,800 sign-overs. A sixty-seven (67%) percent increase in transmittal production is forecasted for this year.

(D:1:095) Representative John Phillips, House District 33, stated, as a thirty-one year veteran, that effective public information is valuable. Ruddy Rowley of Great Falls, an effective information officer, provided valuable information at a time when Representative Phillips left the Air Force. Phillips stated that many other veterans have been served by the information officer and urged the committee to consider the many needs of the Montana veteran when making division cuts.

(D:1:120) General Duffy, adjutant General, stated that the Veterans Affairs deals with all veterans in all age groups. The veteran represents young, nineteen-year-old veterans who have educational assistance needs, as well as the ninety-year-old veterans who have medical needs and are at the VA hospitals.

(D:1:134) Representative Connelly inquired of General Duffy about the nuclear monitoring system in Missoula. Connelly addressed the newspaper articles written during the Russian nuclear fallout crisis, and asked about the Alabama monitoring system that provided the replacement work. General Duffy stated that the Montana system did not work and further explained that the Montana division does not have the sophisticated equipment needed to read the fall-out levels. The department of health's equipment was not operational: Montana had to rely on Alabama for the readings.

(D:1:152) Representative Phillips announced that the 120th Guard Unit in Great Falls will receive the Hughes Trophy, which is the most coveted trophy of the United States Air Force fighter units. The award is for the number one fighter unit in the World. Phillips extended congratulations to Malmstrom Air Force Base.

EXECUTIVE ACTION

(D:1:166) Representative Lory moved that a five percent cut be taken from the Department of Military Affairs: the General Fund budget was reduced by $93,588: PASSED Unanimously.

(D:1:180) Major Cottrill addressed the fact that the Military Affairs truly acknowledged the breadth of the cut proposals, and stated the division will work within the federal fund reductions.

(D:1:180) Senator Keating asked about the printing aspect of state government and stated that publications and graphic are reducing the budget by one-third (1/3). Keating acknowledged that the divisions within the general government and highways subcommittee were not queried about the respective departments printing cuts. cliff Roessner addressed the corresponding workload reductions and FTE reductions. The publications and graphics divisions must work in order to bring in revenue to the proprietary fund. If the work is not available, the fees cannot be charged, let alone be raised: therefore the budget will be controlled through the other agencies' budgets.

(D:1:248) Senator asked how much money is spent by the Department of Revenue for the assessor training school. Roessner stated that the law requires two training sessions a year, and/or give two tests a year to qualify the assessors and appraisers. The funds come from the property assessment division. Roessner will provide accurate funding figures to the committee.

(D:1:288) Senator Keating stated that the committee should look in all directions in cutting government costs and should be open to all opinions.

(D:1:436) Chairman Quilici stated the Legislative Audit Committee had contracted an audit last year, but the audit proved to be shoddy, and the federal government would not accept the contracted audit. The Legislative Audit Committee redid the audit. Quilici acknowledged that cost cutting mechanism or techniques must be monitored.

(D:1:480) Representative Connelly questioned the feasibility of having a single set of blueprints for rural schools that would alleviate the architectural fees and would be adaptable to other rural school needs. Chairman Quilici stated that, at one time, he served on the construction facility advisory committee and the exact topic had been discussed. Although, at that time, the consensus opinion was against uniform architectural plans, Quilici maintained that uniform plans for the mechanical, engineering, and electrical needs could be adapted. Also money could be saved by using similar elevations and floor plan variations to reduce the architectural fees.

There being no further business before the committee, the meeting was adjourned.

Joe Quilici

JOE QUILICI, CHAIRMAN

DAILY ROLL CALL

GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE

49th LEGISLATURE-SPECIAL SESSION III

DATE: June 12, 1986

NAME	PRESENT	ABSENT	EXCUSED
REP. QUILICI, CHAIRMAN	X		
REP. CONNELLY	X		
REP. LORY	X		
SENATOR GAGE	X		
SENATOR KEATING	X		
SENATOR STIMATZ	X		

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VISITORS' REGISTER

GENERAL GOVERNMENT AND HIGHWAYS COMMITTEE

BILL NO. ______________________ DATE June 12, 1986

SPONSOR ______________________

NAME (please print)	REPRESENTING AND RESIDENCE	SUPPORT	OPPOSE
Robert Hoffman	Mt. Assessors Assoc -		
DON LARSON	MT. ASSESSORS ASSOC.		
Kelly Jo M Price	MT Assessors Assoc		
JOHN LAFAVER	DOR		
Bob Durkee	MT TAVERN ASSN		
Jim Oppedahl	OBPP		
JACK ELLERY	DOR		
Gary Blewett	DOR		
Gordon Morris	MACo		
[illegible]	MPEA		
Chuck Johnson	GF Tribune		
Greg Groepper	DOR		
Kate Williams			
Ellen Feaver	DofA		
Dave Ashley	DofA		
Kathy Fabiano	DofA		
KAREN MUNRO	DofA		
Robert M. Jancich	MEDB		
David Ewer	MEDB		

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PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

GENERAL GOVERNMENT AND HIGHWAYS COMMITTEE

BILL NO. ________________ DATE June 12, 1986

SPONSOR ________________

NAME (please print)	REPRESENTING AND RESIDENCE	SUPPORT	OPPOSE
Jack Nielsen	MHFA		
Thomas Schneider	MPEA	SS Transfer	
LINDA KING	Public Employees Ret. Div	✓	
John Phillips	Rep HD 33	✓	

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