



Legislative Finance Committee

56th Montana Legislature

Room 494 Federal Building, • P.O. Box 201711 • Helena, MT 59620-1711 • (406) 444-2986 • FAX (406) 444-3971

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MINUTES

March 9, 2000
Room B7, Federal Building
Helena, Montana

ROLL CALL FOR MARCH 9, 2000

Sen. Greg Jergeson
Sen. Chuck Swysgood
Sen. Tom Beck
Sen. Chris Christiaens
Sen. Eve Franklin
Sen. Arnie Mohl
Rep. Lila Taylor
Rep. Matt McCann
Rep. Bob Raney
Rep. Joe Tropila
Rep. John Witt, Excused
Rep. Tom Zook
Clayton Schenck, Legislative Fiscal Analyst
Cindy Campbell, Committee Secretary

DRAFT

Call to Order (Tape 1A-010)

The 174th meeting of the Legislative Finance Committee (LFC) was called to order at 9:20 a.m. by Senator Greg Jergeson, Chair, on Thursday, March 9, 2000. The meeting was held in Room B7 of the Federal Building, Helena, Montana.

1. Approval of Minutes for December 9 and 10, 1999 (Tape 1A-05)

Representative Zook moved the minutes of the December 9 and 10, 1999, meeting be approved as presented. **VOTE:** The motion carried unanimously.

2. LFA Comments/Introduction of New Staff (Tape 1A-010)

Clayton Schenck, Director of the Legislative Fiscal Division (LFD), introduced the newest LFD staff members as follows: Associate Fiscal Analysts - Gary Hamel, Dave Brown, and Pat Gervais; Fiscal Specialist – Jon Moe; and Fiscal Information Specialist – Mike Allen. On behalf of the LFC, **Senator Jergeson** welcomed the new staff.

3. The SABHRS (MT PRRIME) Project – System Implementation Issues: Update (Tape 1A-083)

Greg DeWitt, Senior Fiscal Analyst, presented an update on the system implementation issues with the SABHRS project. (Exhibit 1) His report included updates on the system implementation issues, major frustrations of system users, future upgrades and enhancements, and additional concerns. There were two additional concerns. The first dealt with the fiscal year 2000 closing, which could impact the agencies as well as the budget development, if problems develop. The second was a security concern, which was identified in a November 1999 audit performed by the Legislative Audit Division (LAD). The audit identified a security issue that allows payroll personnel in one agency to access and change data for another agency. LAD and the Legislative Audit Committee are monitoring this situation. However, the existence of this security issue raises questions of data integrity. Mr. DeWitt told the LFC that SABHRS personnel are working with the Department of Administration's (DOA) central payroll and accounting staff to improve security in the human resources and financial databases.

Lois Menzies, Director of DOA, presented a response to Mr. DeWitt's report. (Exhibit 2) She responded to issues raised in the following categories: transaction processing, reports, security, upgrades to the human resources and financial modules, and fiscal year closing. In regard to the issues of upgrades, Ms. Menzies told the committee that the cost of the upgrades to the human resources and financial modules has been reduced because of the decision to direct hire six programmers rather than contracting for them. However, the financial plan has not changed and because of the continuous upgrades to the modules, the need for additional resources will not diminish. She also gave an example of a recent SABHRS success in the Department of Public Health and Human Services (DPHHS). At the conclusion of her report, Ms. Menzies responded to questions from committee members regarding the aforementioned issues. During the question

and answer period, **Senator Beck** asked for additional information on the issue of lack of integration between the human resources and financial modules of the SABHRS system in relation to the personal services funding adjustments. **Representative McCann** requested additional information comparing the direct hire of the programming FTE the SABHRS updates versus contracting for these services. Lois Menzies will report back to the LFC on these issues and will provide an updated budget on the cost of the upgrades.

4. HB 64: 15 Percent Base Reductions/Instructions to Agencies (Tape 1B-360)

A report on the implementation of HB 64 was presented by Jon Moe, Fiscal Specialist. (Exhibit 3) HB 64 directs the agencies of state government with more than 20 FTE to provide, as part of their budget submission to the budget director, “a plan to reduce the proposed budget to 85% of the current base budget.” It further provides that the plan must include the following: 1) a prioritized list of services that would be eliminated or reduced; 2) for each service included in the prioritized list, the savings that would result from the elimination or reduction; and 3) the consequences or impacts of the proposed elimination or reduction of each service. Mr. Moe summarized the background of HB 64 and provided a conceptual design, as well as options for consideration by the LFC. He then answered questions from the committee members.

Below are the four options presented by Jon Moe, each followed by the LFC decision:

- 1) Would the committee prefer to have this exercise focus only on general funds expenditures? **(LFC Consensus: no)**
- 2) Is the committee comfortable with the “reduction plan” not being included in the Legislative Budget Analysis publication? **(LFC Consensus: yes)**
- 3) Does the committee agree with the description of how this information will be used? **(LFC Consensus: yes)**
- 4) Related to the previous question, does the committee wish to send a letter and/or instructions to the agencies describing how this new statutory requirement will be implemented and what the expectation will be? **(LFC Consensus: no)**

5. Metal Mines Performance Bonds and State Liability (Tape 2A-072)

Roger Lloyd, Senior Fiscal Analyst, reported to the committee on the issue of metal mine performance bonds and state liability. (Exhibit 4) In his introduction to this issue, he stated that although Montana's metal mine performance bond statutes are adequate in most cases, there are deficiencies. He proceeded to explain how the process is supposed to work, the problems with the system which cause the deficiencies, possible solutions, and options for consideration by the LFC.

Mark Simonich, Director of Department of Environmental Quality (DEQ), responded to issues raised by Mr. Lloyd. He began by stating he agreed with some of the issues and disagreed with others, and proceeded by responding to each issue. Mr. Simonich and Roger Lloyd responded to questions from committee members. Marty Tuttle, attorney for DEQ, responded to questions from **Senator Beck** regarding the Pegasus bankruptcy.

Following discussion, during which many important issues were raised, **Senator Jergeson** pointed out that this problem will require much more time than the committee can allow during the meeting and will also need some intensive review and study. So he appointed a subcommittee to study this and make recommendations to the full committee. The LFC members appointed to this subcommittee are: **Senator Jergeson, Representative Taylor, Representative Tropila, and Senator Beck.**

6. General Fund Briefing Summary (Tape 2B-477)

Terry Johnson, Principal Fiscal Analyst, presented a brief summary of the financial status of the state general fund account. (Exhibit 5) His report included a discussion of the fiscal 1999 fund balance, an outlook for the 2001 biennium, and a summary of the fiscal categories that could potentially produce an excess in the general fund account by the end of the 2001 biennium. In summary, he reported that if the revenue and expenditure trends as portrayed in the report continue through the current biennium, the general fund account could have a potential ending fund balance of \$137.8 million above the level budgeted by the 56th Legislature. Mr. Johnson concluded his report by stating that this estimate should be viewed as conservative since the income tax estimates shown in Table 5 of the report do not assume a continuation in wage/salary and capital gains income grow rates observed from calendar 1997 to 1998. He also told the

committee that because of the volatility occurring within the oil and palladium prices, potential additional revenue from oil and metalliferous mines taxes were not included in the estimates. Dave Lewis, Director of the Office of Budget and Program Planning (OBPP), provided the executive response, stating that they completely agreed with Mr. Johnson's report. He told the LFC that OBPP arrived at the same conclusions with nearly the same number. Mr. Lewis stated that the tax returns indicate the growth rates are very similar to those of 1999.

7. DPHHS: Budget Status Reports/Potential for Supplemental Request (Tape 3A-234)

Lois Steinbeck, Senior Fiscal Analyst, and Pat Gervais, Associate Fiscal Analyst, presented the issues on the Department of Public Health and Human Services (DPHHS) budget status reports and potential for supplemental request. (Exhibit 6)

Ms. Steinbeck provided a background summary on the report and told the committee that there are several key assumptions made by DPHHS in its most recent budget status report, which support the projected general fund surplus of approximately 6/100 of 1 percent of the general fund appropriated by DPHHS. These assumptions are discussed in detail in the report (Exhibit 6) and were reported to the LFC by Ms. Steinbeck and Ms. Gervais.

Ms. Gervais reported on the issue of the Title XX transfer and Ms. Steinbeck presented the issue of tobacco control and the Children's Health Insurance Program (CHIP). She distributed copies of a letter from Greg Petesch, Director of Legal Services for Legislative Services, dated March 6, 2000, (Exhibit 6A) responding to questions from her regarding several issues related to the SB 81 appropriation, which are outlined on page 4 of Exhibit 6. SB 81 appropriated \$8 million in general fund that must be used for the state match for CHIP. In addition, it states that the appropriation may also be used to fund increases in the Medicaid program resulting from CHIP outreach efforts. In summary, the legal opinion produced two conclusions, which are: 1) DPHHS has the burden to demonstrate, in some manner, that the amount of the SB 81 appropriation used for Medicaid costs are due to CHIP outreach; and 2) Once the conditions of the SB 81 appropriation are met, DPHHS can transfer any remaining general fund from the SB 81 appropriation to any other program, including programs funded from HB 2. Ms. Steinbeck told the LFC that based on this legal opinion, DPHHS needs to provide some method to estimate

Medicaid costs related to CHIP outreach in order to demonstrate that the conditions of the SB 81 appropriation are being met.

Ms. Gervais presented the issue concerning the shortfall in the TANF MOE division. She then presented options which would allow DPHHS to offset current general fund expenditures with federal fund and reduce the likelihood of the necessity for additional general fund resources in this biennium.

The legislative staff has requested that DPHHS respond to several questions regarding these issues, which will provide additional information to the LFC. Ms. Steinbeck detailed these questions for the committee and provided options for action by the LFC.

Dave Lewis, OBPP, provided a response on behalf of DPHHS, summarizing the background of this issue since the last legislative session. He stated that DPHHS does not intend to take action which would violate the law and they anticipate they will be able to live within this budget through this biennium. Mary Dalton, DPHHS, and Mr. Lewis responded to questions from LFC members regarding various issues on this subject.

Senator Jergeson distributed copies of a letter he received from the Blaine County Commissioners, dated March 2, 2000, regarding the shortfall in their Human Services budget, due to unfunded mandates, and thus an inability to provide service to the public. (Exhibit 6B) Hank Hudson, DPHHS, responded to this issue stating that they were currently working with MACO and the Department of Administration in an attempt resolve these problems.

8. Potential Supplemental Requests for Fiscal 2000 (Tape 3B-103)

Dave Lewis presented information on potential supplemental requests for fiscal 2000 in response to an LFC request communicated in Clayton Schenck's letter of March 3, 2000. (Exhibit 7) Mr. Lewis stated that OBPP received an estimated supplemental request of \$4 million from the Department of Natural Resources and Conservation for fire suppression during the normal spring season. This does not include anything for next summer as it is unknown how much they may need at that time. The only other supplemental will probably come from DEQ for funds to deal

with the metal mine performance bond issue, discussed earlier in the meeting. Mr. Lewis stated that they have not finalized their request because they are looking for other funding resources, such as BLM, but they will probably be asking for a minimum of \$600,000 up to \$1 million.

Senator Jergeson noted the supplemental of \$1.2 million for distribution to schools, which was discussed by Terry Johnson in his report on the general fund.

9. Prison Population Estimates: Update (Tape 3B-130)

Lorene Thorson, Senior Fiscal Analyst, presented an update on the prison population estimates. (Exhibit 8) Her report provided a background of the issue, the current status, fiscal impact of new projections, and a summary conclusion. She told the committee that it is vital to improve the forecasting of inmate populations by the executive branch as the current forecasting methods result in projections which can vary 5 percent plus or minus. Credible projections are important in the short term, but critical for the long term as decisions on large capital outlays are based on long-term forecasts. In hopes of improving future projections, the Department of Corrections (DOC) is in the process of creating the Governor's Standing Advisory Committee for Inmate Projections. This advisory committee will provide a forum for the discussion of issues and trends that impact corrections populations. Membership will include representatives from the legislature, judiciary, law enforcement, corrections, the Board of Pardons and Parole, and the public to develop a shared understanding of factors that impact correctional populations of Montana. The committee will also advise corrections staff in the development of a more sophisticated projections model for use in legislative and correctional decision-making.

Following Ms. Thorson's report, Joe Williams, DOC, responded to various questions from LFC members regarding the status of: 1) the women's prison in Billings; 2) filling vacant positions; and 3) inmate and juvenile populations.

Senator Swysgood updated the committee on the status of the state hospital at Warm Springs.

10. Information Technology: HB 2 Language/Data Availability (Tape 3B-606)

Pam Joehler, Senior Fiscal Analyst, provided an update on the 2001 session information technology budget. (Exhibit 9) She summarized the report, which was also given to the IT Subcommittee prior to the LFC meeting. At the December 1999 Legislative Finance Committee meeting, the members voted to approve the recommendations by the subcommittee for the structure and content of IT budget request information presented to the 57th Legislature. Since that time several potential issues have developed in regard to the information requirements contained in the recommendation. The issues are defined in two categories: 1) issues caused by OBPP digression from LFC recommendation; and 2) other issues, which are potential issues caused by the state accounting system functionality or by accounting procedures employed by some agencies.

Mrs. Joehler presented the recommendation of the IT Subcommittee as outlined in Exhibit 9.

MOTION: Representative Raney moved that the LFC approve the action taken by the IT Subcommittee. **VOTE:** Motion carried unanimously.

11. SB 19 Operating Plan Changes (Tape 4A-015)

Pat Gervais presented information on the DPHHS program transfer relating to TANF (Exhibit 10), as previously discussed in Exhibit 6. She detailed the three program transfers related to this transaction.

12. Status on Interim Studies (Tape 4A-015)

Members of the LFD staff reported to the LFC on the status of the interim studies as follows:

- HJR 35 Interim Study of Public Mental Health Services – Lois Steinbeck
- Postsecondary Education Policy and Budget Committee – Sandy Whitney (Exhibit 11)
- Information Technology Management Study – Pam Joehler and Greg DeWitt (Exhibit 12)
- Earmarked Revenues/Statutory Appropriations Interim Review Subcommittee – Lorene Thorson

- Revenue and Taxation Committee – Jim Standaert
- Local Government Funding/Court Funding Interim Studies – Jim Standaert

13. Information Reports (Tape 4A-535)

Budget Amendments Summary Report - Taryn Purdy presented the budget amendments summary report. (Exhibit 13) Gary Hamel, Associate Fiscal Analyst, explained the LFD issue with the DNRC budget amendment, which is detailed in Exhibit 13, starting on page 3. Randy Mosely provided a response on behalf of DNRC. Following discussion, consensus of the LFC was to take no action on this issue.

Jim Standaert presented information on the Office of Public Instruction's (OPI) budget amendment in the advanced drivers' education account. (Exhibit 13A) Dave Huff, provided a response on behalf of OPI. **MOTION:** Following discussion **Senator Beck** moved that the LFC approve the budget amendment for OPI and subsequently, switch the account to a proprietary account before the next budgetary session. **VOTE:** Motion carried unanimously.

Clayton Schenck briefly presented the following informational reports:

- HB 2 (Section 7) – Transfer of Funds from Personal Services to Contract Services (Exhibit 13B)
- Appropriations Transferred from One State Agency to Another (Exhibit 13C)
- Fee Accounts with Balances Exceeding the Biennium Appropriations (Exhibit 13D)
- Montana Comprehensive Health Association Financial Report (Exhibit 13E)
- Required Reports (Exhibit 13F)

14. LFD Interim Work Plan: Review/Update (Tape 4B-180)

Clayton Schenck reviewed the LFD interim work plan with the LFC, stating that all projects on the first page will be completed during this interim. (Exhibit 14) He provided a status report of the items listed on page 2.

15. COMMITTEE BUSINESS (Tape 4B-220)

Mr. Schenck outlined the items listed under committee business. (Exhibit 15) **Senator Beck** updated the LFC on the status of the process to fill the director of Legislative Services, which will be vacated due to Bob Person's retirement.

The issue of staff comp time status prompted a lengthy discussion by the LFC regarding pay off of the old fund comp time balances. **MOTION: Senator Beck** moved that in the event the Legislative Council votes to buy out Legislative Services old fund comp time balances, the LFC will have a contingent ratification for using available resources to buy out the LFD old fund comp time balances. **VOTE:** Motion carried unanimously.

The issue of changing the dates of the September LFC meeting to October was presented for discussion. There was no opposition to the date change, so the LFC meeting originally scheduled for September 21 and 22, 2000, will be changed to October 2 and 3, 2000.

Next LFC Meeting

The next meeting of the LFC is scheduled for June 8 & 9, 2000.

Adjournment

MOTION: Representative Tropila moved to adjourn. Motion carried unanimously. Meeting adjourned at 5:10 p.m.

Senator Greg Jergeson, Chairman

Cindy Campbell, Committee Secretary