



LEGISLATIVE FINANCE COMMITTEE

59TH Montana Legislature

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SENATE MEMBERS

JOHN COBB, CHAIRMAN
KEITH BALES
MIKE COONEY
RICK LAIBLE
DON RYAN
CAROL WILLIAMS

HOUSE MEMBERS

ROSALIE BUZZAS, VICE CHAIRMAN
GARY BRANAE
TIM CALLAHAN
RAY HAWK
RICK RIPLEY
JOHN SINRUD

MINUTES

October 6 & 7, 2005
Room 102, State Capitol
Helena, Montana

ROLL CALL

Sen. Keith Bales
Sen. Rick Laible
Sen. Mike Cooney
Sen. Carol Williams
Sen. Don Ryan
Sen. John Cobb
Rep. Gary Branae
Rep. Rosalie Buzzas
Rep. John Sinrud, Absent
Rep. Ray Hawk
Rep. Tim Callahan
Rep. Rick Ripley
Clayton Schenck, Legislative Fiscal Analyst
Diane McDuffie, Committee Secretary

Call to Order (Tape 1A-001)

Senator John Cobb, Chairman, called the 193rd meeting of the Legislative Finance Committee (LFC) to order at 1:00 p.m. on Thursday, October 6, 2005. The meeting was held in Hearing Room 102 of the State Capitol, Helena, Montana.

1. Approval of Minutes for June 17, 2005 (Tape 1A-0011)

Rep. Ripley moved the minutes of the June 17, 2005 meeting be approved as submitted.

VOTE: The motion carried unanimously.

2. Attorney General Opinion regarding Expenditure Limitation Statute: What does it mean? Where to From Here? (Tape 1A-013)

Greg Petesch, Legal Director, Legislative Services Division discussed the Attorney General's opinion on the expenditure limitation statute (Exhibit 1). On July 5, 2005 Attorney General (AG) McGrath issued AG Opinion VOLUME 51 NO. 5. In the opinion, the AG held that the enactment of the expenditure limit by the 1981 Legislature placed no enforceable limit on the spending power of a subsequent Legislature. Mr. Petesch responded to questions from committee members.

3. Department of Public Health and Human Services: Program Issues (Tape 1A-690)

Medicare Part D Implementation

Lois Steinbeck, Senior Fiscal Analyst, LFD provided a report on Medicare Part D Implementation-Top 10 Questions (Exhibit 2) and DPHHS Response Plan to Implement Administrative Duties (2a). Language in HB 2 requires the Department of Public Health and Human Services (DPHHS) report to the Legislative Finance Committee regarding implementation of Part D. The new Part D will have a significant impact on Medicaid as well as the workload of the department. The questions in the report are integral to the financial impact, both the cost savings that the state will incur in terms of forgone drug costs for medical eligible people who are also going to receive the Medicare drug benefit and the cost to the state called the "Clawback" which will be due February 25th. Ms. Steinbeck handed out a notice of Errata explaining an error in the "Medicare and You 2006" Handbook (Exhibit 2a). In the column "If I qualify for Extra Help, will My Full Premium be Covered?" this column lists "Yes" for every plan. Not all plans listed are available for no premium.

Ms. Steinbeck said that Exhibit 2a is DPHHS response to the vetoed HB 2 language.

John Chappius, Deputy Director, DPHHS, apologized to the committee for not having the questions in Ms. Steinbeck's report answered. **Senator Cobb** asked how much the "Clawback" would be. Mr. Chappius said that the department would come close to breaking even within a few hundred thousand. In response to a question from **Senator Cobb** about the January 1, 2006 deadline, Mr. Chappius said the changes that are needed to implement the program would be

made by the deadline for January. **Senator Cobb** asked Mr. Chappius to provide an update in December. Mr. Chappius said the department would be better prepared at the December meeting.

Summary of National Proposal to Change Medicaid Program (Tape 1B-114)

Ms. Steinbeck discussed a report on the Summary of National Proposals to Change the Medicaid Program. (Exhibit 3) There are three different groups proposing changes to the Medicaid program: 1) President Bush's budget proposal; Medicaid Commission; and 3) National Governors' Association. President Bush's proposal has the most significant fiscal impacts and service impacts.

Mr. Chappius said the main impact will be with case management, which will affect the general fund match.

Department Budget Status (Tape 1B-236)

Ms. Steinbeck discussed the Medicaid and Budget Status Reports Required by 53-6-110, MCA. (Exhibit 4) Last session the LFC requested a bill that was carried by Senator Cobb (SB 93). This statute requires the DPHHS to provide this committee with periodic updates to Medicaid projections. To date, the LFC has received three reports – the first two in May and June and the most recent for 2005 fiscal year end. The first summary for FY 2006 is due November 15 and will be reviewed at the December LFC meeting.

DPHHS Foster Care and Developmental Disabilities Provider Rate Increases (Tape 1B-307)

Pat Gervais, Senior Fiscal Analyst, LFD discussed the DPHHS Foster Care and Developmental Disabilities Provider Rate Increases. (Exhibit 5) The legislature provided an appropriation of \$4.3 million for the biennium for provider rate increases within the division. The division was able to make available approximately \$1.5 million of general fund to match with federal funds, thus creating another \$4.3 million within the division's budget to add to provider rate increases. The total biennial funding the division intends to put into provider rate increases is \$8.6 million.

4. Information Technology Management Update (Tape 1B-413)

Jeff Brandt, Acting State CIO, Department of Administration discussed the CIO Report to the Legislative Finance Committee and the Major IT Project Portfolio Status as of September 30, 2005. (Exhibit 6 and 6a) This report outlines information that the CIO is responsible for bringing to the LFC. The Major IT Project Portfolio is a summary of all the major IT projects that are underway in State Government. Mr. Brandt responded to questions from committee members.

5. Review of Agency Reports Resulting from Language in HB 2 Requesting Performance Updates/Assessment (Tape 2A-195)

Taryn Purdy, LFD presented the Review of Agency Reports Resulting from Language in HB 2. (Exhibit 7) At the June LFC meeting the committee voted to request information originally included in HB 2 but subsequently vetoed by the Governor. In order to provide a means to aid the committee in determining whether issues warrant concern and to decide how and to what degree follow-up might be desired, staff reviewed all submissions.

Rep. Hawk asked if it would be possible to receive a copy of the analysis from the Department of Justice on the forensic lab before the next legislature. Pat Gervais said she would ask that the analysis be provided to the committee prior to the next legislature.

Senator Ryan asked for a report from the Department of Revenue on the status of the tax protest with PP&L.

Rep. Ripley requested a report from DNRC on HB 22.

Senator Williams brought up the issue of rising energy prices and would the DPHHS provide a report in December about their budget on LIEAP.

Rep. Buzzas requested information from the Department of Corrections on the implementation and funding for the Meth program.

6. Other Reports (Tape 2A-483)

Taryn Purdy, Principal Fiscal Analyst for the LFD, presented the budget amendments (Exhibit 8). She informed the committee that on page 1 of the report, the state special revenue amount should be \$3.0 million instead of \$2.0 million. On page 2, the “concern” box should not be checked for budget amendment 192.3. Ms. Purdy referred to a report from Greg DeWitt, Budget Amendment for SB 276 Tax Distributions (Exhibit 9). The Office of Budget and Program Planning approved a budget amendment requested by the Department of Revenue to augment FY 2006 state special revenue funding. The budget amendment is for \$1,783,925 state special revenue to meet the distribution requirements of SB 276. According to Greg Petesch, it does not meet the statutory criteria for a legal budget amendment of an “emergency”. Mr. DeWitt’s report provided two options: 1) Take no action; and 2) Communicate to the executive that the committee has determined that the requirements for the approving authority to approve a budget amendment have not been satisfied and 2a) include no further direction; or 2b) request that the Governor include an item to provide an appropriation to make distributions of bentonite taxes in a special legislative session call. The committee agreed to offer a vote on this issue until later in the meeting.

Senator Bales explained that during the last session, the Legislature enacted Senate Bill 276 to revise the taxation of bentonite mines. However, the measure did not include an appropriation for the counties’ share of the tax.

Ms. Purdy presented the Operating Plan Changes (Exhibit 10) and Program Transfers of a Time Sensitive Nature (Exhibit 10a) stating that the LFD reviewed these and had no significant issues on them.

Jon Moe, LFD provided a summary of the Required Reports (Exhibit 11). These are reports required either in HB 2 or in statute. These reports are provided by the various agencies that are responsible for them based upon the legislatures request for information.

MOTION: **Senator Cooney** moved that the LFC request more outcome based goals and objectives for the Market and Business Recruitment activities of the Governor's Office of Economic Opportunity for the December meeting. **VOTE:** Motion carried

Senator Cooney asked if the LFC could contact the Director of the Department of Revenue to come to the meeting tomorrow to respond to questions regarding additional audits on state employees. There were no objections.

7. Committee Business (Tape 2B-210)

Mr. Schenck discussed the items listed under committee business. (Exhibit 12) He presented proposed changes to the LFC rules regarding a legal review of HB 2 and confidentiality issues.

MOTION: **Senator Cobb** moved to approve the LFC rule change. **VOTE:** Motion carried.

Mr. Schenck discussed the LFD cost report, the Legislative Branch Broadband Pay Plan Proposal, and Compensatory Time Balances.

8. Wildfire Suppression Costs: Update (Tape 2B-440)

Barbara Smith, Associate Fiscal Analyst, LFD discussed the FY 2006 Fire Season Report. (Exhibit 13) To date, DNRC has paid \$3.1 million of the \$6.3 million in incurred fire costs, leaving an estimated balance owing of \$3.2 million. Of the \$6.3 million, \$1.4 million is billable to the US Forest Service and \$0.7 million was covered by the Governor's emergency fund, resulting in the need for a \$4.2 million supplemental appropriation so far for the 2007 biennium. In September, DNRC received a \$267,000 payment from FEMA for 2004 fire costs. At this time, it is not clear if or when Montana will receive the remaining \$5.3 million owed. In the meantime, the costs have been paid from the ending fund balance through the Governor's emergency fund.

Committee Business Continued (Tape 2B-561)

Mr. Schenck discussed the Legislative Fiscal Division 2007 Biennium Work Plan Interim Studies and Other Issues/LFC Action Items. (Exhibit 12)

1. Proceeding with Expenditure Limitation Statute. Committee will take action tomorrow.

2. Fiscal Note Process. Mr. Schenck referred to a letter dated October 3, 2005 from the Montana Legislative Council regarding the accuracy and quality of fiscal notes prepared by the Executive Branch and their impact on the passage of legislation. The Council is proposing a working group of the Legislative Council and the Legislative Finance Committee to look at this issue. Committee will take action tomorrow.
3. CHIPS Contract Issues. No action at this time.
4. Section 1115 Demonstration Waiver (SB 110). Committee will take action tomorrow.
5. LFD Staff Tasking for Potential Special Session. No action needed on this item.
6. Committee Preferences/Priorities. No changes in Workplan.

Friday, October 7, 2005

ROLL CALL

Sen. Keith Bales
Sen. Rick Laible
Sen. Mike Cooney
Sen. Carol Williams
Sen. Don Ryan
Sen. John Cobb
Rep. Gary Branae
Rep. Rosalie Buzzas
Rep. John Sinrud
Rep. Ray Hawk
Rep. Tim Callahan
Rep. Rick Ripley
Clayton Schenck, Legislative Fiscal Analyst
Diane McDuffie, Committee Secretary

Call to Order (Tape 4A-004)

The 193th meeting of the Legislative Finance Committee (LFC) reconvened on Friday, October 7, 2005, and was called to order at 8:00 a.m. by **Senator Cobb**, Chair, in Hearing Room 102 of the State Capitol, Helena, Montana.

9. Federal Highways Funding Act of 2005 (SAFTEA-LU) (Tape 3A-065)

Greg DeWitt, Senior Fiscal Analyst, LFD, discussed a report on Federal Highways Funding Act of 2005 (SAFETEA-LU) (Exhibit 14) and provided a Summary. (Exhibit 14a) Mr. DeWitt said

the budget for the 2007 biennium for the Department of Transportation totals \$1.1 billion, with 56 percent comprised of federal funds. The latest federal authorization that provides federal-aid highways and transit funding, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was approved in August 2005 and replaced the Transportation Efficiency Act of the 21st Century (TEA-21). SAFETEA-LU provides authorization for federal-aid transportation programs and funding for federal fiscal years 2005 through 2009. Montana stands to receive an average of \$329 million per year under formula programs and high priority earmarked projects of SAFETEA-LU. In addition to the funding for formula programs and high priority project earmarks, Montana would receive totals of \$56 million for transit grants to local transit operators and \$231 million of other earmarked funding over the life of SAFETEA-LU.

Sandy Straehl, Administrator, Rail, Transit and Planning Division responded to **Senator Laible's** question regarding future jeopardy because of donor states and their desire to get back every dollar that goes into the Federal Trust Fund. There have been several efforts to pursue "turn back" which is basically to turn back to the states only what they send into DC. Montana has received certain protections for our percent share of the program based on certain criteria such as population density, fatality rates on the interstate and average per capita income. When the formulas are calculated, we are held at a percent share that is equivalent to our average present share of the program. This percent share is locked in place through the entirety of TEA-21. Our percent share going into the next reauthorization will be better than the percent share we had going into this reauthorization.

Senator Cobb asked about the state special revenue account ending fund working balance of a negative \$17 million and when will the department start planning for their budget. Mr. DeWitt said these projections show with current spending, revenue estimates, and expenditure patterns and policies behind those, the department would deplete the balance. The department will need to augment revenues or cut back on expenditures. The EPP process will begin in spring 2006. The department always submits a new construction program based on the latest numbers at the beginning of session.

10. General Fund Update: General Fund Status: Fiscal 2005 Actual/2007 Bien. Projected

(Tape 3A-453)

Terry Johnson, Principal Fiscal Analyst, LFD, presented a written report on the General Fund Status: Fiscal 2005 Actual/2007 Biennium Projected (Exhibit 15) and a power point presentation. (Exhibit 15a) The purpose of this report is to provide the committee with preliminary fiscal 2005 ending fund balance data for the general fund account. The report provides a comparison between budgeted data as developed by the 59th Legislature and what actually occurred in fiscal 2005. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2007 biennium. Mr. Johnson reported that the preliminary general fund account unreserved, undesignated ending balance for fiscal 2005 is \$297.4 million or \$135.0 million above the level anticipated by the 59th Legislature. The projected general fund ending fund balance for the 2007 biennium is \$204.6 million or \$128.6 million more than estimated at the end of the 59th Legislative Session.

This balance incorporates preliminary revenue and disbursement data for fiscal 2005 and includes revenue and disbursement data for fiscal 2005 and includes revenue and disbursement estimates for fiscal 2007 biennium as budgeted by the 59th Legislature. Also included in the balance is anticipated supplemental/emergency appropriations of \$4.9 million for wildfire costs, carry forward appropriations of \$0.3 million and fund balance adjustments of \$1.2 million for transfers to selected state special revenue accounts. Mr. Johnson responded to questions from LFC members.

Senator Laible requested for the next meeting a break down showing what the sales were for lotto games.

Special Session Revenue Estimating Process (Tape 3B-330)

Mr. Johnson presented a report on the Special Session Revenue Estimating Procedure. (Exhibit 16) This report summarizes the procedure the RTIC will use for reviewing the revenue estimates contained in HJR 2 of the 59th Legislature, assuming a special session is called for December 2005. Mr. Johnson responded to questions from LFC members.

11. School Funding Study: Update on Interim Study Action/What are the Issues Facing the Legislature in Potential Special Session? (Tape 4A-087)

Jim Standaert, Senior Fiscal Analyst, LFD discussed the Progress Report on Work of The Quality Schools Interim Committee (Exhibit 17), a table showing Legislative Changes in OPI for the 2007 Biennium, a spreadsheet showing Student/Teacher Ratios, and tables showing Baseline Salary and Benefits Data for Classroom Entitlement, QSIC Changes to Cost per Classroom and New Classroom Costs after QSIC Action (Exhibit 17a). The progress report summarizes the work of the Quality Schools Interim Committee (QSIC) since adjournment of the 2007 Legislature. Legislative members of the QSIC are: Rep. Lindeen, Chair; Senator Story, Vice-Chair; Senators Tester, Lewis, and Ryan; Representatives Glaser, Raser, and Wagman; Linda McCulloch, OPI; Kirk Miller, State Board of Public Education; and Dave Ewer, OBPP are Ex-Officio non-voting members. Other staff and participants are: Madelyn Quinlan and Joan Anderson, OPI; Eddy McClure, Connie Erickson, Greg Petesch and Chris Lohse, LSD; Amy Carlson, Nancy Hall and Mike Burke, OBPP; Kathy Faubiano, Legislative Senate; Superintendents Joan McNeil, Bruce Messinger and Ivan Small.

Mr. Standaert said the OSIC has a tremendous amount of work yet to do if a new school funding formula is to be placed in law for implementation in fiscal 2007. The OSIC must complete its fiscal work by November 1, 2005 and the changes in law written in time to allow a special session in December 2005, which will be very difficult. If a new funding formula enacted is in law for implementation in fiscal 2008, the urgency is reduced, however there would still be issues regarding timing even if the legislature wishes to do nothing about funding in fiscal 2007. If the legislature wishes to implement the new funding formula in fiscal 2008 and enhance spending on K-12 in fiscal 2007, the legislature may face two special sessions, or only one if both are placed in law at the same time before March 1, 2006.

Chris Lohse, Research Analyst, LSD provided a power point presentation of An Overview of Funding Mechanism for Montana Public Schools. (Exhibit 17b) The existing formula relies solely on the per-district entitlement and the per-student entitlement. During the legislature session the committee on Education and Finance proposed an eight-component system as follows: 1) Per-student entitlement; 2) Classroom entitlement; 3) Accredited Program

entitlement; 4) Building Operation and Maintenance entitlement; 5) Special Education Block Grants; 6) Transportation entitlement; 7) Capital Projects entitlement; and 8) Debt Service entitlement. The proposed formula has been built on rational costs and educationally relevant factors that allows for targeted adjustments to deliver more specific assistance to ailing elements in the educational enterprise. Mr. Lohse responded to questions from LFC members.

Madelyn Quinlan commented on the issue of whether OPI can implement a system in a timely manner for FY 2007. She said if there is a special session in the near future, OPI could put a new system in place by July 1, 2006 provided that the system is not dependent on data that OPI does not currently collect and the rates have to be (actual dollar amount) set in statute. The law says OPI must provide preliminary budget data to all schools on March 1 and provide final budget information to school districts at the beginning of June. OPI does not expect to have all the programming completed by the start of the fiscal 2007 school year with the new formula.

Amy Carlson, OBPP, commented that their office, legislative staff and OPI have been working together in a cooperative effort with the committee. She also said that when looking at school funding, costs through fiscal 2009 should be included.

12. Retirement Plans Unfunded Liability: Issues, Laws, and Cost Factors (What are the Issues Facing the Legislature in Potential Special Session?) (Tape 4B-500)

Jon Moe, Fiscal Specialist, LFD presented a written report on Retirement Plans Unfunded Liabilities (Exhibit 18) and a power point presentation. (Exhibit 18a) The report provides background information regarding the “unfunded liabilities” of the state pension plans, issues facing the legislature, applicable laws, cost factors and options to consider. Mr. Moe said there are four state plans that have significant unfunded actuarial liabilities that cannot be amortized within a 30-year period, as required by state law. The total unfunded liability of the four plans is \$1.46 billion. The constitution requires that the public retirement systems be funded on an actuarially sound basis. Statute defines actuarial sound basis, as meaning that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. The SAVA committee is drafting legislation to address the “unfunded liability” for the proposed special

session. **Senator Bales**, member of the SAVA committee and Mr. Moe responded to questions from LFC members.

Carroll South, Board of Investments provided a copy of the fiscal note for HB 294 from the 2001 Legislative Session. (Exhibit 19) Mr. South said HB 294 cost between \$400 and \$500 million and there was not a dollar amount in the fiscal note. HB 294 increased the guaranteed base adjustment from 1.5 to 3 percent. Mr. South provided a Pension Fund Fiscal Note sample draft (Exhibit 19a) that shows what the cost is on the front page.

Audits on State Employees (Tape 5A-210)

Senator Cooney requested Dan Bucks, Department of Revenue to address the committee regarding select auditing of state employee tax returns. Mr. Bucks, provided a section of the report that was provided to the Revenue and Transportation Interim Committee on compliance activities. (Exhibit 20) Mr. Bucks stated that state employee cross matching is not the only compliance activity that the department is engaged in. The department is also looking at illegal tax shelters, nonresident sales of property, regular cross matches from federal tape information and work with the Department of Labor and Industry on issues of employees being misclassified as Independent Contractors. Mr. Bucks said that state employees just happen to be a group from which the department has ready information.

Wildfire Suppression Costs Continued (Tape 5B-035)

Ann Bauchman, Administrator, Centralized Services Division, DNRC reported that the decision package to boost initial attack for fire has helped. The decision package funded: a pilot and helitack crew; a complete helitack crew for helicopters in Kalispell, Missoula and Helena; funds to build an additional helicopter; and funded improvements in the county co-op program. The department will prepare a report regarding the return on this investment.

13. Department of Corrections (Tape 5B-081)

Pat Gervais, LFD presented a report on Prison Population (Exhibit 21) and a memo regarding pay increases for Correctional Officers. (Exhibit 21a) The report contains information on the rising population of offenders held in the secure care segments of Montana's prison system,

possible budgetary implications, the proposals approved by the legislature, and actions the Department of Corrections (DOC) has under consideration to house this rising number of offenders. Early indications are that the average daily population (ADP) and related expenditures to house offenders may once again exceed appropriation levels in the 2007 biennium. Figure 1 on page 2 of the report summarizes information regarding the department's budget, ADP, and calculates a simple average of the costs per day per offender in each of four facility groups (contract beds, Montana State Prison, Montana Women's Prison and pre-release centers). The total potential costs overrun for the 2007 biennium for the four segments of the system totals \$8.7 million. This does not include costs related to recruitment and retention, or the impact of energy price increases.

Ms. Gervais said that the department has been negotiating a new labor agreement that would raise the correctional officer pay from \$10.76 per hour to \$12.00 per hour. The department provided an estimate of increased costs for the 2007 biennium of \$866,000. Any cost over-run experienced by the department would need to be funded by a combination of reductions in expenditures in other areas, use of less costly alternatives to house offenders, and/or a supplemental appropriation. The department is currently considering a number of actions to address housing of the larger than anticipated increase in the secure care population.

Bill Slaughter, DOC provided a report on the capacity of incarcerated adult offender population (Exhibit 22) and a spreadsheet illustrating the adult ADP Growth 1995 through 2009. (Exhibit 22a) Mr. Slaughter reported that total secure beds on October 6, 2005 are 2,888 and the design capacity is 2,652. In addition to county jail populations, county law enforcement have roughly 3,750 outstanding felony warrants statewide that are waiting to be served. In short, Montana can expect to have a short supply of prison beds for the next 12-24 months. The legislature authorized 300 new prerelease beds and 19 new probation and parole staff. Additionally, the legislature authorized 56 new FTE at Montana State Prison, most of which the department has been unable to fill; low starting wage is the issue. The inability to hire staff has prevented the department from opening the revocation center at MSP. Mr. Slaughter showed the committee a video of the commercials that will be on radio, cable TV and in movie theaters as part of their

recruiting efforts. Mr. Slaughter responded to question from LFC members. **Senator Cobb** requested an update at the December meeting.

Senator Cobb appointed Representative Sinrud and Representative Callahan to the Legislative Council working group to explore the topic of fiscal note preparation.

14. Status Report on Other Interim Study Committees (Tape 6A-368)

Postsecondary Education Policy and Budget Subcommittee

Alan Peura, Associate Fiscal Analyst, LFD provided a report on the status of the work plan for the Subcommittee on Postsecondary Education Policy and Budget (PEPB). (Exhibit 23) Mr. Peura reported that the PEPB subcommittee met on October 6, 2005 and adopted six projects to be completed during the interim. The next meeting is scheduled for December 1, 2005.

Mr. Peura also provided a report on the Interim Legislative Study & Report on Community College Assistance Program. (Exhibit 24) Mr. Peura said that the LFD proposes to conduct an interim study that looks specifically at each community college in an attempt to identify a more accurate calculation of the cost of education may be determined. As part of the study, there will be a one-day site visit to each community college by the study working-group. Members of the study working-group are: Alan Peura, LFD; Mark Bruno, OBPP; and Pam Joehler, OCHE. Site visits at each of the three community colleges will be in October. A draft report will be prepared and submitted to the community colleges for comment by February 2006. The complete report to the LFC will be at the March meeting. **Senator Cobb** appointed Senator Laible and Senator Williams to provide oversight over PEPB.

15. Energy Price Increases: Impacts on State Agency Budgets (Tape 6A-526)

Tarn Purdy, LFD provided a report on Natural Gas Impact On State Agencies. (Exhibit 25) This report provides a background of initial trends in natural gas prices and the ramifications on state agency expenditures. Ms. Purdy reported that natural gas expenditures by the State of Montana state agencies were \$9.0 million in 2004 and almost \$13.5 million in 2005. Natural gas prices are the sum of three main components: 1) commodity price; 2) transmission costs; and 3) distribution costs. Distribution and transmission costs are regulated by the Public Service

Commission and are both more stable and reviewed less often. The increase in cost of natural gas is being caused by increases in the actual commodity price. The table on page 4 of the report shows expenditures for natural gas by agency in FY 2004 and FY 2005. The table on page 5 shows the contract price cost for FY 2004, 2005, and the 2007 biennium. The table on page 6 shows which state agencies are under contract. It is too early to determine whether agencies will be able to fund natural gas costs without either major operational disruption and/or supplemental appropriations.

Greg DeWitt, LFD provided a report on Impacts of High Motor Fuel Prices on Agencies. (Exhibit 26) This report provides information to the LFC to help better understand the potential directions and impacts of changes in fuel prices on state government expenditures and operations. Figure 1 on page 2 shows the ten agencies with the highest gasoline costs in FY 2005. The figure on page 3 shows the ten agencies that spent the most in FY 2005 to rent vehicles from the State Motor Pool. The processes currently being developed in the executive to mitigate the impacts of high motor fuel costs will be monitored and the committee updated as appropriate.

Pam Joehler, Office of Commissioner of Higher Education (OCHE) reported that the Board of Regents authorized a tuition surcharge for the 2007 biennium to address increasing utility costs.

Larry Fasbender, Department of Justice reported that the department is anticipating a supplemental in order to keep the highway patrol on the road.

Amy Sassano, OBPP reported that the budget office has not approved a supplemental for any agency for gas but will continue to monitor the issue.

Bob Lashaway, Office of Facilities Services (OFS), MSU provided and discussed a handout on Conservation, Cost-Saving and other Efficiencies related to MSU. (Exhibit 27) **Chairman Cobb** requested an update at the December meeting.

16. Status Report on LFC Interim Subcommittee/Studies (Tape 6B-317)

Performance Management Update

Barbara Smith, LFD provided an update on Performance Management (Exhibit 28) and provided a project worksheet (Exhibit 28a). The goal for this project was to consolidate a reporting process to: 1) provide information on a routine basis about the status of a project, and 2) to avoid the potential of writing a 20 page report on every reporting requirement. In conjunction with Fish, Wildlife and Parks, a multi-functional worksheet has been developed to collect the information needed to measure the success of implementing two regional investigator positions. The agency was agreeable when informed that this reporting system would replace the traditional written report. The project worksheet provides the reporting period, project description, amount appropriated, amount spent to date, intended outcomes, performance measurement criteria and significant milestones. On the reverse side of the worksheet is the actual report from Fish, Wildlife and Parks for reporting period 8/22/05 – 9/30/05.

Resource Indemnity Trust Statutes and Policies (Tape 6B-575)

Barbara Smith discussed her memo of October 6, 2005, Update on HJR 36 – Resource Indemnity Trust (Exhibit 29) and handed out a copy of the HJR 36 Narrative Work Plan Adopted October 5, 2005. (Exhibit 29a) The subcommittee met on Wednesday October 5th. HJR 36 requests a review of statutes, revenues and expenditures of trust interest and the Resource Indemnity Groundwater Assessment. The RIT subcommittee information can be found at the following site on the Internet: <http://leg.state.mt.us/css/fiscal/default.asp>. The subcommittee took testimony from all affected agencies that were present. The Office of Budget and Program Planning agreed to program level information regarding the use of RIT funds to the subcommittee for review. This information will be analyzed by staff and used as a starting point to review the programs expending RIT related funds. The next meeting will be December 8, 2005 to complete the review of programs utilizing RIT.

Long Range Building Funding Interim Study Recommendation (Tape 6B-657)

Catherine Duncan, Fiscal Analyst, LFD presented a written report on Long-Range Building (LRBP) “Cash” Program Funding” (Exhibit 30) and a power presentation. (Exhibit 30a) The purpose of this report is to inform the committee of the funding shortfall in the LRBP and to

provide options for the committee to consider. Ms. Duncan reported that the Long-Range Building Program “cash” program is not sufficiently funded, and without legislative action to address the diminishing revenue base, inflationary increases in repair cost, and increases in asset inventory, the program will eventually be reduced to a level that will be detrimental to the state’s capital assets. The 2005 Legislature approved an appropriation of \$8,000 to conduct a study and make recommendations to provide adequate funding for the LRBP cash program. Options for the LFC to consider are: 1) convene a subcommittee to study funding methodologies for the LRBP cash program and make recommendations to the LFC; and 2) work in full committee to develop new funding methodologies for the LRBP cash program and present recommendations to the 2007 Legislature. **Chairman Cobb** appointed a subcommittee to conduct a study and provide options at the March meeting and final recommendations for the Legislature by the June meeting. Members are: Senator Cooney, Chairman; Senator Liable; Rep. Branae and Rep. Hawk.

Budget Amendment for new bentonite tax (Tape 7A-295)

Motion: **Senator Bales** moved the committee write a letter to the Governor informing him that the amendment did not meet the statutory criteria for a budget amendment, and to recommend that he include a statutory solution to the funding oversight as part of the next legislative session.

VOTE: Motion passed.

Expenditure Limitation Statute (Tape 7A-479)

In discussing the LFD work plan to study existing expenditure limit statute, Rep. Callahan said the AG opinion indicates that the expenditure limit law passed in 1981 has no bearing on future legislatures so there does not seem to be anything to study. Terry Johnson, LFD provided a list of Problems Experienced in Calculating the Expenditure Limitation. (Exhibit 31)

MOTION: **Chairman Cobb** moved to abolish the subcommittee established to work on the expenditure cap. **VOTE:** Motion passed.

Committee Business Continued (Tape 7B-617)

Mr. Schenck discussed the Legislative Fiscal Division 2007 Biennium Work Plan Interim Studies and Other Issues/LFC Action Items.

- CHIPS Contract Issues.

Lois Steinbeck, LFD conveyed from the department that they would not welcome a working group during the contract negotiations but would once the contract is finalized.

Rep. Buzzas said that Rep. Caferro requested oversight from the LFC regarding contract negotiations. Ms. Steinbeck will be the contact person and **Senator Cooney** will provide oversight.

- Section 1115 Demonstration Waiver (SB 110). **Chairman Cobb, Senator Williams** and **Rep. Hawk** will provide oversight.

Chairman Cobb provided a list of LFC Request for Reports from Agencies Submitted at the October 2005 Meeting. (Exhibit 32) The list needs to be completed and committee members need to determine what kind of report they want by next week.

Next LFC Meeting

The next meeting of the LFC will be Thursday and Friday, December 8 and 9, 2005.

Adjournment

Meeting adjourned at 4:10 p.m.

Senator Cobb, Chairman

Diane McDuffie, Committee Secretary