



LEGISLATIVE FINANCE COMMITTEE

62nd Montana Legislature

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SENATE MEMBERS

STEVE GALLUS
LLEW JONES
DAVE LEWIS
RICK RIPLEY
DAVID WANZENRIED
CAROL WILLIAMS

HOUSE MEMBERS

ROB COOK
JOHN ESP
STEVE GIBSON
CYNTHIA HINER
GALEN HOLLENBAUGH
JON SESSO

JARET COLES, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

MINUTES

September 29 & 30, 2011

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. To the left of each section in these minutes is a time designation indicating the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

Access to an electronic copy of these minutes and the audio or video recording is provided from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side menu of the home page, select *Committees*, then *Interim*. Once on the page for *Interim Committees*, scroll down to the appropriate committee. The written minutes summary, along with the audio and video recordings, are listed by meeting date on the interim committee's web page. You must have Real Player to listen to the audio recording or to view the video.

Hard copies of the exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.

COMMITTEE MEMBERS PRESENT

SEN. STEVE GALLUS
SEN. LLEW JONES
SEN. DAVE LEWIS
SEN. RICK RIPLEY
SEN. DAVID WANZENRIED
SEN. CAROL WILLIAMS

REP. ROB COOK
REP. JON ESP
REP. STEVE GIBSON
REP. CYNTHIA HINER
REP. GALEN HOLLENBAUGH
REP. JON SESSO

STAFF PRESENT

AMY CARLSON, Director
DIANE MCDUFFIE, Secretary

Visitors

Roll Call, Attachment #1.
Visitors' list, Attachment #2.

CALL TO ORDER AND ROLL CALL

00:00:08 Rep. Sesso, Chair, called the 218th meeting of the Legislative Finance Committee to order at 10:05 a.m. on September 29, 2011. The meeting was held in Hearing Room 102 of the State Capitol, Helena, MT. **Rep. Sesso** announced that the proceedings for Mike Pichette begin at 4:30 p.m. today and the committee will try to recess by then. The committee also took a moment of silence in memory of staff member Pat Gervais. The secretary called roll. Attachment #1.

APPROVAL OF MINUTES FOR THE JUNE 10, 2011, MEETING

00:03:42 **MOTION: SEN. WANZENRIED** moved to approve the minutes for the June 10, 2011 meeting. **VOTE:** Motion passed.

GENERAL FUND STATUS

00:04:20 Terry Johnson, Principal Fiscal Analyst, LFD presented a report on General Fund Status Fiscal 2011 Actual/2013 Biennium Projected and a power point presentation. (Exhibit 1 and 1a). The purpose of the report is to provide the committee with preliminary FY 2011 ending fund balance data for the general fund account. The report provides a comparison between budgeted data as developed by the 61st and 62nd Legislature and what actually occurred in FY 2011. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2013 biennium.

COMMENTS AND QUESTIONS

00:20:13 **Rep. Hollenbaugh** commented that slide 13 shows a very significant decrease in quarter 2 for each of the years shown and quarters 3 and 4 always show a rebound. He said it seems future analysis should anticipate a severe drop in quarter 2 and rebounds in quarters 3 and 4. Mr. Johnson said one of the concerns in addition to the trend is net operating losses and did those losses have an influence on the final calendar year payment for corporations.

00:23:43 **Sen. Jones** asked if the increase in corporation tax audit collections was due to an increase in audits. Mr. Johnson said it was due to three or four very large corporation audits.

00:35:20 **Senator Williams** commented that in March and April of the legislative session the Department of Revenue provided hard numbers on the revenue that was coming in and it was significantly better than what was projected. She said this is not acceptable in an ongoing way to have estimates that are off the mark. Mr. Johnson said he would argue that the estimates prepared by the LFD and recommended to the legislature were within an acceptable confidence interval. He said in looking at year to date activity he does not disagree that there was strength in income and corporate taxes during the session but that information does not give a clear picture of the next two years.

00:43:00 **Senator Jones** commented that there's a growing inference that we always under

estimate. He pointed out that there has been over estimates in both shops a number of times. He asked Mr. Johnson if what he reported was consistent with Global Insight. Mr. Johnson explained the process used to produce revenue estimates during session and said that the estimates were consistent.

00:50:18 **Sen. Wanzenried** asked if tax collections for individual income are above or below the projections for the first two months of this fiscal year. Mr. Johnson said they are above the estimates at this point in time. However, the accrual reversal occurs in October and needs to be taken into account before extrapolating into the future. **Sen. Wanzenried** asked if we had had the information that was received in May and June, is it likely to have made a difference in adopting the revenue estimates. Mr. Johnson said the LFD made a recommendation in April for revisions in the revenue estimate and those revisions were not incorporated into HJR2.

01:01:22 **Sen. Wanzenried** asked for an explanation on the Department of Public Health and Human Services reversions. Ms. Steinbeck, Senior Fiscal Analyst, LFD provided some background information on HB 645 and discussed the elements of Table 7b on page 12 (Exhibit 1)

01:08:34 **Rep. Sesso** asked the committee between now and December 7th to explore the use of actual data, and to take responsibility and ownership for the facts and information that staff provides.

STATE FUND BUDGET UPDATE

01:14:07 Kris Wilkinson, Fiscal Analyst, LFD presented a report on Montana State Fund 2012 Budget Analysis Old Fund and New Fund. (Exhibit 2). This report discusses the analysis of the Montana State Fund Board approved 2012 budgets for both the New and Old Funds. It also discusses the FY 2011 budget and actual costs, and general fund transfers required in the 2013 biennium. Also included in the committee notebooks is the Montana State Fund Fiscal Year 2012 Annual Budget Request. (Exhibit 2a)

01:31:45 Mark Barry, Vice President Corporate Support, Montana State Fund (MSF) thanked staff for their efforts in working with State Fund to give a fairly balanced report. He said it's been a good year for MSF and they will be able to provide a 20 percent rate decrease to Montana businesses.

01:32:32 **Sen. Gallus** asked what the base salary is for the CEO. Ms. Wilkinson said in FY 2011 the base salary was \$252,000. At the September meeting, the Board awarded an additional 2.5 percent in compensation for a new base salary of \$262,000.

01:33:11 **Sen. Wanzenried** asked for clarification on the reduced authority for agencies. Ms. Wilkinson said the amendment was used to fund a portion of the community colleges. The general fund component of that was approximately \$2.0 million. That was not arrived at with a specific percentage. The 20 percent is an average, it could be significantly more or less based on job classifications and experiences.

01:37:40 **Rep. Hollenbaugh** asked about the current reserves and what would the reserves need to

be after the 26 percent savings. Mr. Barry said at the end of the fiscal year total reserves are \$874.0 million. Those reserves are set based on the law in place prior to July 1. The 26.7 percent loss costs decrease is based on law affective for claims that occur after July 1. The reserve to equity has improved and if the ratio can be maintained the equity position can be decreased.

01:44:17 **Rep. Esp** asked if the cost drivers affect how much reserves are needed. Mr. Barry said that is correct.

01:44:38 **Sen. Lewis** asked if the MSF is holding more investments in the STIP account. Mr. Barry said MSF's investment policy statements says that they carry between 3 and 5 percent of assets in STIP.

01:47:34 **Rep. Sesso** asked why not pay the old fund off with the money in the system. Mr. Barry said the law states it's the responsibility of the general fund. If the general fund wants to pay it off it can.

LUNCH

02:06:08

SCHOOL FUNDING

03:00:17 Leanne Kurtz, Researcher, Legislative Services Division (LSD), briefly updated the committee on what LFD staff and LSD staff are attempting to do with the school funding training and what the Education and Local Government Committee is doing.

03:04:19 Dan Whyte, Attorney, Legislative Services Division provided a handout on A History Of Legal Challenges To Public School Funding. (Exhibit 3) Mr. Whyte discussed the detail of the litigation that has come about as a result of what school funding means.

03:26:11 Jim Standaert, Senior Fiscal Legislative Fiscal Division, presented a power point presentation on School Finance Training. (Exhibit 4) The presentation focused on the financial history of school funding from 1989 through 1999. Mr. Standaert also provided a handout showing the reasons why the cost of K-12 education has exceeded inflation. (Exhibit 4a)

04:13:39 **Rep. Esp** asked if there is any federal money that follows any of the new requirements Mr. Standaert said he's trying to divide these up into what the state mandates versus federal mandate.

04:15:28 **Rep. Sesso** asked if there is any indication of the grounds for relief under the new lawsuit. Mr. Whyte said one of the areas of contention is how much in inflationary adjustments were paid as a result of the Governor's veto of HB 316.

04:18:00 **Rep. Sesso** asked if this is strictly funding levels or is there still an alleged claim about equality. Mr. Whyte said the more recent trend has been for sufficiency or adequacy of education funding and not so much whether there is equality.

PUBLIC COMMENT

- 04:21:28 Bob Vogel, Montana School Board Association (Exhibit 5)
- 04:26:21 **Rep. Esp** commented that Mr. Vogel said the funding was in HB 2 and SB 329 and that the contingency was in another bill. **Rep. Esp** clarified for the record that the contingency was also in SB 329.

INFORMATION TECHNOLOGY REPORT

- 04:27:35 Dick Clark, Chief CIO, ITSD, Department of Administration, was present to respond to questions. The CIO Report was included in the committee notebooks without formal presentation. (Exhibit 6)
- 04:28:13 Carl Hotvedt, Statewide Interoperability Coordinator, provided an update on the interoperability Montana project and explained why the project is in yellow status.
- 04:32:23 **Rep. Sesso** asked who provides the other funds and what is the expectation of state funding on the additional \$66.0 million needed to complete the project. Mr. Hotvedt said the other dollars are a combination of National Guard, some local communities, and other federal agencies. He said at this point, their intention is to bring a full package for consideration to the legislature and downsize that based upon what happens with federal grants and local dollars.
- 04:36:20 **Rep. Sesso** commented that he needs to see demonstrated benefits of the \$50.0 million already spent before he can support any additional state funding for this project.
- 04:38:58 Mr. Clark said he will work with LFD staff to provide an understanding of what the benefits are and what has been built out to date.
- 04:41:22 Ron Baldwin, Chief CIO, Department of Public Health and Human Services provided an update on SNAP - TANF eligibility system, and MMIS.
- 04:53:16 **Rep. Hollenbaugh** asked for details on the contract refinement process and a possible completion date. Mr. Baldwin said one week has been scheduled for the process and the department will look at the technical provisions and focus on the methodology and project management aspects. Once that is finished a final plan will be produced with a statement of work to be submitted to CMS for review and approval. That process takes 60 days and the department expects to have more information for the next LFC meeting.
- 04:56:26 **Rep. Sesso** asked about the relationship between this system and the other systems in terms of the people working in the field. Mr. Baldwin said they are two different set of people. MMIS will be run through fiscal agent services, which means the department will rely on the vendor to operation the system.
- 04:59:31 **Sen. Wanzenried** commented that the report indicates everything is on budget with the DMS project yet there are significant technical problems. Mr. Baldwin said the DMS was implemented in June and the purpose was to create a virtual case file and support

virtual office work and movement of cases. There were issues of periodic slowdowns or shutdowns, issues related to insufficient scanners, and personnel issues related to staff workload. Steps are being taken to fix the technical issue and additional scanners have been purchased.

- 05:05:48 **Sen. Wanzenried** asked Mr. Baldwin if he could comment on the melt down that took place between the time the project began and the consequence of introducing the system with virtually no training. Mr. Baldwin said Director Anna Whiting Sorrel was aware of these issues and the meltdown. She has been going around the state to visit OPA offices that are affected by these high case loads and by the introduction of the new technology to obtain as much input as possible and give feedback to the department.
- 05:07:13 **Sen. Wanzenried** commented that the director did visit the offices but only after his repeated insistence that there was a major problem and the point that needs to be made is these reports give no clue as to these kinds of issues. The system needs to be refined so there is continuous feedback on these kinds of issues.
- 05:11:05 Marilyn Daumiller, Fiscal Analyst, LFD briefly addressed the committee regarding her memo on the DPHHS Document Management System. (Exhibit 7)
- 05:12:07 Barbara Smith Fiscal Specialist, LFD provided a report on Proposed Improvements To The CIO Report To The Legislative Finance Committee. (Exhibit 8) The report discussed MITA compliance, IT Projects, Policies, Biennial Report of Information Technology, State Strategic IT Plan, Expanded Reporting, and options for the committee to considers.
- 05:20:28 **Rep. Sesso** asked if changes in the law are needed. Mr. Clark said that was attempted last interim. A report was prepared for this committee reviewing what was working and what wasn't. In the end, it was determined not to move forward on anything that was proposed.
- 05:23:00 **Sen. Wanzenried** asked if the lack of post implementation is a deficiency in the process. Mr. Clark said he believes it is but it's not required in the law.
- 05:09:42 **MOTION: Rep. Esp** moved a letter from the committee be sent to the Department of Administration requesting a post implementation review **VOTE: Motion passed**

PUBLIC COMMENT

None

UPDATE ON TREASURE STATE ENDOWMENT PROGRAM (HB 351)

- 05:33:49 Cathy Duncan, Fiscal Analyst, LFD provided a report on TSEP Funding and Appropriations. (Exhibit 9) This report provides information on HB 351 which contained appropriations for the 2013 biennium Treasure State Endowment Program (TSEP). HB 351 also included reporting requirements for the Department of Commerce and the Board of Investments related to the funding of grants awarded in the 2011 biennium and the costs associated with funding those grants.

UPDATE ON PENDING LAWSUITS

- 05:49:18 Jaret Coles, Attorney, Legislative Staff Attorney, presented an update on the Status of PPL Montana, LLC v. Montana. (Exhibit 10)
- 05:57:44 Dan Whyte, Attorney, LSD provided an update on the unfair labor practice lawsuit.
- 06:01:19 Harold Blattie, Executive Director, Montana Association of Counties, provided an update on the county lawsuit on HB 351. (Exhibit 11)
- 06:06:18 Also provided to the committee was a copy of Mr. Coles legal opinion regarding the Governor's veto power to strike out individual grants to local government entities in HB 351 (Exhibit 12)
- 06:06:29 Joe Kolman, Legislative Environmental Policy Office, LSD provided an update on the SB 409 cabin lease.
- 06:10:20 Mary Sexton, Director, Department of Natural Resources and Conservation reiterated that the cabin site lease rate valuation analysis will be available on Oct. 3 and will be on the DNRC web site.
- 06:11:49 Meeting adjourned and will reconvene Friday, at 8:00 a.m.

Friday, September 30, 2011

COMMITTEE MEMBERS PRESENT

SEN. DAVE LEWIS
SEN. DAVID WANZENRIED
SEN. CAROL WILLIAMS
REP. GALEN HOLLENBAUGH
REP. LLEW JONES
REP. JON SESSO

COMMITTEE MEMBERS EXCUSED/ABSENT

SEN. RICK RIPLEY
SEN. STEVE GALLUS
REP. CYNTHIA HINER

STAFF PRESENT

AMY CARLSON, Director
DIANE MCDUFFIE, Secretary

Visitors

Roll Call, Attachment #3.
Visitors' list, Attachment #4.

CALL TO ORDER AND ROLL CALL

00:00:32 The 218th meeting of the Legislative Finance Committee reconvened at 8:00 a.m. on Friday, September 30, 2011. The meeting was held in Hearing Room 102 in the State

Capitol, Helena, Montana. The secretary called the roll. Attachment #3.

STATUTORY APPROPRIATIONS

- 00:00:41 Barbara Smith, Fiscal Specialist, LFD presented a report on Evaluation of State Special Revenue Funds and Statutory Appropriations. (Exhibit 13) The purpose of the report is to establish a process to review state special revenue funds based on dedicated revenue provisions in state law and statutory appropriations based upon statutory guidelines review. The committee may choose to address identified issues by proposing legislation or adopting global motions for budget deliberations. To proceed with this project, staff is requesting adoption of the proposed work plan and time lines.
- 00:11:34 **Rep. Sesso** asked how many statutory appropriations have sunset dates and what is the total amount of money that is statutorily appropriated on a biennial basis. Mr. Lloyd said he does not know the exact number that have sunset dates but the information is in the database. The total amount for fiscal year end 2011 was \$523 million. Of that amount, general fund was nearly \$180 million, state special was \$264 million, and federal funds about \$44 million. Mr. Lloyd pointed out that in the 2007-2008 interim this committee assigned a subcommittee to review all the statutory appropriations and a bill was submitted out of this committee.
- 00:16:54 **Rep. Cook** commented that during session his bill was amended multiple times before it passed through the legislature but ultimately was vetoed by the Governor. The primary problem is the concept that a sunset is a determination rather than a review.
- 00:21:16 **Sen. Jones** commented that the data base will allow easy access to this information so the legislature can be better informed.
- 00:25:32 Without objection from the committee the work plan was adopted.

REQUIRED REPORTS

- 00:26:51 Taryn Purdy, Principal Fiscal Analyst, discussed the following reports:
- ◆ Required Reports (Exhibit 14)
 - ◆ Operating Plan Changes (Exhibit 15)
 - ◆ Budget Amendments (Exhibit 16)
 - ◆ DPHHS Budget Status Report (Exhibit 17)
- 00:31:47 **Sen. Wanzenried** asked if the committee periodically reviews the required reports to figure out how useful they are.
- 00:32:18 Amy Carlson, LFA said the required reports are included in the work plan for review at the March meeting.
- 00:39:11 **Rep. Sesso** asked if the budget status report from the DPHHS is required every biennium.
- 00:39:46 Lois Steinbeck, Senior Fiscal Analyst, LFD said that the monthly budget status report is required from SB 93 that was requested by this committee. It is a monthly budget status report that comes to the committee starting November 15th of each year and the final year

end report before the first meeting following the session.

FIRE UPDATE

00:41:35 Barbara Smith, Fiscal Specialist, LFD presented a report on Fire Suppression Costs. (Exhibit 18) Since the fire season is running longer than normal, the committee can anticipate final fire costs higher than currently being reported. The LFD staff will continue to monitor the estimates.

COMMITTEE BUSINESS

00:45:19 **Rep. Hollenbaugh** gave an update on HB 642 Select Committee on Efficiencies in Government.

00:49:34 **Sen. Wanzenried** commented on the overlap of the assignments made to the committee.

00:53:14 **Sen. Williams** said there were concerns by the public that not everybody was included to participate in panel discussions and in addition, staff was not involved in preparing for the meeting.

00:57:47 Barbara Smith, Fiscal Specialist, LFD provided an update on the MBARS/IBARS transition plan.

01:00:11 Amy Carlson, provided an update on the LFD Cost Report. (Exhibit 19) Ms. Carlson presented longevity pins to the following staff members:

- ◆ Lois Steinbeck - 25 years
- ◆ Cathy Duncan - 10 Years
- ◆ Jim Standaert - 20 Years

Ms. Carlson introduced new LFD staff member Robert Miller who will be working on some education programs and data analysis. She also announced Susie Lindsay's promotion to Fiscal Web Specialist.

SJ 26 PERFORMANCE MEASUREMENT

01:06:52 Taryn Purdy, Principal Fiscal Analyst, LFD presented a report on SJ 26 Performance Measurement. (Exhibit 20) This report outlines the procedure for continuing the performance measurement initiative of the Legislative Finance Committee. The report lays out staff recommendations for proceeding, a proposed time line, and a potential expansion in scope for committee discussion of a limited number of projects.

01:15:39 **Rep. Sesso** asked if the health and families and law and justice committees declined to review the issues listed for their area. Ms. Purdy said they did not choose to include them on their work plan.

01:16:00 **Rep. Gibson** commented that had the Judicial Branch known during subcommittee hearings that corrections and public defender would receive an additional \$3.8 million and \$4.0 million in their budgets the subcommittee would have requested it.

- 01:19:35 **Rep. Sesso** asked if we should be promoting integration to avoid duplicating work from other committees. Ms. Purdy said that staff has proposed to combine several of the issues and look at health care reform on the IT integration and mesh that with HB 642 committee.
- 01:26:26 **Sen. Wanzenried** expressed concern that performance measurement won't be integrated in priority based budgeting unless a specific effort is made.
- 01:28:46 Ms. Purdy commented that she is the staff person assigned to the priority based budgeting portion of HB 642. She is planning to discuss with Chairman Sonju what this committee has done to make sure efforts are not duplicated.
- 01:37:16 Ms. Purdy addressed the known issues from the last performance measurement process and provided recommendations to the committee. She also discussed a proposal for a pilot program with the Court Help Program in the Judicial Branch.
- 01:56:5106 **Rep. Sesso** concluded that staff is on the right track and moving in the direction the committee wants.

OFFICE OF PUBLIC DEFENDER REQUIRED REPORT

- 01:58:04 **Rep. Sesso** announced to the committee that the required report from the Office of Public Defender (OPD) was being distributed. (Exhibit 21)
- 01:58:22 Harry Freebourn, Administrative Director, OPD commented that the required report was due today and he assumed it will be addressed at the next meeting after staff has had time to review it.
- 01:58:56 **Rep. Sesso** asked Mr. Freebourn if he had any thoughts about how the legislature can and should evaluate performance and does the OPD try to measure their own performance. Harry Freebourn discussed the goals and objectives for the OPD and explained that the tasks are the most measurable items. He said the goals and objectives are being updated to incorporate recommendations from the American University Report. The strategic plan is being updated by a special committee under the Commission so they can look at how services are delivered to clients.
- 02:03:18 Randy Hood, Chief Public Defender announced her resignation and explained the Commission's process to fill her position.
- 02:04:56 **Sen. Williams** expressed appreciation to Ms. Hood for her service in providing justice for people in need.
- 02:06:40 **Rep. Sesso** asked Mr. Freebourn for clarification on the collection of legal fees. Mr. Freebourn explained the table on Judgements, Assessments and Collections of Legal Fees. (Exhibit 21, page 3)
- 02:12:55 Lois Steinbeck, Senior Fiscal Analyst, LFD presented the DPHHS Budget Status Report. (Exhibit 22) This memo provides background information for the LFC on the budget

status report produced by the Department of Public Health and Human Services. The LFC may wish to consider what types of information would be most useful and work with DPHHS and staff on the format.

- 02:18:05 **Rep. Esp** asked how interaction with DPHHS would occur. Ms. Steinbeck said a workgroup could be formed to work with staff and the department.
- 02:19:18 Amy Carlson, LFA asked that a couple of members be available for staff to bounce ideas off and give feedback.
- 02:22:26 **Sen. Wanzenried** commented that the report without narrative is not helpful to him.
- 02:23:24 **Rep. Sesso** commented on the difference in reversions in the DPHHS report and Mr. Johnson's report. Ms. Steinbeck said the \$41 million is the total reversions. The \$27 million is what was anticipated and the \$17 million was the unanticipated during session. Mr. Johnson added that his report showed a total reversion amount for DPHHS of \$26 plus million. The budget reductions under 17-7-140 is the statewide number which includes public health.
- 02:27:59 **Rep. Esp** said he found the report useful in some ways and thought an executive summary would also be helpful.
- 02:29:14 **Sen. Jones** commented on the rate of reversions and would like to understand how things change so rapidly.
- 02:30:42 **Sen. Lewis** mentioned that constant online monitoring will be difficult to accomplish and there will be some resistance on the part of the administration.
- 02:33:04 Terry Johnson, Principal Fiscal Analyst explained the \$286 million reversions discussed in his report on page 14 (Exhibit 1).
- 02:40:17 **Rep. Sesso** appointed the following subcommittee to work with staff and the department on changes to the budget status report: **Rep. Esp, Sen. Wanzenried, Sen. Lewis, and Sen. Williams.**

BREAK

- 03:09:01 Ryan Evans, Office of Budget and Program Planning provided clarification on behalf of the executive on the reversions.

WORK PLAN UPDATE AND APPROVAL

- 03:11:07 Amy Carlson, LFA presented the Legislative Fiscal Division 2013 Biennium Work Plan. (Exhibit 23). The report summarizes the proposal of the Legislative Fiscal Analyst for the LFD interim work plan for the 2013 biennium. It represents recommendations primarily based upon the afternoon retreat discussions of the LFC on June 10th. Ms. Carlson mentioned that as part of the work plan the LFD will be hosting the WSLFOA conference next year. She also asked the committee if they would be interested in receiving monthly updates from IHS Global Insights.

- 03:20:43 Without objection the committee concurred with the work plan.
- 03:21:34 Terry Johnson, Principal Fiscal Analyst, LFD presented a report on Revenue Estimating Process. (Exhibit 24) The report provides, from a staff perspective, two revenue estimating process issues and a recommended procedure to discuss these issues.
- 03:38:19 **Rep. Sesso** invited the budget director to comment on the revenue estimating process.
- 03:39:09 David Ewer, Budget Director, OBPP commented on year end revenues and the LFD revenue estimates. He also provided charts on FY 2013 Estimated Ending Fund Balances, September Analysis To Date Structural Balance and Revenue Range, and Weekly General Fund Revenue Monitoring Report Fiscal Year 2012. (Exhibits 25, 25a, & 25b)
- 03:50:37 Amy Carlson, LFA respectfully disagreed with some of Mr. Ewer's comments. She provided a chart on the Data and Range as a % of 2011 FYE Revenues Based on Number of Months of Data. (Exhibit 26) The chart shows that over each month there is a wide range of variation between using year-to-date revenue for the first few months because of the volatility of the accrual adjustments.
- 04:04:13 **Sen. Williams** commented that there were consequences going into the session with the \$400 million deficit which turned out not to be true and that legislators need to be more involved and take responsibility for the information provided to the public.
- 04:08:38 **Sen. Lewis** said it is pretty hard to draw conclusions from the first 90 days of collections. As far as going forward, the process is not broken and suggesting that major policy decisions based on 90 days worth of collections is adventuresome.
- 04:10:27 **Rep. Esp** said part of the problem may be communication but keep in mind that politically for some, the amount of revenue is not relevant. The programs and their necessity and the priority of those programs is what's relevant.
- 04:12:51 **Sen. Jones** said he is looking forward to hearing what adjustments are going to be made to the model. The reality is there are upside risks and downside risks, anomalies will happen and the model will miss.
- 04:19:08 **Sen. Wanzenried** said his observation is since revenue estimates have not been adopted the level of tension and misunderstanding has grown exponentially. He said there is no incentive to ask for more information because the revenue estimates are not. Even though staff reported that there was more revenues the estimates still weren't changed. It's not fair to criticize staff when the criticism should be on the legislators for not doing their job.

PUBLIC COMMENT

- 04:24:25 **Senator Peterson**, President of the Senate commended staff for being totally open, transparent and accountable. He said there is a lot of uncertainty and a lot tension building between the legislature and the executive branch. In the end, the Revenue and Transportation Interim Committee voted unanimously to accept the revenue estimates. He pointed out that these are very volatile times.
- 04:34:26 **Rep. Sesso** said the issues raised in Mr. Johnson's report is background information for

preparing for the December 7th meeting and to address some of the issues Sen. Wanzenried has brought up.

04:35:12 Ms. Carlson stated that the committees are all acknowledging December 7th as the date to work on this subject. Members from Revenue and Transportation have agreed to be contact members and likewise need members from Legislative Council and LFC.

04:35:52 **Rep. Sesso** asked if the meeting would be structured in a round table discussion or more formal.

04:36:15 Ms. Carlson said she anticipates a round table discussion.

04:37:04 **Sen. Williams** said that Sen. Peterson and Sen. Wanzenried will be representatives from Legislative Council.

04:37:48 **LUNCH**

FINANCIAL PERSPECTIVES ON PENSION FUNDING

05:12:14 Amy Carlson, LFA, LFD provided an outline on Pension Funding. She discussed financial understanding highlights and an example of pension change impacts. (Exhibit 27)

05:18:01 Megan Moore, Legislative Research Analyst, LSD presented a report on SAVA's Recent Work Related to the Retirement System. (Exhibit 28) The first section includes an overview of what SAVA is planning for the current interim and a summary of the retirement studies assigned to SAVA in the 2009-2010, 2007-2008, and 2005-2006 interims.

05:24:42 Ms. Carlson provided background information on definitions and concepts. She also discussed investment earnings, an actuarially funded system, Pew state to state comparison, Montana and National funding status, and poor comparability.

05:34:04 Cindy Jorgenson, CPA; Deputy Financial-Compliance Auditor, LAD, summarized the upcoming changes that will occur in pension accounting and financial reporting requirements proposed by GASB. She provided a handout from the Montana Comprehensive Annual Financial Report (Exhibit 29)

05:43:54 Ms. Carlson recapped the comparison with the actuarial-current and GASB exposure draft, rating agencies changes, Fitch change in funded ratios and a summary of changes.

05:55:18 Carroll South, Executive Director, Board of Investments, distributed a handout on Montana Pensions & Investments and discussed each slide in detail. (Exhibit 30) Mr. South responded to numerous questions from the committee.

06:36:55 Stephanie Morrison, Fiscal Analyst, LFD provided a written report on Pensions: A State & Local Challenge and a power point presentation on Pensions Employer Contributions and Implied Unfunded Liability. (Exhibits 31 & 31a) The report focuses on employer

contributions, pension funding model and the underlying policy choices of the legislature. Ms. Morrison also provided a handout on a series of charts referred to as the “green sheet” produced by Legislative Services Division.(Exhibit 31b). Ms. Morrison responded to various questions from the committee.

07:27:12 Ms. Carlson reviewed the policy choices and items for the December and March meetings.

PUBLIC COMMENT

07:27:58 Jim Reno, County Commissioner, Yellowstone County
07:29:17 Scott Turner, Finance Director, Yellowstone County
07:32:11 Dan Schwartz, Chief Civil Deputy County Attorney, Yellowstone County
07:36:22 David Senn, Executive Director, Teacher’s Retirement System
07:43:31 Melanie Symons, MPERA
07:44:45 Leo Berry, Attorney, Browning, Kalecyc, Berry & Hoven, representing the Association of Montana Retired Public Employees

COMMITTEE ACTION

07:52:12 The committee concurred on the items for the December and March meetings. Rep. Sesso said he hopes that fiscal related discussions can be connected with policy related discussions. The committee agreed that Chairman Sesso would write a letter to the SAVA Chair, provide the materials regarding pensions that were reviewed today, encourage them to invite the same presentations at an upcoming SAVA meeting, and try to plan a joint meeting in March.

MEDICAID PROVIDER FEES UPDATE

08:00:16 **Sen. Wanzenried** provided an update of the meetings with stake holders on Medicaid provider fees.

MECHANICS OF PROVIDER FEES

08:05:08 Lois Steinbeck, Senior Fiscal Analyst, LFD provided an Overview of Medicaid Provider Fees/Taxes. (Exhibit 32)

PUBLIC COMMENT

08:11:34 Joan Taylor, Executive Director, Montana Children's Initiative, speaking on behalf of Adult and Children Community Based Mental Health Providers
08:16:15 Jani McCall, representing Yellowstone Boys and Girls Ranch
08:19:03 Jan Cahill, representing Montana Association of Community Disability Services

08:23:15 **Rep. Sesso** asked for clarification of the managed care provider fee. Ms. Steinbeck said managed care fee would be on managed care organizations. Montana does not have any.

08:26:36 **Rep. Gibson** asked if the department is on board with the idea. **Sen. Wanzenried** said he asked the department to attend the meetings and was told that because the administration does not support an expansion of the provider tax/fee into other service areas it would not

provide staff support.

ADJOURNMENT

08:31:18 With no further business before the Committee, Chairman Sesso adjourned the meeting at 4:35 p.m. The next meeting of the Legislative Finance Committee is December 8-9, 2011.

Rep. Jon Sesso, Chair

Diane McDuffie, Secretary
