



LEGISLATIVE FINANCE COMMITTEE

60TH Montana Legislature

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

SENATE MEMBERS

TRUDI SCHMIDT--Chair
KEITH BALES
JOHN BRUEGGEMAN
JOHN COBB
DAVID WANZENRIED
CAROL WILLIAMS

HOUSE MEMBERS

RICK RIPLEY--Vice Chair
RON ERICKSON
CYNTHIA HINER
DAVE KASTEN
JON SESSO
JANNA TAYLOR

MINUTES

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.**

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

MARCH 6, 2008

COMMITTEE MEMBERS PRESENT

SEN. TRUDI SCHMIDT, Chair
REP. RICK RIPLEY, Vice Chair
SEN. KEITH BALES
SEN. JOHN COBB
SEN. DAVID WANZENRIED
SEN. CAROL WILLIAMS
REP. RON ERICKSON
REP. JON SESSO

COMMITTEE MEMBERS ABSENT

REP. JANNA TAYLOR
REP. DAVE KASTEN
REP. CYNTHIA HINER
SEN. JOHN BRUEGGEMAN

STAFF PRESENT

Clayton Schenck, LFA
Diane McDuffie, Committee Secretary

ATTACHMENTS

Visitors' list
Proxy for Rep. Cindy Hiner
Proxy for Rep. Jon Sesso
Roll Call Vote #1 Roll Call Vote #4
Roll Call Vote #2 Roll Call Vote #5

Roll Call Vote #3

Roll Call Vote #6

00:00:01 **CALL TO ORDER AND ROLL CALL**

Senator Trudi Schmidt, Chair, called the 203rd meeting of the Legislative Finance Committee (LFC) to order at 1:09 p.m. on Thursday, March 6, 2008. The meeting was held in Hearing Room 102 of the State Capitol, Helena, Montana. The secretary noted the roll.

00:00:25 **APPROVAL OF MINUTES FOR DECEMBER 11 & 12, 2007**

MOTION: Rep. Ripley moved the minutes for December 11 & 12, 2007 be approved. **VOTE:** Motion passed.

00:02:11 **INFORMATION TECHNOLOGY MANAGEMENT UPDATE**

Greg DeWitt, Senior Fiscal Analyst, LFD provided a report on Information Technology Strategic Plan Overview. (Exhibit 1) The purpose of this report is to advise the Legislative Finance Committee of potential impacts to fiscal policies and fiscal impacts implied within the 2008 update of the state information technology strategic plan. Mr. DeWitt said that the 2008 plan update is a restatement of the 2006 plan so no new policy concepts are presented. LFC actions taken on issues identified with the 2006 plan are identified and the status of the issues and plan components are provided in the report. Only one issue raised and a recommendation to request regular CIO updates on the topic of open-source software evaluation is presented.

Dick Clark, CIO, Department of Administration addressed the topic of open-source. Mr. Clark explained that the department currently uses open-source on different levels within state government. The department is in the process of addressing how to move forward with agencies and how much interest there is in open-source.

00:08:28 **Rep. Erickson** asked if there is any difference in terms of security. Mr. Clark said that security facets are provided in both open-source and Microsoft. Primarily, open-source is a cost issue.

00:12:41 **MOTION: Senator Cobb** moved to request that a report on the Open-source Software Initiative be included as a regular part of the CIO report to the LFC. **VOTE:** Motion passed.

00:15:48 Dick Clark, CIO provided a report on Eastern Montana Enterprise Systems Center Site. (Exhibit 2) He explained that security, economic development, and cost were the three foremost "drivers" in the selection process. Miles City was determined to best meet the needs of the State and satisfies the Department's obligations under the law.

00:24:30 **PUBLIC COMMENT**

Mike Sheard, CEO, iConnect Montana provided testimony on the Eastern Montana Enterprise Systems Center Site (Exhibit 3) and offered an alternative site in Billings. Mr. Sheard explained that iConnect Montana is currently building a data center in Billings that could easily accommodate the state's needs for its eastern ESSC.

00:28:33 **ACQUIRING OFFICE SPACE FOR STATE AGENCIES**

Greg DeWitt, Senior Fiscal Analyst, LFD presented a report on Acquiring Office Space For State Agencies. (Exhibit 4) Included in this report was information from the Legislative Audit Division and the Legislative Services Division, and the SAVA committee. This report raises concerns over processes followed to acquire space to house state agency personnel and to solicit direction from the LFC on whether staff resources should be redirected during the current interim to further pursue options to address the concerns.

Mr. DeWitt explained that these concerns came to light after the Department of Administration entered a long-term lease agreement with a private developer to build a building for lease to the state. Currently, there is no specific requirement to consolidate the offices of agencies into a single, central location, if it would save costs for the state; there is no specific requirement to determine the least cost alternative between satisfying state agency needs with a state-owned building or lease from the private section; and lease versus build analyses are not regularly or typically included in the decision when addressing agency space needs.

Dave Ewer, Budget Director, Office of Budget and Program Planning, said people are being presented with the notion of a 30-year lease when in fact there is not a statutory appropriation with these contracts. Lease payments are embedded in the normal funding processes, nevertheless, the legislature is fully empowered to make the decision. He did asked the SAVA committee if there was a notion of risk associated with the Nob Hill building.

00:57:06 **Senator Wanzenried** recommended the committee express their concern regarding the length of the commitment and the cost of the project, and to seriously consider the ramifications of not having sufficient support during the upcoming session to make the payments.

01:01:18 **Senator Bales** asked if it is the intent of SAVA to explore viable alternatives for the future. Mr. DeWitt said that SAVA is not pursuing the Nob Hill building any further. **Senator Bales** said it would be of value to have a committee evaluate the need for office space and what are the options.

01:06:30 **Rep. Sesso** said the legislature has a role beyond how much money is allocated for these leases but no control. If the money is not appropriated, the lease is canceled and the agency

has to move. A process needs to be entertained for future office space needs, whether it be lease versus cost analysis or finding space and doing business in areas we can afford.

01:12:03 **MOTION: Senator Cobb** moved to direct staff to proceed to explore potential alternatives for legislation to enhance legislative oversight of state agency space acquisition processes and authority and to direct staff to coordinate efforts with the efforts already underway by the Legislative Audit Division. **VOTE:** Motion passed.

01:16:47 **UPDATE ON MT HISTORICAL SOCIETY SITE SELECTION**

This report was included in the notebooks but no presentation was given. (Exhibit 5)

01:19:04 **TSEP Update**

Rep. Sesso explained that current legislation states that if the recipient does not fulfill the start-up conditions by June 30, 2008, the TSEP grant will be terminated and the recipient would need to re-apply. The deadline to apply for the next funding competition that will be awarded by the 2009 Legislature is May 2, 2008. Many of the cities with great projects are finding it more difficult to secure all funds that they had proposed for the scope of projects outlined in their applications. **Rep. Sesso** said he suggested to the Department of Commerce that it may be appropriate for them allow some scope changes so projects can proceed.

Jim Edgcomb, Manager, TSEP, Department of Commerce (DOC), provided a draft proposal by the DOC prepared at the request of **Rep. Sesso** to allow reductions in the scope of TSEP projects. (Exhibit 6) Mr. Edgcomb explained that the department received a request from Rep. Sesso to prepare a proposal to look at reductions in the scope of the project from what was proposed in the application. The DOC will consider requests to reduce the scope of a project when the grant recipient is not able to obtain all of the grants that were proposed in the original TSEP application or if projects costs have increased beyond what was proposed in the original TSEP application. Mr. Edgcomb said he would provide an update on the status of start-up conditions at the meeting tomorrow.

01:43:05 **OTHER REPORTS**

Supplementals

Greg DeWitt, Senior Fiscal Analyst, LFD provided a memo on the Montana Consensus Council Supplemental Appropriation. (Exhibit 7) Mr. Dewitt explained that the Governor's budget director sent notice of his concurrence in a proposed supplemental appropriation request to transfer up to \$15,500 in general fund authority from FY 2009 to FY 2009 for the Montana Consensus Council. The need for the supplemental comes down to a cash flow issue in that the office does not generate enough revenue from work to support costs of the office. Regardless of what action the committee takes, the Governor can either approve or deny the request.

01:48:26 **MOTION: Rep. Sesso** moved to provide a letter to the Governor that the committee finds no issues with the supplemental appropriation. **VOTE:** Motion passed.

01:51:23 Potential Statutory Change for Purchasing Abandoned Mine Lands

Barbara Smith, Fiscal Analyst, LFD provided a memo on the potential statutory change for purchasing abandoned mine land. (Exhibit 8) This report is a follow up to the Belt land transaction. Ms. Smith reported that the issue for the committee to consider is whether or not land acquisitions by the abandoned mine land program should go before the Board of Land Commissioners for approval. If so, 82- 4-371 (3), MCA would need to be amended to require the approval.

01:52:56 **MOTION: Senator Cobb** moved to amend statutes 82-4-371 (3) and 82-4-23 to require land acquisitions be subject to approval by the Board of Land Commissioners. **VOTE:** Motion passed.

01:55:33 **GENERAL FUND UPDATE: FY 2008 REVENUE COLLECTIONS**

Terry Johnson, Principal Fiscal Analyst, LFD provided a report and power point presentation on General Fund Revenue Update: Fiscal 2008. (Exhibit 9 & 9A) The purpose of this report is to provide the committee with current information on general fund revenue collections. Mr. Johnson reported that based on information recorded through the end of February 2008, the total general fund receipts for fiscal 2008 were \$1.024 billion. Almost all major sources of revenue are on target or exceeding the estimates contained in HJ 2. Total general fund collections are \$60.6 million above last year's amount. In summary, current trends portray an optimistic outlook for fiscal 2008, but a thorough analysis of the underlying economic conditions is imperative. The housing downturn, high energy and other commodity prices, and the eroding consumer sentiment are all factors that will mold the outlook for future revenue collections.

Mr. Johnson also provided a chart on Montana Crude Oil Prices - Calendar 2007 (Exhibit 9B) This particular chart shows crude oil prices at \$83.81 for November 2007 compared to \$53.81 in January 2008.

02:41:12 **Senator Bales** asked if the increase in revenue will keep up with present law adjustments for 2010 and 2011. Mr. Johnson said that it will be a real task to maintain present law if areas continue slip on the revenue side.

02:41:52 **Rep Erickson** asked if the LFD has good data on the number of drilling rigs coming into the state. Mr. Johnson said that the data does exist but he does not have it.

02:44:46 **REAL ID ACT OF 2005: MARCH DEADLINE FOR APPLICATION FOR**

EXTENSION

Pat Gervais, Senior Fiscal Analyst, LFD provided a report on Real ID Act of 2005 March Deadline for Application For Extension. (Exhibit 10) The purpose of this report is to update the Legislative Finance Committee on recent activities related to the REAL ID Act of 2005. Because the Law and Justice Interim Committee will likely be reviewing the status of this issue at a future date, this report focuses on potential financial implications, imminent deadlines for applications for extensions, and the immediate impacts on Montana residents of implementation of provisions of the Act. Ms. Gervais explained that because the final rules contain a number of changes from the proposed rules, the cost estimate is no longer applicable. The Department of Homeland Security has lowered its estimate of implementation costs from \$14.6 billion to \$3.9 billion. During the 2007 session the legislature adopted legislation directing the Department of Justice not to take action to implement requirements of the REAL ID Act of 2005. As of February 19, 2008, the number of states that had applied for the initial extension has risen to 46, with Montana, Maine, New Hampshire, and South Carolina being the 4 states that have not yet applied for the extension. Given the limited time for states to either become compliant with the REAL ID Act or request an initial extension for compliance, options are somewhat limited.

Larry Fasbender, Deputy Director, Department of Justice said that no decision has been made yet and it is up to the Attorney General to decide. He will likely be making a decision sometime soon because of the deadline. The department is unsure of the actual impact on Montana because of the many variables involved.

02:55:39 Budget Amendments

Greg DeWitt, Senior Fiscal Analyst, LFD presented the Budget Amendments report. (Exhibit 11) As of February 29, 2008, the LFD received notification of 38 certified budget amendments since the December 2007 LFC meeting. Staff has reviewed the amendments and raises no concerns with any amendment meeting statutory criteria.

02:57:13 Operating plan Changes

Taryn Purdy, Principle Fiscal Analyst, LFD presented the Operating Plan Changes (Exhibit 12) Ms. Purdy explained that the Office of Budget and Program Planning submitted 3 operating plan changes for review. LFD staff has reviewed the proposed changes and does not raise any issues. Also, the OBPP approved as time sensitive 2 operating plan changes. (Exhibit 13) Staff has reviewed these and raises no concerns.

03:01:05 Required Reports

Jon Moe, Fiscal Specialist, LFD provided a summary of the Required Reports for March 2008. (Exhibit 14) Mr. Moe explained that these reports are provided to the committee simply for information purposes unless there is an issue identified by the staff.

03:02:51 **STUDY OF LFD PRODUCTS AND SERVICES**

Pam Joehler, Senior Fiscal Analyst, LFD provided a report on Staff Services Project Update. (Exhibit 15) This report is intended to update the committee of the status of the Staff Services Project currently being undertaken by staff. Ms. Joehler explained that the goal of the project is to develop recommendations for improving the array of LFD products and services in order to provide the most useful information necessary for legislators in the budget and appropriations decision-making process. Staff has been looking at evaluating adequacy and allocation of staff resources, evaluation the priority of LFD products and services, and evaluating the usefulness of LFD internal systems tools. A final report will be presented at the June LFC meeting.

03:08:22 **COMMITTEE BUSINESS**

Clayton Schenck, LFA LFD present the items under committee business. (Exhibit 16) Mr. Schenck discussed the status of the Legislative Fiscal Division Cost Report Fiscal 2008- at 2/29/08, proposed meeting day for the next meeting, and status of the committee Work Plan and the major projects completed. There were no items that required any action by the committee.

03:19:47 **BUDGET GROWTH PROJECT (GRAYING OF MONTANA): UPDATE**

Terry Johnson, Principal Fiscal Analyst, LFD discussed his report on the Budget Growth Project/Graying of Montana. (Exhibit 17) Mr. Johnson explained that the Revenue and Transportation Interim Committee (RTIC) was assigned an interim study that was contained in HJR 31. The study would address the same issues that would be covered by the "State Government Budget Model" and "the Graying of Montana" studies of the LFC. Because of several other significant projects, these studies were given a low priority for completion. As the RTIC began its work, it became clear that data on the changing demographics in Montana was important information for a school funding study. Population trends not only impact the number of children attending public schools but also can affect the level of property taxes collected to fund public schools. The RTIC heard presentations by Larry Swanson, Center for the Rocky Mountain West and Myles Watts and Doug Young, MSU. The information provided in both presentations convinced the committee that a study was necessary to determine the impacts of an aging population in Montana. The committee voted unanimously to have Senators Peterson and Guillan pursue funding options and to coordinate a working focus group. With the limited time left in the interim, Mr. Johnson suggested the LFC may want to consider postponing any further action on these studies and wait until the RTIC comes up with a proposal. The LFC may also want to consider a partnership effort with RTIC.

The committee delayed action at this time.

FRIDAY, MARCH 7, 2008

COMMITTEE MEMBERS PRESENT

SEN. TRUDI SCHMIDT, Chair
REP. RICK RIPLEY, Vice Chair
SEN KEITH BALES
SEN. JOHN COBB
SEN DAVID WANZENRIED
SEN. CAROL WILLIAMS
REP. RON ERICKSON

COMMITTEE MEMBERS ABSENT

REP. CYNTHIA HINER
REP. JON SESSO
REP. DAVE KASTEN
REP. JANNA TAYLOR
SEN. JOHN BRUEGGEMAN

STAFF PRESENT

Clayton Schenck, Legislative Fiscal Analyst
Diane McDuffie, Committee Secretary

00:00:04 **CALL TO ORDER**

The 203rd meeting of the Legislative Finance Committee (LFC) reconvened on Friday, March 7, 2008, and was called to order at 8:00 a.m. by **Senator Trudi Schmidt**, Chair, in Hearing Room 102 of the State Capitol, Helena, Montana. The secretary noted the roll.

00:00:45 **DEPARTMENT OF REVENUE: \$14 MILLION BLOCK FUNDING**

Dan Bucks, Director, Department of Revenue, provided the following materials and gave a detailed explanation of each item. (Exhibit 15)

- ✓ Department goals and objectives
- ✓ E-Services Time line
- ✓ 2008 DOR Electronic Filing service locations
- ✓ Business and Income Taxes Compliance
- ✓ Realty Transfer Certificate Data

Mr. Bucks said the funding provided by the legislature has enabled the department to make a variety of improvements including the expansion of electronic filing applications for Montana taxpayers, completion of the current reappraisal cycle by Jan. 1, 2009, and improving existing tax compliance programs to ensure that resident, nonresident, and corporate taxpayers are meeting their filing obligations and paying their fair share of taxes.

00:44:32 **Senator Bales** asked if land owners will have an opportunity to review the agriculture reappraisal. Mr. Bucks said the department is offering three opportunities for producers to

know what is occurring. In late August, every producer will get the preliminary maps for their property and will be asked to contact the department.

00:56:53 **DPHHS STATE HOSPITAL**

Lois Steinbeck, Senior Fiscal Analyst, LFD presented a report on Montana State Hospital: Update (Exhibit 19) This report provides information on high patient populations and nursing staff vacancies, as well as Goal 189 to reduce the MSH population to the licensed capacity of 289, and the timeline for development of new community services authorized by the 2007 Legislature. Ms. Steinbeck reported that pay increases for RNs and LPNs were initiated to assist recruitment and retention. The vacancy rates for RNs have lessened somewhat, although they remain problematic. Vacancy rates for LPNs have recently spiked from 16 percent in December 2007 to 30 percent in January 2008. The executive has implemented a goal to reduce the MSH population to an average of 189. DPHHS determined an exigency existed at MSH because of the ongoing high population in excess of licensed capacity. The exigency is anticipated to continue until the hospital population stabilizes around 189. AMDD is negotiating with adult mental health service providers in selected communities to add an additional 68 intensive service slots. The maximum estimated cost for the new slots is \$1.9 million general fund annually. New adult mental health community services funded by the 2007 Legislature are being implemented, however, the 72-hour crisis stabilization session and BHIFs face some implementation challenges.

01:11:02 John Chappius, Deputy Director, DPHHS said more community services are needed to meet the needs of individuals and lower the census at the Montana State Hospital. The department will evaluate the effectiveness of the new services before asking the 2009 Legislature to continue the new services. Mr. Chappius said he would recommend the new services be continued, but to what extent he didn't know. Some progress has been made at the MSH in hiring a new psychiatrist and the anticipated timeline for the telepsychiatry is this summer. The department is still studying BHIFs and does not have a timeline for implementation.

01:23:17 **Senator Bales** asked if the difference in prices of the different homes is because of the services being provided. Lou Thompson, Chief, Mental Health Services Bureau said each contract was developed individually with a break out of the components. For example, the Share House in Missoula is a facility for individuals with co-occurring mental illness and substance abuse disorder. A separate rate is charged for the clinical and mental health support services. These individuals also have access to co-occurring services and those services are provided under a separate contract.

01:27:10 **Senator Cobb** asked when the goal for 189 is expected to be stabilized. Joyce DeCunzo, Administrator, AMDD, DPHHS, said the department hopes to see stabilization by July 1, 2009.

01:37:37 **BREAK**

01:49:40 **NAVIGATING THE LFC/LFD WEBSITE: DEMONSTRATION**

Mike Allen, Fiscal Information Specialist provided a brief demonstration and handout on how to navigate the LFC/LFD Website. (Exhibit 20) The purpose of this demonstration is to provide instruction to help committee members quickly locate legislative information. Mr. Allen's presentation included:

- ✓ Introduction to the Legislative Branch Home page
- ✓ Brief description of the menus and navigational features
- ✓ Introduction to the Legislative Fiscal Division Home page
- ✓ Brief description of the menus and navigational features
- ✓ How to find the Legislative Finance Committee (LFC) information
- ✓ How to find reports and publications

02:02:53 **SUBCOMMITTEE REPORT: STUDY OF BUDGET AND APPROPRIATIONS
PROCESS**

Clayton Schenck, LFA, LFD explained that the subcommittee is working on five major areas and action was taken yesterday on budgeting for personal services, general fund transfers and statutory appropriations, and the legislative budget process. Handouts were provided on these action items. (Exhibits 21, 22, 23)

Greg DeWitt, Senior Fiscal Analyst, LFD explained that staff undertook a limited scope study of budgeting for personal services cost and the usage of applied vacancy savings rate. The study was built on previous studies, and limited by automated system related issues, data compilation options, statutes related to budgeting, and the time available in the interim. Staff also considered funding requirements and availability, and the feasibility of implementation, particularly in the short-term, upon completion of this study. As requested by the LFC, legislative staff provided several options for consideration. The Budget and Appropriations Subcommittee moved to recommend the LFC adopt the recommendations of staff. The motion passed unanimously.

02:15:35 **MOTION: Senator Wanzenried** moved that the LFC adopt the recommendations of staff listed on pages 11 and 12 of the Budgeting for Personal Services Cost report. (Exhibit 21) **ROLL CALL VOTE:** Motion passed unanimously. (See attachment #1)

Senator Wanzenried discussed the recommendations of the Subcommittee regarding general fund transfers. The Subcommittee moved to eliminate all permanent general fund transfers except for those enacted by SB 166 and SB 243 in the 2007 session. The motion passed 3 to 0. The Subcommittee also moved to accept the policy statement concerning permanent general fund transfers. This motion also passed 3 to 0.

02:21:50 **MOTION: Senator Wanzenried** move to eliminate all permanent general fund transfers except for those enacted by SB 166 and SB 243 in the 2007 session. **ROLL CALL VOTE:** Motion passed. 9 members voting yes and 1 member voting no. (See attachment #2)

02:24:19 **MOTION: Senator Wanzenried** moved to adopt the policy statement concerning permanent general fund transfers. **ROLL CALL VOTE:** Motion passed. (See attachment #3)

02:26:15 Roger Lloyd, Senior Fiscal Analyst, LFD explained the recommendations of the Subcommittee regarding statutory appropriations. The Subcommittee moved to eliminate all the statutory appropriations that are not used, consolidate all the horse racing statutory appropriations, and strike the invalid statutory appropriation in 75-10-622, MCA. The motion passed 3 to 0. The Subcommittee also moved to establish a sunset date at the end of fiscal 2011 for all the statutory appropriations listed on page 3, Exhibit 22, except those for : 1) debt service; 2) school funding; 3) emergencies or disasters declared by the Governor; 4) retirement; and 5) those included in the previous motion. The motion passed 3 to 0.

02:29:28 **MOTION: Senator Wanzenried** moved to eliminate all the statutory appropriations that are not used, consolidate all the horse racing statutory appropriations, and strike the invalid statutory appropriation in 75-10-622, MCA. **ROLL CALL VOTE:** Motion passed. (See attachment #4)

02:30:38 **MOTION: Senator Wanzenried** moved to sunset at the end of fiscal 2011 the statutory appropriations listed on page 3, Exhibit 22.

Senator Wanzenried explained that the purpose of this motion is to ensure the same degree of accountability is extended to these programs that is extended to all the other programs currently listed in HB 2. The Subcommittee is not proposing to eliminate the programs but to put the money in the budget as any other budget item would be included. The reason to sunset these is to bring these appropriations before the legislature so they understand that these kinds of expenditures are taking place with no legislative oversight.

02:33:55 **Senator Bales** spoke in opposition of the motion and expressed concern with tax distribution to eligible counties being eliminated.

02:37:31 **Senator Wanzenried** stated that it was never the intent of the Subcommittee to change the allocation of the money to the local government entities. It is an opportunity for the legislature to review as part of the appropriations process.

02:43:49 **Senator Williams** asked how the list was developed. Roger Lloyd, Senior Fiscal Analyst, LFD explained that the Subcommittee gave staff discretion on grouping statutory appropriations. All Statutory appropriations were ranked based on the nine criteria in statute and assigned a percentage score . Categories explored were local assistance, grants, transfers, and benefits and claims. The Subcommittee moved to sunset all the statutory appropriations in those categories.

02:45:54 Amy Sassano, Office of Budget and Program Planning, offered an alternative option of LFD providing an analysis in the Legislative Fiscal Division 2009 Budget Analysis so the legislative subcommittees would have an opportunity to review the statutes.

02:53:03 **MOTION: Senator Wanzenried** withdrew his motion.

02:53:24 **Senator Wanzenried** briefly updated the committee on the status and purpose for review of the Revenue Estimate Resolution. The Subcommittee recommended a committee bill that changes language to state that the revenue estimates as adopted by the RTIC are the official revenue estimates of the legislature until adoption of a revenue estimate resolution by both house of the legislature. The motion passed unanimously.

02:55:59 **MOTION: Senator Wanzenried** moved the LFC adopt the Subcommittee recommendation and request the RTIC to co-sponsor the legislation.

03:10:57 **AMENDED MOTION: Senator Wanzenried** moved the LFC draft a letter to the RTIC summarizing the recommendation of the Subcommittee to draft a committee bill that changes language to state that the revenue estimates as adopted by the RTIC are the official revenue estimates of the legislature until adoption of a revenue estimate resolution by both house of the legislature and request the RTIC to co-sponsor the legislation.
ROLL VOTE: Motion passed. (See attachment #5)

03:13:09 **Senator Wanzenried** reported that the Subcommittee will be having a conference call within the next two weeks to decide on a recommendation to the LFC concerning the issue of single versus multiple appropriations bill.

03:15:25 **Senator Wanzenried** directed staff to draft the bills required for the motions passed.

03:16:54 **WORK GROUP REPORT: LONG RANGE PLANNING**

Cathy Duncan, Fiscal Analyst, LFD provided an update on the Long Range Program Working Group. (Exhibit 24) and provided the following handouts:

- ✓ Copy of a letter sent to TSEP recipients regarding complete funding package (24A)
- ✓ Status of Start-up Conditions of 2009 Biennium TSEP Projects (as of 3/7/08) (Exhibit 24B)
- ✓ TSEP Grant Marginal Cost Analysis (24C)

Ms. Duncan reported that since December the working group has met twice each time in a conference call. The primary focus of both meetings was the funding issue of the Treasure State Endowment Program. Members discussed the need to take action to mitigate the requirement for re-application for projects that cannot meet the "start-up" conditions contained in HB 512. The Department of Commerce (DOC) TSEP program personnel worked with LFD and the OBPP to draft a letter to all local governments who had a grant authorized for the 2009 biennium to emphasize the importance of having a good financial package and updated engineering report for inclusion in their next TSEP application. (See Exhibit 24A) The working group discussed the potential cost of the loan and many members expressed concerns about paying the debt service over an extended period of time. The members of the LRP working group will meet again later in the interim to finalize their TSEP recommendation to the LFC. At the request of Rep. Sesso, the TSEP division brought forward a new proposal to the working group. The proposal would allow reductions in the scope of TSEP projects. The DOC will consider requests to reduce the scope of a project when the grant recipient is not able to obtain all of the grants that were proposed in the original application or when projects costs have increased beyond what was proposed in the original application and certain requirements must be demonstrated. Exhibit 24C is an analysis of what the additional costs would be if the recommendation is approved. With the new proposal, 4 additional grants would be funded. However, a number of other grants would be impacted. The fiscal impact of this proposal would be approximately \$2.3 million.

03:32:30 Dave Awning, Great West Engineering, provided a Preliminary Engineering Report for the City of Cut Bank. to illustrate some of the issues this project presents. (Exhibit 25) Mr. Awning said because of the many issues, and time and money spent in dealing with these projects he supports the proposed flexibility to allow reductions in the scope so the projects can proceed.

Tony Preite, Director, Department of Commerce stated that the purpose in preparing this option came as a result of a direct request from Rep. Sesso. This option was not intended to set the stage for any additional general fund revenue infusion at the next session. Mr. Preite also said that if the committee approves this option, the estimates Ms. Duncan provided in her analysis could be higher.

03:58:00 **MOTION: Senator Cobb** moved to support the DOC draft proposal prepared at the request of Rep. Jon Sesso to allow reductions in the scope of TSEP Projects.
VOTE: Motion passed.

03:59:05 **WORK GROUP REPORT: STATE FUND STUDY**

Kris Wilkinson, Fiscal Analyst, LFD provided a copy of the Response to the Legislative Finance Subcommittee Study Proposal from the Montana State Fund (MSF), (Exhibit 25). Ms. Wilkinson explained that the response is a result of Rep. Ripley's request as to what, if any, action is being taken by MSF to address the issues in the study proposal relating to the workers' Compensation Study Project. Ms. Wilkinson also provided a copy of the Subcommittee agenda (Exhibit 25A), and a report on Cost Savings in Workers' Compensation for State Agencies (Exhibit 25B). Reports were presented on worker's compensation ratemaking, components of the loss cost multiplier, private workers' compensation insurance carriers oversight, and cost savings in the workers' compensation for state agencies.

04:01:55 **Rep. Erickson** said the focus of the Subcommittee is the MSF budget, which is presented on a cash basis as opposed to a full accrual basis. The opinion of the Code Commissioner, Greg Petesch suggests that the MSF ought to be using the accrual method of budgeting. The MSF counsel disagrees and said the accrual method will reduce the effectiveness of the budgeting function. So far, no evidence has been provided and in fact, Ms. Wilkinson has provided information using both methods and the accrual method provided better information for budgeting. Another issue the subcommittee is studying is whether or not the contribution to equity in the current budgeting methodology is sufficient for the financial health of the MSF. The Subcommittee has no recommendations at this time.

04:10:59 **Senator Bales** said the Subcommittee is still gathering data and has no recommendations at this time. **Senator Bales** also suggested that the financial condition of the old fund be addressed at a later date.

04:12:30 **Senator Wanzenried** said his concerns are with the high premiums, low ranking, and employer costs. The other issue is whether or not the legislature knows what is going on from a meaningful standpoint and more information is needed.

Laurence Hubbard, President, CEO, Montana State Fund said the MSF will continue to provide as much information as possible. Mr. Hubbard said trying to serve customers and not understanding what the needs are is a bit frustrating. It is becoming clearer as to the needs of the committee and he will support the process going forward.

04:21:11 **LUNCH**

05:11:03 **STATUS REPORTS ON OTHER INTERIM STUDY COMMITTEE**

Barbara Smith, Fiscal Analyst, LFD presented a report on FY 2008 Fire Suppression Costs March Update. (Exhibit 26) Ms. Smith reported that as of February 19, 2008, the state has incurred \$108.1 million in fire

suppression costs, of which \$56.7 million is reimbursable by other parties, creating a net cost to the state of \$51.4 million. This is an increase in state costs of \$2.5 million from the December report. The costs of the FY 2008 fire season will continue to fluctuate based on the finalization of costs. The appropriations from HB 1 of the special session and the Governor's emergency fund are, at this time, sufficient to cover the state share. LFD staff will continue to monitor the status of the fire bill.

05:13:53 Fire Suppression Interim Committee Update

Senator Cobb said the Fire Suppression Contracting Subcommittee met March 4 and Senator Hansen chaired the meeting. A report and recommendations will be drafted on Contracting, WUI, and Infrastructure at the March 27-28 meeting. The public hearings will begin April 27 and continue through June 20.

05:23:35 Postsecondary Education Policy and Budget Subcommittee Update

Alan Peura, LFD, presented a memo on Postsecondary Education Policy and Budget (PEPB) Subcommittee update to LFC (Exhibit 27). Mr. Peura briefly discussed the following primary items on the PEPB interim workplan:

- ✓ Bitterroot Valley Community College
- ✓ Two-Year Education Strategic Plan
- ✓ HJR 22 Dental Study Working Group
- ✓ Shared Policy Goals and Accountability Measures (Performance Measurement)
- ✓ 2011 Biennium Higher Education Budget Initiatives and Related Performance Measurement

05:37:06 **Senator Wanzenried** asked Mr. Peura to describe the initiative of the Office of the Commissioner of Higher Education regarding regional governance of the Community Colleges and College of Technology. Mr. Peura said the preliminary discussion is about ways to take advantage of regional centralization of services.

05:41:12 **Senator Cobb** asked if transferability of student credits is on target. Mr. Peura said transferability was discussed and the states interest was reinforced. But there was no specific discussion in terms of achieving the goal. Mr. Peura said he would provide a more extensive report in June.

05:42:42 RTIC Requirement to adjust Tax Credit based on Budget Outlook

Terry Johnson, Principal Fiscal Analyst, LFD provided a copy of a memo to the Revenue and Transportation Interim Committee (RTIC) and the statute regarding House Bill 9 income tax credit for property tax payments. (Exhibits 28 & 28A) The purpose of the memo was to seek input from the RTIC on information the committee will need to fulfill the requirements delineated in 15-30-140 (b) (i), MCA. The relief multiple is a mathematical technique to determine a level of tax credit that will be provided to tax payers when they file their tax return. The RTIC is to examine the financial outlook for the state general fund prior to the convening of a regular session and based on that outlook, the RTIC is required to make a determination of

whether there should be an adjustment to the relief multiple. Under current statute, that multiple is set to 0 after the fiscal year 2007. If the RTIC takes no action, there will be no additional tax credits provided. The RTIC decided to postpone any action until the next meeting scheduled for April.

05:47:07 **PERFORMANCE MEASUREMENT: ASSESSMENT/DISCUSSION**

Barbara Smith, Fiscal Analyst, LFD provided a copy of the Governing Magazine Measuring Performance. (Exhibit 28) Ms. Smith referred to page 67 which shows the score for Montana. Montana fell below the National Average in measuring performance. LFD staff have been looking at the states that are performing better to find some ideas for Montana.

Ms. Smith presented a report on Performance Measurement Update (Exhibit 29) The purpose of this report is provide a review of the performance measurement activities from the December 2007 Legislative Finance Committee meeting, and provide an update on committee requests. The report also provides an overview of two proposals that will be coming to the committee in the near future. Ms. Smith said the major issue raised during the performance subcommittees was the removal by the administration of targets or norms from the performance goal or initiative. In addition, the administration chose not to report on the LFD designed template. The originally developed format was edited to address concerns raised by the administration and emphasize the information sought by the legislature. To adopt the goals and initiatives agreed upon in October 2007, the form was updated and is attached for reference. (Exhibit 30A)The LFD staff made a conscious decision to provide more time for agencies to report in exchange for a shortened time period to analyze the reports in December. LFD staff developed a timeline to track the next steps, and critical points in time to assure that the June 2008 reports are released, returned, and analyzed in a timely manner. The reporting format and timeline have been adopted by management of the LFD and the Office of Budget and Program Planning. The template and transition proposals slated for the June agenda will require action from the committee in order for staff to implement any necessary changes.

05:53:36 **Senator Cobb** asked if the details have been worked out with the budget office. Amy Sassano, OBPP stated the agencies will provide what is requested by LFD staff.

06:04:27 **PUBLIC COMMENT**

Linda Stoll, Missoula County, testified regarding the statutory appropriations and general fund transfers. Ms. Stoll said she agrees that the if the statutory obligations are not described in the budget then they should be. She suggested that a letter be sent to each of the stakeholders suggesting a meeting to let the groups have an opportunity to voice their concerns. She also suggested developing an appendix to HB 2. Ms. Stoll also suggested this committee forge a compromise between the executive branch and the two parties regarding the number of appropriation bills.

Statutory Appropriations

- 06:11:30 **Senator Wanzenried** said the subcommittee voted unanimously to bring the recommendation to the full committee and asked if there is enough support to pass a motion.
- 06:13:25 **Rep. Erickson** said he could not support the motion to sunset the statutory appropriations listed on page 3, (Exhibit 22) unless 15-1-21, MCA was taken off the list. He could support, with concern, the others.
- 06:15:13 **Senator Bales** said without having studied the list he would not know which ones to eliminate.

Clayton Schenck, LFA said it would be difficult for staff to take more time to review specific appropriations. If action is delayed until the June meeting, staff won't have anymore time for this project. Most of the workplan projects need to be completed by June for staff to gear-up for budget analysis. LFD staff will make every attempt to include more statutory appropriations in the budget analysis.

- 06:24:30 **Senator Wanzenried** suggested this issue be disposed either by taking no action or by a compromise.
- 06:25:00 **MOTION: Senator Cobb** moved to set a policy that new statutory appropriations shall have a sunset date. **VOTE:** Motion passed.
- 06:28:09 **MOTION: Senator Cobb** moved that all statutory appropriations under \$1.0 million sunset in the year 2011. **ROLL CALL VOTE:** Motion failed. (See attachment #6)

06:38:40 Graying of Montana

Senator Williams said because the committee does not have the information necessary to make a final commitment regarding the 2030 Project, she suggested the LFC send a letter to Sen. Peterson requesting additional information.

Without objection from the committee, the LFC will respond to the letter from Sen. Peterson expressing interest in the project but asking for additional information.

06:43:04 **NEXT LFC MEETING**

The next meeting of the LFC will be held June 5th and 6th, 2008. The committee requested updates on the Montana State Hospital, MHESAC Student Loan Program, Department of Corrections budget, and a report on Water Adjudication.

06:54:09 **ADJOURNMENT**
Meeting adjourned 3:10 pm

Senator Trudi Schmidt, Chair

Diane McDuffie, Committee Secretary
