



LEGISLATIVE FINANCE COMMITTEE

64th Montana Legislature

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

SENATE MEMBERS

JON SESSO--Chair
MARY CAFERRO
LLEW JONES
BOB KEENAN
FREDERICK (ERIC) MOORE
CYNTHIA WOLKEN

HOUSE MEMBERS

NANCY BALLANCE--Vice Chair
KIMBERLY DUDIK
PAT NOONAN
RYAN OSMUNDSON
MITCH TROPILA
BRAD TSCHIDA

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

MINUTES LOG

September 29 - 30, 2016
Room 102, Capitol Building
Helena, Montana

Please note: This document is a Minutes Log and provides a notation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video record of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of meeting activities. The 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 Log, along with the audio and video recordings, is listed by meeting date on the interim committee's web page. Each of the Exhibits is linked and can be viewed by clicking on the Exhibit of interest. All Exhibits are public information and may be printed.

Please contact the Legislative Services Division at 406-444-3064 for more information.

COMMITTEE MEMBERS PRESENT

SEN. JON SESSO, Chair
SEN. LLEW JONES
SEN. BOB KEENAN
SEN. FREDERICK (ERIC) MOORE
SEN. CYNTHIA WOLKEN

REP. NANCY BALLANCE, Vice Chair
REP. KIMBERLY DUDIK
REP. RYAN OSMUNDSON
REP. MITCH TROPILA
REP. BRAD TSCHIDA

COMMITTEE MEMBERS EXCUSED

REP. PAT NOONAN

STAFF PRESENT

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

VISITORS' LIST (Attachment #1)

AGENDA (Attachment #2)

COMMITTEE ACTIONS:

- ◆ Approved minutes from previous meeting
- ◆ Requested a chart showing how money was transferred among the different programs in Department of Public Health and Human Services
- ◆ Requested a bill draft to develop a statewide Facility Condition Index (FCI) and building inventory as an interim project during the 2017/2018 interim
- ◆ Requested a list of statutory appropriations by number and title be linked on our website and added to the guide for legislators
- ◆ Selected a sponsor for LC 0051 in the 2017 Legislative Session
- ◆ Approved recommendation for the LFD Budget for the 2019 Biennium
- ◆ Requested a response from the Department of Public Health and Human Services regarding the waiting list and unexpended funds for community services and First Choice.

CALL TO ORDER AND ROLL CALL

00:00:02 Sen. Sesso called the Legislative Finance Committee to order at 10:00 a.m. on Thursday, September 29, 2016 in Hearing room 102 of the State Capitol. The committee secretary called roll. (**Attachment #3**). Rep. Noonan was excused.

APPROVAL OF THE MINUTES OF THE PREVIOUS MEETING

00:01:04 **MOTION:** Senator Keenan moved to approve the minutes of the previous meeting. **VOTE:** Motion passed.

FYE 2016 BUDGET STATUS REPORT (Exhibit 1)

00:01:40 Amy Carlson, Director, Legislative Fiscal Division presented the Budget Status Report. Ms. Carlson explained the general fund balance sheet, general fund reversions, and projected supplemental appropriations.

General Fund Revenue

00:09:01 Stephanie Morrison, Fiscal Analyst, LFD noted that FY 2016 general fund revenues were \$141.5 million below the HJ 2 estimate. Most of the difference can be attributed to lower-than-expected growth in individual income tax, and declines in corporation income tax and oil and natural gas taxes. Also, lower collections in metal mines tax, U.S. mineral royalties and treasury cash account interest earnings make up most of the remaining difference.

00:16:22 Sam Schaefer, Fiscal Analyst, LFD discussed decreased collections in Corporation Income Tax and reasons for the decrease. He also discussed Vehicle Taxes & Fees, Oil & Natural Gas Taxes, Video Gaming Tax and Treasury Cash Account Interest Earnings.

- 00:23:54 Nick VanBrown, Fiscal Analyst, LFD discussed the increase in Property Tax, primarily due to growth in class 9 pipelines.
- 00:25:11 Alice Hecht, Fiscal Analyst, LFD discussed Health Insurance Tax. As new data from the exchange becomes available from the State Auditor's Office, modeling for this source will be revised to account for the changes.

COMMITTEE QUESTIONS

- 00:27:00 Sen. Caferro
- 00:29:30 Sen. Jones
- 00:33:51 Sen. Moore
- 00:34:44 Sen. Sesso

Budget and Expenditures

- 00:35:41 Kris Wilkinson, Fiscal Analyst, LFD explained the budget and expenditure portion of the report that discusses the FYE 2016 appropriations and related expenditures by budget section. Budget changes by program are listed in Appendix A; Appendix B is a summary of FY 2016 budgeted authority and actual expenditures; budget amendments are shown in Appendix C, and operating plan changes and program transfers that meet the requirement for LFC review are in Appendix D.
- 00:38:28 Katie Guenther, Fiscal Analyst, LFD summarized the Office of Budget and Program Planning general fund transfers, program transfers and carryforward authority. In FY 2016 the Department of Natural Resources and Conservation received \$1.6 million and the Department of Agriculture received \$50,000. In FY 2017 the Department of Natural Resources and Conservation received \$1.5 million.
- 00:39:42 Kris Wilkinson, Fiscal Analyst, LFD noted the revenues for the state agency self-insurance account exceeded expenditures allowing the program to establish reserves for its various insurance risks. In addition, the state is in the process of finalizing a settlement related to asbestos claims that could result in a \$20 million payment.
- 00:42:01 Cathy Duncan, Fiscal Analyst, LFD provided an update on the highway state special restricted revenue account (HRSA). Ms. Duncan also noted an operating plan change in Appendix D that triggers 17-7-138 in the Department of Transportation Motor Carrier Division. Staff reviewed this operating plan change and raises no concerns.
- 00:48:04 Greg DeWitt, Fiscal Analyst, LFD discussed budget changes in the Judicial Branch, Law Enforcement and Justice agencies. The Judicial Branch had three fiscal year transfers to address shortfalls in three agencies. The Department of Justice, Office of State Public Defender and Department of Corrections all experienced budget pressures.

COMMITTEE QUESTIONS

- 00:50:02 Sen. Sesso
00:54:14 Rep. Tropila
00:56:18 Rep. Dudik
- 00:57:46 Rob Miller, Fiscal Analyst, LFD summarized budget changes in the Office of Public Instruction. In FY 2016 revenues flowing into the guarantee account were \$1.8 million lower than anticipated. For FY 2017 LFD forecast that interest and income from the guarantee account will be \$6.6 million less than anticipated. This reduction along with FY 2017 BASE Aid payments currently estimated to be \$0.9 million higher will likely lead to the need for a supplemental appropriation.
- 01:00:43 Cathy Duncan, Fiscal Analyst, LFD gave a brief summary of Section F - Long-Range Planning. Through FY 2016, no unusual project issues have occurred. With many of the programs relying on dedicated revenue streams, some of the programs are experiencing funding shortfalls. Since in many cases the projects will be continued into the 2019 biennium, future revenues will continue to flow into the program accounts and could be used to offset the shortfall effects.
- 01:03:25 Scott Conrady, Fiscal Analyst, LFD summarized budget changes in Section B - Department of Public Health and Human Services. The department will end with an ending fund balance of \$86.7 million total funds. The majority of that is Federal funds. General Funds were 95% expended leaving a general fund balance of \$17.8 million.
- 01:07:26 Scott Conrady, Fiscal Analyst, LFD discussed the facilitation of moving clients out of the Montana Developmental Center by December 31, 2016 and possible recommendations from the MDC Transition Planning Advisory Council.
- 01:14:47 Rep. Ballance asked why the higher reversions were included in the balance but not the potential supplementals. Director Carlson responded.

THE MONTANA HELP ACT (Exhibit 2)

- 01:20:50 Quinn Holzer, Operations Manager, LFD presented the Montana Help Act, Medicaid Expansion Update. The purpose of this report is to provide an up-to-date synopsis of the Medicaid expansion and the financial implications. Also included with this report is the "HELP Act Oversight Committee report and the HELP-Link Workforce Program report from the Department of Labor & Industry. **(Exhibits 2a & 2b)**

COMMITTEE QUESTIONS

- 01:26:26 Rep. Ballance
01:28:36 Sen. Caferro
01:33:16 Rep. Ballance
01:34:49 Sen. Moore
01:35:07 Sen. Caferro
01:35:41 Rep. Tschida
01:36:29 Sen. Caferro
01:37:19 Rep. Osmundson

01:40:39 John Goodnow, Chair, HELP Act Oversight Committee, CEO Benefis Health System, provided A Health and Economic Livelihood Partnership presentation and a handout on Health and Economic Livelihood Plan Progress Report. (Exhibits 3 and 3a)

COMMITTEE QUESTIONS

01:52:39 Rep. Ballance
01:54:32 Rep. Tschida
01:58:29 Sen. Lewis
02:00:20 Rep. Dudik
02:05:36 Sen. Moore
02:09:25 Rep. Dudik

PUBLIC COMMENT

03:08:55 Stacy Anderson, Primary Care Association, testified in support of Medicaid Expansion.

MEDICAID MONITORING REPORT (Exhibit 4)

03:37:27 Joshua Poulette, Fiscal Analyst, LFD presented the Medicaid Monitoring Report. This report covers Medicaid expenditures only, which are a subset of total Department of Health and Human Services expenditures. In particular, this report focuses on Medicaid benefits and claims expenditures.

03:41:54 Rep. Ballance
03:44:04 Sen. Sesso
03:49:36 Sen. Caferro
03:58:26 Rep. Ballance

MANAGING FINANCIAL VOLATILITY (Exhibit 5)

04:52:55 Amy Carlson, LFA, LFD presented the Managing Financial Volatility report. The purpose of the report is to provide information on potential reasons for Montana's revenue volatility and various comparisons to volatility in other states. The report also includes various strategies the legislature could undertake to evaluate and continue to improve its fiscal management of the state general fund. Ms. Carlson provided a chart from the Utah State Legislature. (Exhibit 5a)

04:02:55 Stephanie Morrison, Fiscal Analyst, LFD discussed measures of volatility, industry standards, and Montana approaches studied by academic, government and policy organizations.

STATE INFRASTRUCTURE BUDGETING AND FUNDING (Exhibit 6)

04:41:03 Joe Triem, Fiscal Manager, LFD explained the rewrite of SB 79. At the request of LFC members, both Julie Johnson, LSD and Cathy Duncan, LFD updated the final 2007 version of the legislation to provide a more consistent funding stream to the Long-Range Building Program (LRBP) and create a statewide facility inventory and condition assessment process.

04:42:36 Cathy Duncan, Fiscal Analyst, LFD presented the Rewrite of SB 79, a matrix outlining the changes, and the bill draft. Should the committee decide to move forward with this legislation, staff asks the committee to address the questions

and options included in the section matrix.

COMMITTEE QUESTIONS

04:52:38 Sen. Sesso
04:56:12 Rep. Osmundson
04:58:40 Rep. Tropila
05:09:17 Sen. Sesso
05:16:51 Rep. Tropila
05:17:38 Sen. Sesso
05:21:21 Rep. Osmundson
05:25:30 Sen. Sesso
05:26:40 Rep. Osmundson
05:28:02 Without objection, the committee chose option #3 - to implement both 1) and 2). Staff will request a bill draft to develop a statewide Facility Condition Index (FCI) and building inventory (with no funding changes), and work through building maintenance funding concepts as an interim project during the 2017/2018 interim.

BASE BUDGET AND PERSONAL SERVICES SUMMARY (Exhibit 7)

05:29:40 Quinn Holzer, Operations Manager, LFD presented the FY 2017 Base Budget Report. This report provides specific detail regarding the establishment of the FY 2017 base budget. A series of tables include ongoing FY 2017 legislative allocations and any executive modifications. These executive changes are authorized in statute, and allow for some flexibility in establishing the operational budget, while still maintaining substantial compliance with legislative intent. The budget numbers included in this report specifically exclude one-time-only appropriations, as they are not part of the base budget.

05:44:34 Rep. Dudik
05:49:58 Rep. Ballance

2019 BIENNIUM PERSONAL SERVICES CALCULATIONS (Exhibit 8)

06:17:36 Quinn Holzer, Operations Manager, LFD presented the 2019 Biennium Personal Services Calculations report. For the 2019 Biennium the calculations will include cost changes due to required benefit and pay plan adjustments. These calculations are currently being evaluated by agencies to look for any discrepancies in the data or any statutorily required adjustments that the preliminary LFD calculations missed. In addition, the agencies and analyst will describe the management choices that created differences between the executive request and the final LFD calculated change.

06:30:20 Sen. Sesso
06:34:59 Rep. Dudik
06:36:28 Sen. Sesso

LEGISLATIVE FINANCE COMMITTEE RECOMMENDATIONS TO THE 2017 SESSION
(Exhibit 9)

Statute requires that the LFC adopt certain recommendations for operations of the subcommittees. The draft recommendations summarize the action so far by the Legislative Finance Committee. There are two new recommendations in the attached draft summary.

06:48:29 Committee will reconvene Friday Sep 30, 2016 at 8:00 a.m.

Friday, September 30, 2016

COMMITTEE MEMBERS PRESENT

SEN. JON SESSO, Chair
SEN. LLEW JONES
SEN. BOB KEENAN
SEN. FREDERICK (ERIC) MOORE
SEN. CYNTHIA WOLKEN

REP. NANCY BALLANCE, Vice Chair
REP. KIMBERLY DUDIK
REP. RYAN OSMUNDSON
REP. MITCH TROPILA
REP. BRAD TSCHIDA

COMMITTEE MEMBERS EXCUSED

REP. PAT NOONAN

STAFF PRESENT

JULIE JOHNSON, Staff Attorney
DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

VISITORS' LIST (Attachment #4)

ROLL CALL

00:00:02 The Legislative Finance Committee reconvened on Friday, September 30, 2016 at 8:00 a.m. in Hearing Room 102 of the State Capitol Building, Helena Montana. The secretary noted the roll. (Attachment #5)

HJ 27 STUDY ON STATUTORY APPROPRIATIONS (Exhibit 10)

00:00:31 Susie Lindsay, Communications Supervisor, LFD introduced the HJ 27 Study on Statutory Appropriations. Included in this report are highlights from all the previous reports since September 2015, as well as the recommendation for repeal of 15-70-601.

00:01:51 Sam Schaefer, Fiscal Analyst, LFD discussed total actual statutory appropriations for FY 2016 and budgeted statutory appropriations for FY 2017.

00:08:10 Susie Lindsay, Communications Supervisor, LFD concluded with the statutory appropriations guide to legislators and repeal of 15-70-601, MCA. LC 0051 is drafted as a committee bill and needs an official sponsor for the 2017 Legislative Session.

UPDATE ON K-12 COMMISSION (Exhibit 11)

00:17:59 Pad McCracken, Researcher, LSD provided an update on the School Funding Commission. Included in this report are highlights on retention and recruitment, K-12 employee health benefits, school facilities, special needs funding and related bill drafts.

COMMITTEE QUESTIONS

00:28:01 Rep. Tropila
00:30:17 Sen. Caferro
00:39:37 Rep. Tropila
00:40:53 Rep. Tschida
00:41:56 Rep. Ballance
00:45:12 Sen. Sesso

CHILD AND FAMILY SERVICES DIVISION (CFSD) FEDERAL REQUIREMENT (Exhibit 12)

00:47:15 Alice Hecht, Fiscal Analyst, LFD presented a report on federal funding in the Child and Family Services Division (CFSD). This report is a follow up to the LFC meeting in March 2016 wherein the committee heard testimony on excessive workloads facing caseworkers. It was suggested that one of the major difficulties was the amount of time required to fill out paperwork needed for federal funding requirements. Federal funds account for 40.6 % of the CFSD budget.

PUBLIC DEFENDER: TASK FORCE RECOMMENDATIONS (Exhibit 13)

00:54:33 Sheri Scurr, Legislative Research Analyst, LSD presented an update on activities of the Task Force on State Public Defender Operations. This report provides a summary of activities and bills considered and final actions of the Task Force.

COMMITTEE QUESTIONS

00:57:57 Sen. Moore
00:58:15 Rep. Dudik
00:58:45 Rep. Ballance
00:59:25 Rep. Dudik
00:59:51 Sen. Moore
01:00:16 Rep. Dudik
01:02:33 Sen. Moore
01:03:04 Rep. Dudik
01:07:54 Rep. Ballance
01:08:57 Rep. Dudik
01:10:52 Sen. Wolken
01:12:30 Rep. Dudik
01:14:03 Sen. Sesso
01:14:42 Rep. Dudik
01:17:54 Sen. Moore
01:19:09 Sen. Sesso

STATE INFORMATION TECHNOLOGY UPDATE

- 01:21:39 Kris Wilkinson, Fiscal Analyst, LFD provided the IT Project Cost and Development Tracking. **(Exhibit 14)** This document summarizes the changes that have occurred in the IT Project Portfolio since the June meeting. Changes in cost estimates are highlighted in orange and additional projects are highlighted in gray.
- 01:24:00 Ron Baldwin, State CIO discussed the IT Project Portfolio changes in measurement criteria and project health. There are 51 projects in the portfolio report and 5 are in "yellow" status. **(Exhibit 15)**
- 01:29:50 Dan Chellini, CIO, Department of Environmental Quality gave an update on the DEQ RIMS Project.

COMMITTEE QUESTIONS

- 01:31:18 Sen. Sesso
- 01:32:06 Rep. Ballance
- 01:40:47 Stuart Fuller, CIO, Department of Public Health and Human Services gave a brief update on the MMIS project and the status of upcoming project modules.
- 01:42:33 Sen. Sesso
- 01:44:00 Sen. Caferro
- 01:46:48 Rep. Ballance
- 01:50:07 Kris Wilkinson, Fiscal Analyst, LFD provided an update on the progress of Volume 10. At the December LFC meeting staff will provide a recommendation on how to incorporate this into budget deliberations.
- 01:52:22 Ron Baldwin, State CIO, presented the CIO Policy Report. **(Exhibit 15a)** This report provides information on MITA compliance and an explanation for exception request granted and/or rescinded. The State of Montana Biennial Report of Information Technology is currently being compiled and a draft will be available for review in December 2016. The report will be published the beginning of January 2017. Also included in the committee notebooks are Supplemental and Post Implementation Reports **(Exhibit 15b)**
- 01:57:10 Break

HEALTH INSURANCE UPDATE

- 02:14:06 Kris Wilkinson, Fiscal Analyst, LFD introduced the Health Insurance speakers, Marilyn Bartlett, Administrator, Health Care and Benefits; and Connie Welch, Director of Benefits, Montana University System.
- 02:14:58 Marilyn Bartlett presented a PowerPoint presentation on Health Care Benefits Division Cost Containment. **(Exhibit 16)** The presentation included cost containment strategy, transparent pricing, pharmacy, and transparency tools.

COMMITTEE QUESTIONS

02:47:55 Rep. Ballance
 02:49:01 Rep. Tropila
 02:52:36 Sen. Sesso

02:56:12 Connie Welch provided a PowerPoint presentation on Health Insurance Update and Cost Containment for the Montana University System. **(Exhibit 17)** The presentation included MUS Group Benefit Plan financial update comparison of medical, RX and dental, claim costs, funding vs. expenses, and cost containment initiatives.

03:08:52 Sen. Caferro
 03:14:03 Sen. Jones
 03:18:56 Rep. Tropila
 03:20:59 Sen. Sesso

COMMITTEE BUSINESS

03:24:51 Sen. Wolken provided a summary of the Montana Commission on Sentencing. **(Exhibit 18)** Included in the report are key challenges, policy options, projected impact, and reinvestments.

3:32:45 Rep. Tropila
 3:34:24 Rep. Ballance
 03:33:52 Sen. Sesso
 03:35:12 Rep. Dudik
 03:36:20 Rep. Ballance
 03:36:48 Sen. Wolkin
 03:38:10 Sen. Sesso

03:39:39 Amy Carson, LFA summarized committee action on LC 0051 and SB 79. Sen. Jones agreed to introduce LC 0051 - An Act repealing the biodiesel production tax incentive.

03:43:10 Mike Milburn, Attorney General Office's, discussed the Montana Law Enforcement Academy Surcharge Summary handout (MLEA). **(Exhibit 19)** The MLEA will be requesting a \$5.00 increase in the surcharge authorized under MCA 3-1-318 from the 2017 Legislature in an effort to close the gap between stagnant surcharge revenues and increasing MLEA costs.

03:57:49 Amy Carlson provided the proposed recommended LFD budget for the 2019 Biennium. **(Exhibit 20)** Primary reason for the reduction in the 2019 Biennium Budget is the LFD has less senior staff.

MOTION: Senator Keenan moved to approve staff recommendation for the LFD Budget 2019 Biennium. **VOTE:** Motion passed.

03:59:55 Ms. Carlson noted reports provided to the RTIC that are included in the binders.

- ▶ Corporation Income Tax Model Update **(Exhibit 21)**
- ▶ Energy Impacts on State Revenue **(Exhibit 22)**
- ▶ General Fund Updated Revenue Trends **(Exhibit 23)**

- ▶ Individual Income Wage Growth vs. Withholding Growth (**Exhibit 24**)

04:00:23 Ms. Carlson provided a handout on Personal Services Alternatives. (**Exhibit 25**)
Concept 1: Compares Executive and Legislative budget calculations for personal services, and quantifies the management decisions explaining the difference.
Concept 2: Compares Executive and Legislative budget calculations for personal services.

COMMITTEE QUESTIONS

04:02:09 Sen. Jones
04:02:35 Rep. Ballance
04:03:45 Sen. Sesso
04:06:53 Sen. Caferro
04:08:28 Sen. Jones
04:11:03 Rep. Ballance
04:11:21 Rep. Tropila

04:12:23 Ms. Carlson discussed the meeting dates and reminders for legislative orientation and the final LFC meeting. (**Exhibit 26**) New staff members Joshua Poulette, Kate Church and Shauna Albrecht were introduced. Rob Miller received a longevity pin for 5 years of service and Cathy Duncan received a pin for 15 years of service.

PUBLIC COMMENT

04:17:48 Michael Ellsworth, provided testimony regarding his formal request For Approval Of Budget Appropriations Report & Disposal of Federal-State, Grant-In-Aid Program Funds As A Matter of Prize Case and Community Development, and request for Approval of Fiscal Report Analysis & Economic Study Of Community And Environmental Impacts To Regional Development. (**Exhibit 27**)

ADJOURNMENT

04:27:15 With no further business before the committee, the meeting adjourned. The next meeting of the Legislative Finance Committee is December 6, 2016