



LEGISLATIVE FINANCE COMMITTEE

65th Montana Legislature

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

SENATE MEMBERS

LLEW JONES
EDIE MCCLAFFERTY
FREDERICK (ERIC) MOORE
RYAN OSMUNDSON
JON SESSO
NATE MCCONNELL

HOUSE MEMBERS

NANCY BALLANCE
KIMBERLY DUDIK
KENNETH HOLMLUND
MIKE HOPKINS
KELLY MCCARTHY
MARILYN RYAN

JULIE JOHNSON, Staff Attorney
KAREN GILBERT, Secretary
AMY CARLSON, Director

MINUTES LOG

March 12 & 13, 2018
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.

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

MARCH 12, 2018

COMMITTEE MEMBERS PRESENT

SEN. LLEW JONES
SEN. EDIE MCCLAFFERTY
SEN. NATE MCCONNELL
SEN. FREDERICK (ERIC) MOORE
SEN. RYAN OSMUNDSON
SEN. JON SESSO

REP. NANCY BALLANCE
REP. KIMBERLY DUDIK
REP. KENNETH HOLMLUND
REP. MIKE HOPKINS
REP. KELLY MCCARTHY
REP. MARILYN RYAN

COMMITTEE MEMBERS EXCUSED

STAFF PRESENT

AMY CARLSON, Director and Legislative Fiscal Analyst
JULIE JOHNSON, Attorney
KAREN GILBERT, Committee Secretary

VISITORS' LIST (Attachment 1)

AGENDA (Attachment 2)

COMMITTEE ACTION

- The committee elected Rep. Dudik as vice chair and Sen. Sesso as secretary.
- The committee set a date of May 9 for a conference call to discuss analysis of supplemental budget requests by the executive.

CALL TO ORDER and ROLL CALL

- 00:00:04 Chair Ballance called the meeting to order.
- 00:01:09 Chair Ballance called for the election of a committee vice chair to replace Sen. Wolken who recently resigned her seat in the Senate for a position in the Department of Corrections.
- 00:01:38 **MOTION:** Sen. Sesso nominated Rep. Dudik. **VOTE:** Motion passed.
- 00:01:46 **MOTION:** Rep. Ryan nominated Sen. Sesso to fill the secretary seat vacated by Rep. Dudik to become vice chair. **VOTE:** Motion passed.
- 00:03:20 **MOTION:** Rep. Holmlund moved the Dec. 11 minutes be approved. **VOTE:** Motion passed.

FY 2018 BUDGET STATUS REPORT

- 00:03:48 Susie Lindsay, LFD communications manager, discussed the FY 2018 Budget Status Report. ([Exhibit 1](#))
- 00:07:51 Stephanie Morrison, lead fiscal analyst, discussed revenue collections. With eight months of collections on FY 18, there is nothing conclusive to say on where revenues will end up, but soon they will have a better idea.
- 00:17:21 Chair Ballance asked about capital gains.
- 00:17:32 Ms. Morrison said capital gains are probably being paid for through estimated payments.

00:17:49 Chair Ballance asked if federal tax law was impacting capital gains.

00:18:15 Ms Morrison said some people may have held off to see what would happen at the federal level, that impacted FY 2017. Taxpayer timing resulted in lower revenues. She said they will know more in April.

00:20:35 Chair Ballance said it was the early payers phenomena and will sort out in May or June.

00:21:00 Sam Schafer, fiscal analyst, discussed corporation tax. He said there was 38% growth, mostly due to higher audits, coming in above the HJ 2 estimate.

00:25:15 Nick VanBrown, fiscal analyst, discussed property tax. He said they don't anticipate anything exciting happening this year, close to HJ 2 estimate.

00:26:24 Alice Hecht, fiscal analyst, discussed insurance tax. She said it is back on track and likely to meet or exceed HJ 2.

00:27:01 Chair Ballance asked if insurance tax would be down due to changes to affordable care plan.

00:27:25 Ms. Hecht said there was currently no impact, but policy deadlines were written at the end of 2017. She said health insurance makes up 20% of all premiums collected. Individual policies make up about 5% of all insurance premiums and she explained that the tax isn't large in the big picture.

00:28:47 Chair Ballance asked if they would know more by the end of FY 2018.

00:28:56 Ms. Hecht said what remains to be seen is if people decide to pay for the policies. She said they usually get a lot of data mid-March.

00:29:37 Ms. Morrison discussed the cash model concept.

00:31:10 Kris Wilkinson, lead fiscal analyst, presented modifications to the FY 2018 appropriations in HB 2.

00:34:49 Josh Poulette, fiscal analyst, discussed the DPHHS budget status report. ([Exhibit 2](#)) He said the agency is projecting general fund shortfall of \$21.8 million.

00:46:00 Sen. Moore asked about the key areas for general fund projected shortfalls: is the overrun for foster care administration case load driven?

00:46:19 Mr. Poulette said that was correct.

00:46:25 Chair Ballance asked what is the reduction in services? She said she would love to see what the dollars represent.

00:47:38 Mr. Poulette said he could work with DPHHS to get specifics. He said some info is known by looking at the dollars paid to providers. He said optional services changed and dental services were impacted heavily.

00:48:35 Chair Ballance asked if we were to look at the cuts we started out with, then cuts associated with SB 261 and the \$49 million in cuts from the special session -- where did they come from and how did those affect services?

00:49:23 Mr. Poulette confirmed she was looking for detail on the impact of the decisions.

00:49:47 Chair Ballance asked if there was a change in the number of children in foster care or a change in the cost of services for care, or both. She asked about out of state placements.

00:50:49 Mr. Poulette said the number is more about the raw number of cases, but said he will look into getting more detail.

00:51:29 Jon Arnold, fiscal analyst, discussed the Medicaid monitoring report. ([Exhibit 3](#))

00:54:02 Sen. Moore asked about the legislation passed to authorize Montana Developmental Center (MDC) savings to be used to backfill budget shortfalls -- that savings would be applied before the \$21 million supplemental request?

00:54:31 Mr. Poulette said yes.

00:54:38 Chair Ballance asked about the provider rate decreases from SB 261 and the difference between 2018 and 2019. She asked if the rates are similar but spread over different period of time (six months vs 12 months) so the actual percentages will not be 2.99 for 2018 but different for 2019?

00:55:38 Mr. Poulette said over 12 months time, the percentage would be half.

00:55:52 Chair Ballance said it would be easier to talk about dollars over a period of time rather than percentages.

00:56:10 Sen. McClafferty asked Mr. Arnold about the MDC surplus: when residents moved, the money moved with them?

00:56:29 Mr. Arnold said yes.

00:56:39 Mr. Poulette said the money is restricted to follow the person.

00:57:07 Sen. Sesso confirmed that money is not available.

00:57:15 Mr. Poulette said yes.

00:57:20 Sen. Sesso said whatever surplus there might be at MDC is by law supposed to follow those citizens who need assistance or those who would have that type of assistance there but get it at community level.

00:57:59 Mr. Poulette said yes.

00:58:05 Sen. Moore asked if savings at MDC are due strictly to a reduction in patient days.

00:58:24 Mr. Poulette said he could look into it.

00:58:59 Sen. Sesso asked about the deficit in the developmentally disabled area: if part of the deficit is in developmentally disabled area, the savings at MDC could be used to build back that area?

00:59:37 Mr. Arnold clarified he was talking about the waiver.

00:59:54 Sen. Sesso said there is a law in place that savings go to developmentally disabled programs, is the deficit made up of any developmentally disabled program deficiencies we can back fill?

01:00:33 Mr. Poulette said yes, there is a projected shortfall in that area and he has seen a request for movement of funds.

01:00:59 Chair Ballance asked about getting an institutional level of detail to track changes in services, dollars, etc. by institution.

01:01:56 Mr. Arnold discussed the HELP act report.

01:03:33 Chair Ballance asked about the number of people enrolled in Medicaid expansion: is it the same 91,000 people or is there a constant churn of people coming on or off?

01:04:02 Mr. Poulette said they have requested this data from DPHHS, and they are working on getting more information.

01:04:27 Sen. Moore asked about the turnover data: have the people who do come off gotten new jobs or moved from state?

01:05:57 Sen. Moore asked what was the number in HELP Link as percentage of total enrollees.

01:06:16 Mr. Poulette said he did not have that information and would get an update.

01:07:53 Ms. Wilkinson discussed agency budget status updates.

01:10:07 Ms. Wilkinson discussed operating plan changes and program plan changes.

01:11:31 Katie Guenther, fiscal analyst, discussed a budget change request in the Department of Military Affairs.

01:12:51 Sen. Moore asked about moving \$100k in grants for the shuttle services: is there a reduction in demand for those shuttle services?

- 01:13:11 Ms. Guenther said there is a need in the veteran's affairs outreach services program due to the budget reductions.
- 01:13:34 Rep. McCarthy said this money comes from a special fund related to license plates and goes to DAV. He said they have a number of vehicles driven by volunteers that haven't been replaced, but there was no money last cycle. This will put them further behind in the replacement schedule, but it doesn't take vehicles operated by state employees off the road. He said they have had to shut down one state-run office and this transfer would help prevent loss of more services.
- 01:16:07 Rep. Holmlund asked if the committee acts on the change or if the DVA just notifies the committee?
- 01:16:20 Ms. Wilkinson said the DVA has to report the change to the LFC and the committee can comment.
- 01:16:57 Chair Ballance confirmed the changes are legal.
- 01:17:06 Sen. Moore asked about the legality of changes in between sessions between restricted or non-restricted funds.
- 01:17:37 Amy Carlson, Legislative Fiscal Division said if there are no legal restrictions they can make the changes.
- 01:17:52 Julie Johnson, LSD staff attorney, said the committee does not have authority to approve or deny amendments, just to comment.
- 01:18:51 Ms. Carlson continued the discussion on the budget status report and said all other agency budget status information is available online. She said they chose to highlight DPHHS budget in the committee's meeting binder since it had the largest shortfall.
- 01:19:30 Rep. Dudik said she has been hearing from constituents and asked if the committee is able to reimburse costs or do anything to deal with budget cuts.
- 01:19:57 Ms. Johnson said the legislature as a whole would have to act to change anything.

PUBLIC COMMENT

- 01:21:09 Rose Hughes, Montana Healthcare Association Executive Director, said she appreciated the discussion on provider rate cuts. She said SB 261 involved general fund cuts to provider rates and in implementing those cuts the department also cut state special revenue, exceeding the cuts required by SB 261. She asked the committee to take a look at how much general fund was really cut and was it over cut.

- 01:25:00 Sen. Mary Caferro commented on the \$600,000 transfer from the Montana Developmental Center. She said it is not tied to surplus but to people with disabilities. She said she is not sure the transfer is in line with HB 639. She said those wishing to remain in the community but receive services (targeted case management) will be heavily cut. She said a surplus at the highest level of restricted care but cuts at the lowest level doesn't make sense. (Exhibit I)
- 01:31:11 Chair Ballance noted this committee doesn't have authority to make operational decisions on where money goes other than to review the legality of transfers.

FEDERAL HEALTHCARE CHANGES UPDATE – Josh Poulette, Fiscal Analyst

- 01:32:15 Mr. Poulette discussed changes to federal healthcare. (Exhibit 5)
- 01:42:02 Chair Ballance asked if there was a correlation between the impact on emergency room use and compensated care. She also asked about prescription drug use and if there had been a decrease in substance abuse and cost around substance abuse as people received care.
- 01:42:53 Mr. Poulette said he didn't see any studies on substance abuse with Medicaid expansion but they likely exist. He said regarding compensated care, there was a reduction in un-insured visits to emergency departments, fitting with the finding that Medicaid expansion reduces the uninsured rate.
- 01:44:15 Sen. Moore asked if those in Medicaid expansion states are using emergency rooms less?
- 01:44:39 Mr. Poulette said this paper doesn't provide that information.
- 01:44:47 Sen. Moore asked about enrollment patterns and if there is information from surrounding states? He asked about Medicaid expansion relative to state population.
- 01:45:17 Rep. Dudik asked if Medicaid expansion helps with the opioid epidemic?
- 01:45:44 Mr. Poulette said he didn't include an article on that topic, but some studies have found increased access to care with Medicaid expansion, so you could assume they fit in that category.
- 01:46:32 Rep. Dudik asked if there was any way to track that data in our state?
- 01:46:42 Mr. Poulette said he would ask DPHHS if they track that information.
- 01:47:06 Rep. Dudik said the Center on Budget & Policy Priorities came out with a paper on the opioid abuse disorders.

01:47:41 Chair Ballance said they were also interested in statistics regarding lifting people out of poverty so they don't need Medicaid.

UPDATE ON CHILDREN AND FAMILIES INTERIM COMMITTEE STUDY OF MONTANA MEDICAID EXPANSION – Sue O'Connell, Research Analyst, Legislative Services Division, LSD

01:48:35 Sue O'Connell, LSD research analyst, discussed the Children and Families' Interim Committee study of Montana Medicaid Expansion. ([Exhibit 6](#)) ([7](#)) ([8](#))

LUNCH

01:56:13 The LFC recessed for lunch.

SUBCOMMITTEE REPORT: RESULTS FIRST AND CHILD PROTECTIVE STUDY – Nick Dantzer & Mike Wilson, The Pew-MacArthur Results First Approach Team

03:06:14 Nick Dantzer, The Pew Charitable Trusts, presented the Results First and Child Protective Study report. ([Exhibit 9](#))

03:18:48 Mike Wilson, The Pew Charitable Trusts, discussed the Results First Model.

03:27:19 Mr. Dantzer discussed Results First states evidence.

03:31:59 Mr. Poulette discussed the model they have been working on.

03:37:09 Rep. Holmlund asked if the effects of generational abuse was taken into account.

03:37:51 Mr. Wilson said they didn't have a quantifiable way to measure that at this point.

03:38:23 Rep. Ryan asked if the DPHHS budgetary adjustments would affect the Pew study, and if so will results be muddled?

03:39:07 Mr. Dantzer said not necessarily muddled and the budget cuts shouldn't affect the study results.

03:39:43 Sen. Moore asked about evidence-based modeling and accurate forecasts in Montana

03:40:26 Mr. Wilson said the model is set up to work with the best research out there. He said the study is adjusted to Montana's population.

03:41:40 Chair Ballance said they narrowed the scope of the study a couple of times and are now focused only on child welfare in-home programs. She said in the examples, there are a lot of programs not in the inventory.

03:42:17 Mr. Dantzer said they always want a full range of programs to offer alternatives. He said they are working on evidenced-matching programs.

03:43:00 Chair Ballance asked if they would still have a complete list of inventory but some may not have evidence.

03:43:18 Mr Dantzer said yes.

03:43:21 Chair Ballance said they wanted to extend the focus into corrections, but asked how you account for outside programs?

03:44:01 Mr. Dantzer said they want the process and approach to be clear. He said there will be overlap in other policy areas as needed or requested.

03:44:44 Chair Ballance asked if there was a way to verify results based on outside forces or do they assume the program isn't working as expected?

03:45:30 Mr. Dantzer said focusing on Montana-specific data in the model wouldn't change the results.

03:46:06 The assumption is you are implementing the program the way it is supposed to be. If not, the comparison from the national research base isn't valid.

03:47:31 Chair Ballance said what if the program in a vacuum is fine, but say the child ends up outside the home in a prison or foster home and comes back in -- how do you monitor those touch points and determine if that affects the model?

03:48:18 Mr. Wilson said it was a good question and unfortunately the research typically looks at the programs in isolation.

03:49:18 Chair Ballance said if they are not achieving results based on a single program, they don't want to toss it out

03:49:46 Sen. Moore asked how you arrive at data with no control group

03:51:19 Mr. Wilson said the research has valid comparison groups.

03:51:31 Rep. Holmlund said he was disappointed they didn't stick with original plan.

03:51:53 Mr. Dantzer said the Child and Family Services scope was too large, there were natural capacity issues, so they chose to focus on in-home services first.

03:52:27 Rep. Holmlund asked if the study is over in summer 2018, will they be in touch with the division to increase the study?

03:52:54 Mr. Dantzer said yes, based on internal capacity.

MANAGING VOLATILITY

Comparison to Other States and Comprehensive Systems to Manage Volatility – Amy Carlson, Director; Stephanie Morrison, Lead Fiscal Analyst; Josh Poulette, Fiscal Analyst

03:54:59 Ms. Carlson discussed the Budget Stabilization Reserve Fund report. ([Exhibit 10](#))

04:07:09 Ms. Morrison discussed a comparison of emergency funds across states.

04:09:38 Ms. Carlson continued her presentation.

04:11:30 Mr. Poulette discussed budget stabilization funds and transfers across states. Ms.

04:16:16 Carlson continued her presentation.

Size of Reserves – Sam Schaefer, Fiscal Analyst

04:23:45 Sam Schaefer, fiscal analyst, discussed the Size of Reserves report. ([Exhibit 11](#))

04:42:50 Sen. Moore asked about the cyclical business cycle.

04:43:16 Schaefer said personal income has cyclical patterns, time does not. He said cyclical patterns are teased out better using time.

Comments on Montana's Volatility Management – Stephen Bailey, The Pew Charitable Trusts, Senior Associate, State and Local Fiscal Health

04:48:18 Stephen Bailey, Pew Charitable Trusts, discussed Montana's Volatility Management report. He said Montana is the 18th most volatile state. ([Exhibit 12](#))

05:08:10 Rep. Holmlund asked if other states have volatility with oil and coal?

05:08:27 Mr. Bailey said yes. Alaska, Louisiana, Texas and North Dakota have set thresholds for growth with volatile sources to help smooth them out.

05:09:34 Rep. Dudik asked about developing a trust fund for oil and gas revenue, did Montana miss the boat on that?

05:09:56 Mr. Bailey said not exactly. He said seven states including Montana have trust funds set up, Montana's being coal. He said North Dakota only recently established a legacy fund in 2010.

05:11:06 Rep. Dudik asked how much of Montana's revenue is from oil and gas.

- 05:11:26 Mr. Schaefer said about \$120 million, or 2% of the general fund, 1% total.
- 05:12:31 Rep. McCarthy said the best time to plant a tree was 20 years ago and second best time is today -- implementing it now is still probably good policy.
- 05:13:15 Rep. McCarthy asked Ms. Carlson if we have the ability in our budget system to take a snapshot of the budget today and make adjustments 6-10 years out?
- 05:13:58 Ms. Carlson said internal to the LFD, they have talked about planning two more years out but it would take some planning.
- 05:15:15 McCarthy said it could be an Excel spreadsheet, just an interesting thing to look at -- a spend line vs a trend line.
- 05:16:12 Chair Ballance said it bothered her to talk about revenue but not also about expenditures and asked if any other states were doing anything unique to model volatility in expenditures and laying those on top of volatility in revenue and looking at both as a risk model in total?
- 05:16:52 Mr. Bailey said yes, and some states have a better handle on revenue volatility. He pointed to Utah's stress test.

COMMITTEE BRIEFINGS

Aquatic Invasive Species (FWP Required Biannual Report) – Rob Miller, Fiscal Analyst and FWP

- 05:31:05 Rob Miller, fiscal analyst, discussed the FWP report and introduced FWP representatives.
- 05:32:13 Martha Williams, FWP director, introduced Dustin Temple, Chief of Administration, FWP, and Tom Wolfe, AIS Bureau Chief, and commended the AIS program.
- 05:33:25 Mr. Temple discussed the FWP revenue report. (Exhibit 12)
- 05:37:51 Mr. Wolfe discussed the AIS program. (Exhibit 13)
- 05:45:41 Rep. Holmlund asked if they have found invasive species in places that store water on boats?
- 05:46:04 Mr. Wolfe said they did encounter weeds and standing water in watercraft and they made sure to clean and dry to prevent the spread of invasive species.
- 05:46:36 Rep. Holmlund said he appreciated the FWP presence at Flowing Well.
- 05:47:11 Mr. Wolfe said they were working with the conservation district to contract the station.

- 05:47:31 Rep. Holmlund said it was a remote area and would it affect their ability to put people there without the conservation district?
- 05:47:39 Mr. Wolfe said eastern Montana is difficult to staff, but they are working with the conservation district and local communities to staff the site three days per week.
- 05:48:23 Rep. Holmlund asked if they would have a presence at Hell creek?
- 05:48:30 Mr. Wolfe said yes, they are working to get people there. Their target is out of state boaters.
- 05:48:51 Rep. Holmlund asked if they would have a presence at Broadus?
- 05:48:57 Mr. Wolfe said no. He said they are talking to conservation district there, and they do have roving crews that operate in Ft. Peck area.
- 05:49:40 Chair Ballance said the LFC heard from a volunteer board working in the Flathead prior to special session and asked if they are gone and if so, what are the effects?
- 05:50:06 Mr. Wolfe said it was the Flathead Basin Commission and it is still in existence. He said FWP is actively coordinating with them along with another group.

County Jail Holds Update – Scot Conrady, Fiscal Analyst

- 05:50:46 Mr. Conrady discussed his reports and introduced the Department of Corrections director for additional comments. ([Exhibit 14](#)) ([Exhibit 15](#))
- 05:54:50 Reg Michael, Department of Corrections Director, gave a county jail hold count update. ([Exhibit 16](#)) ([Exhibit 17](#))
- 05:58:53 Rep. Dudik asked how they got the numbers down -- what populations are out of the jails and how are things better?
- 05:59:34 Mr. Michael said the intent was not to open the floodgates. He said they use risk and assessment tools to determine those who are most appropriate and ready for release. He noted there will some mistakes.
- 06:01:34 Rep. Holmlund asked about updated recidivism numbers.
- 06:01:55 Mr. Michael said it's too early for those numbers. He said they are working with the Council on State Governments to assess and measure outcomes.

Motor Vehicle Tax/Fees – Sam Schaefer, Fiscal Analyst

- 06:03:01 Mr. Schaefer discussed the Motor Vehicle Tax/Fees report. ([Exhibit 18](#)) He said it was too early to tell if the fees are on track. He said many of the vehicles are

registered in summer and they will know more by the end of the calendar year. He said highway fees will provide the motor vehicle division a buffer if the fees fall short.

- 06:05:16 Sen. Sesso asked if the anticipated number was for the fiscal year.
- 06:05:29 Mr. Schaefer said it was \$5 million for six months.
- 06:05:50 Chair Ballance asked for a REAL ID update.
- 06:06:04 Mr. Conrady noted there was an issue in FY 2018, but they got a federal extension and will probably implement the program in FY 2019. He said they do not see a problem with funding at that point.
- 06:06:47 Shauna Albrecht, fiscal analyst, presented her report on the community college funding formula.
- 06:10:02 Sen. Jones commented that the disparity of student populations is enormous -- 1,500 and less than 200. He said that needs to be taken into account. He said as they look at formulas, the existing one did not do justice to wide population spread.
- 06:11:16 Ms. Albrecht said the joint appropriations committee for section E had a lot of discussion on that topic.
- 06:11:43 Chair Ballance asked if they are included in Montana University System performance measures?
- 06:12:01 Ms. Albrecht said no.
- 06:12:19 Ms. Albrecht discussed the Study of State Labs report.
- 06:14:56 Nick VanBrown, lead fiscal analyst, discussed the property tax brochure that is under development. He said the goal is to present a user-friendly model.
- 06:16:38 Quinn Holzer, operations manager, and Jon Arnold, fiscal analyst, discussed the Montana Developmental Center report and invited comment for additional information in the next update.
- 06:17:43 Mr. Arnold presented the Montana Developmental Center Transition to the Community report.
- 06:18:59 Sen. Moore asked if the staff shortage was at community level?
- 06:19:13 Mr. Arnold said it was at the providing agencies.
- 06:19:30 Ms. Wilkinson discussed the legislative training materials under development.

PUBLIC COMMENT

- 06:21:03 Eric Bryson, Montana Association of Counties, urged legislators to retain funding for infrastructure projects that may not have started before the next biennium.
- 06:26:10 Harold Blattie, Montana Association of Counties, told the committee that last fall Department of Justice informed county treasurers that cranes would no longer be plated with special movement license plates and property taxes paid on the piece of equipment mounted on the chassis. He said with no change in the law, the DOJ has decided they will be registered as trucks affecting the tax base and shifting the burden to other taxpayers. He predicts county treasurers will ask for a policy change.
- 06:31:10 Rep. Holmlund told the committee Blattie will be retiring April 30, 2018, and asked for a round of applause.

RECESS

- 06:32:49 Chair Ballance called the committee in recess until 8 a.m. March 13.

MARCH 13, 2018

CALL TO ORDER

- 00:00:03 Chair Ballance called the meeting to order.

SITSD PORTFOLIO OVERVIEW – Kris Wilkinson, Lead Fiscal Analyst

- 00:01:03 Kris Wilkinson, lead fiscal analyst, introduced Matt Van Syckle, SITSD interim CIO, and discussed the SITSD Portfolio Overview. (Exhibit 1J)
- 00:07:51 Rep. Dudik asked about the DEQ RIMS project -- she said they have rebased twice and asked why they are seeing that cost difference?
- 00:08:21 Jenny Chambers, Department of Environmental Quality, Waste Management Remediation Division Administrator, said difference was between hard costs and soft costs. She said the requirements to report soft costs in addition to hard costs increased. She said they rebaselined to allow more staff time to deal with the project in testing and development.
- 00:10:04 Sen. Sesso asked if all projects operate the same way? He asked if everyone was paying attention to the policy to include soft costs.

00:10:34 Ms. Wilkinson said that has been an emphasis and more have been paying attention to that change. She said those costs are reflected in the information in the committee binders, aside from DPHHS and Judicial who are still clarifying.

00:11:17 Sen. Sesso asked if the original estimate includes soft costs.

00:11:31 Ms. Wilkinson said generally, yes.

00:11:44 Rep. Holmlund asked for a line on the bottom indicating total estimated costs, noting there are some huge increases.

00:12:08 Ms. Wilkinson said she would be happy to do so, noting there will be challenges with DPHHS.

00:12:39 Rep. Holmlund said to not include the projects that haven't started, just those with an original estimate and some progress for comparison.

00:12:54 Chair Ballance said the portfolio helps with tracking but the rebaselining isn't quite there. She said there are things that need to be included such as staff changes, costs, etc. She said it would be helpful to see the project from inception to the end to understand the true cost.

00:15:11 Mr. Van Syckle said the rebaselining cost and benefits are outlined in the supplemental reports. He said a new project portfolio dashboard will address her questions.

00:16:07 Chair Ballance asked him to bring a sample for the next meeting so legislators can provide input before the dashboard is finalized.

00:16:24 Rep. Holmlund said half the projects had been rebaselined. He said there may be reasons for change, but asked if there are situations where the contractors haven't been able to get it done on time? He said they should keep track those vendors.

00:17:11 Mr. Van Syckle said he hasn't seen a systemic issue. He said when you start a project, you may find the statement of work needs to be adjusted. He said there were quite a few projects that fell into that category and noted different issues lead to rebaselining.

00:17:56 Rep. Holmlund asked if there is a policy stating that a company that doesn't meet the time frame will not be allowed to get other contracts?

00:18:19 Mr. Van Syckle said there was not a specific policy, but there was CIO oversight on allowing underperforming vendors to work with the agency. He said state contracts indicate in the RFP that vendors must provide references.

State Chief Information Officer Report – Matt Van Syckle, Department of Administration

00:19:42 Mr. Van Syckle reviewed the State Chief Information Officer Report.

00:21:44 Rep. Holmlund asked if the Department of Administration moving into the public cloud was protected?

00:22:05 Mr. Van Syckle said it meets the minimum security requirements. He said they are working to move to the government cloud when funding allows.

00:22:35 Ms. Wilkinson discussed the State of Montana Strategic IT Plan. (Exhibit 17)

00:24:53 Mr. Van Syckle said one of the focuses was implementing innovative technologies that deliver services. He said they looked at mobile technologies and cost saving measures.

00:25:55 Ms. Wilkinson continued her presentation.

00:26:59 Mr. Van Syckle discussed the phone rate changes and the phone system updates for state agencies.

00:29:58 Chair Ballance asked if the 6.61% cost reduction has an impact on some of the projects?

00:30:16 Mr. Van Syckle said yes, they had already started the VOiP project and it will decrease the cost of the old system. He said they are also adjusting some of the procurement schedules and changing network equipment to control costs going forward. He said they also renegotiated some contracts.

00:31:17 Chair Ballance asked with the actual portfolio projects if they don't expect decreases in services in the next year?

00:31:46 Mr. Van Syckle said the delay was with infrastructure, but otherwise he does not anticipate delays.

00:32:02 Rep. Holmlund asked who provided phone services.

00:32:11 Mr. Van Syckle said SITSD provides the phones, CenturyLink provides the long distance service.

00:32:28 Rep. Holmlund asked about areas of the state that don't have CenturyLink, like eastern Montana?

00:32:37 Mr. Van Syckle said in some rural areas, they can purchase service through co-ops.

00:32:54 Rep. Holmlund asked about phone fees.

00:33:54 Mr. Van Syckle said departments choose phones based on funding, SITSD provides options and the agencies can choose.

- 00:34:25 Ms. Wilkinson introduced the net neutrality executive order.
- 00:34:38 Mr. Van Syckle said they are procuring a 10-year transport contract and allowing vendors to respond with questions regarding the executive order. He said respondents have the opportunity to respond and adjust costs. He said they will have finalized information at the end of the month and they don't anticipate costs to change.
- 00:35:54 Chair Ballance asked what SITSD's role is regarding net neutrality -- is it procurement not enforcement?
- 00:36:10 Mr. Van Syckle said yes, vendors will have to sign a waiver saying they will adhere to net neutrality principles.

IT Study Update/Overview – Joe Triem, Fiscal Manager

- 00:36:59 Mr. Triem discussed the IT Study Update/Overview.
- 00:41:56 Chair Ballance asked if a department or agency has a reason they believe convergence is not right for them, is there a process to ask for exception? She said during session, they had a hard time understanding real costs and if moving forward was positive or negative in budgeting.
- 00:43:07 Mr. Triem said Ms. Albrecht's paper would shed some light on that issue. He said the executive order of convergence was directed to the executive branch agencies and there might be different answers for different branches.
- 00:43:56 Mr. Van Syckle said the Office of Public Instruction has become part of convergence with the executive order. He said it was mostly infrastructure, not a full consolidation. He said the order says some agencies can request exclusions for different things.
- 00:45:02 Chair Ballance asked if agencies have the option to use different services and if so, how does SITSD evaluate them? She asked how the legislature can evaluate them during session? She said she is looking for a simpler process to evaluate real costs.
- 00:46:09 Mr. Van Syckle said cloud services are difficult to compare. He said agencies have to keep track of data utilization -- usage fees make comparing private and public clouds difficult.
- 00:49:13 Chair Ballance said the statewide contract indicates a number of users -- if some pull out will their costs go down but other users costs go up? She said they want to avoid the situation they had last session where one vendor said they could do it for less cost. She said they need a way to evaluate quickly and she was hoping to get that from this study.

00:50:05 Mr. Van Syckle said the procurement of hardware or software costs are different.

00:51:14 Rep. Holmlund asked what percentage of storage at the Miles City data center is being used or assigned to a department?

00:51:35 Mr. Van Syckle said 70-80%. He said almost all data in Helena is replicated in Miles City.

00:52:17 Rep. Holmlund asked if a larger building will be needed at Miles City for more racks?

00:52:53 Mr. Van Syckle said he didn't expect the need for the data centers to expand, as they can now have more storage in less space

00:53:32 Rep. Holmlund asked if they have ever had to call on backup?

00:53:41 Mr. Van Syckle said if they update in Helena, they can run critical systems out of Miles City for half the day while during maintenance. He said they run some live traffic through there now, utilization has increased.

00:54:45 Rep. Holmlund asked if there was anything that would preclude an article in the Miles City newspaper about the facility as he gets questions about the "empty building."

00:55:08 Mr. Van Syckle said yes, and noted they have received an award for hosting rack space for the state of Oregon in the data center.

Review of Academic Papers – Shauna Albrecht, Fiscal Analyst

00:55:55 Ms. Albrecht discussed the Review of Academic Papers. (Exhibit 18)

Case Study Update – Shauna Albrecht, Fiscal Analyst

00:58:53 Ms. Albrecht discussed the SITSD Case Study Update. (Figure 19)

01:08:55 Chair Ballance asked Mr. Van Syckle about the estimated cost savings for convergence at \$1.6 million. She said that is a pretty specific number and asked if he was getting information from internal agencies? She asked if he was tracking when that information would be available?

01:09:32 Mr. Van Syckle said the information was included in the Governor's Volume 10 from the last session that was issued to the legislature.

01:09:44 Chair Ballance asked about cost tracking -- as agency budgets come up again how do we relay that back to convergence savings?

- 01:10:10 Mr. Van Syckle said they can refer back to baselining and track with Volume 10 and the budget office.
- 01:10:31 Sen. Sesso asked Dale Gow, Legislative Branch Chief Information Officer, his opinion of the study and centralization for the branch.
- 01:11:24 Mr. Gow said there are cost benefits, but he really wants the branch to retain independence to retain control of data. He said they work closely with SITSD.
- 01:12:12 Sen. Sesso said he didn't answer question: He said it was not clear where we are supposed to go with this information. He asked if Mr. Gow would make recommendations as to whether the system works or not? He asked if Mr. Gow wakes up in the morning "and say we should decentralize?"
- 01:13:36 Mr. Gow said the legislative branch uses a hybrid model with cloud and SITSD services. He said they are in a better position than the executive branch because they have a choice. He said some things are mandated, but they also have pushback on some services.

Committee Business

- 01:15:05 Ms. Carlson started a discussion on upcoming meeting dates. She said June 18-19 and Sept. 10-11 were approved during the last meeting.
- 01:18:29 Chair Ballance suggested waiting to decide the December dates.
- 01:18:37 Ms. Carlson said the executive branch sent supplemental budget requests but the LFD hasn't had time to analyze. She said the LFC could have an early May conference call to discuss supplemental requests. She said the requests move funding from the second year of biennium to the first year of the biennium and agencies will need to plan to backfill the transfer. The LFC has until June 9 (90 days) to comment. She said the executive can choose to implement transfers regardless of LFC comment.
- 01:22:02 Chair Ballance said it should take an hour and could be done via conference call as it makes sense to at least talk it through. She said to give everyone a chance to read the memos in the binder, schedule the conference call meeting for Wednesday, May 9, 10 a.m.
- 01:23:47 Rep. Dudik requested moving the September meeting date to Sept. 6-7. The committee agreed.
- 01:26:43 Chair Ballance distributed a performance review survey on the Legislative Fiscal Analyst. (Exhibit 20)
- 01:28:59 Ms. Carlson presented the LFD budget and discussed training opportunities for LFC members this summer. (Exhibit 21)

01:33:25 Sen. Moore asked about the fiscal leaders conference.

01:33:34 Ms. Carlson discussed the dates.

01:35:02 Chair Ballance asked when requests to attend are due.

01:35:16 Ms. Carlson said by May 1. She will send an email with training locations and dates.

PUBLIC COMMENT

01:37:54 Rep. Mary Ann Dunwell presented a letter asking the committee for an emergency supplemental budget appropriation to DPHHS. (Exhibit 22)

01:42:10 Sen. Mary Caferro, who works for ARC Montana, said this committee can do something, it's been done in the past. She said it is unfair to the public to do nothing.

01:48:21 Sen. Diane Sands said 104 families testified at CFS hearing about loss of services.

01:49:31 Chair Ballance said she doesn't usually comment on public comment, but can't let this go. She said this committee doesn't appropriate money or initiate supplemental appropriations, their job is to review those and in some cases comment. She said it was the full legislature's responsibility and it was disingenuous to ask this committee to undo something initiated by the governor.

01:51:05 Rep. Dunwell said the legislature has the authority to provide the services Montanans need.

01:51:20 Rep. Ballance said the legislature is not in session and unless a special session is called the legislature cannot deal with it. She said go up to the second floor and talk with the executive.

01:51:45 Rep. Dunwell asked if committee could provide comment.

01:52:01 Chair Ballance said we'll leave the discussion at that.

01:52:06 Mike Mahoney, Family Outreach, executive director, said he hopes SB 9 allows the executive branch to address the issues in the short term as the revenue picture is looking better. He said budget cuts have had a profound effect on services. He said he understands the big picture, but asked the committee to please work with the executive branch.

01:57:38 Chair Ballance reminded the committee about a letter sent in September urging the cuts to not be harmful to citizens of Montana. She said the belief was that the executive did take that into consideration.

01:58:13 Sen. Sesso said he didn't want the last word to be that these three legislators were disingenuous. He said he appreciates them and they do have a crisis on our hands. He said the LFC can't appropriate dollars, but the legislator's letter doesn't ask them to appropriate money today but to be vigilant to the issues. He said he interpreted the letter to be a request to explore everything they can. He said if they put their minds to it, there might be some things they can do. He asked LFD staff to research if the LFC had ever initiated any kind of change. He said he was going to explore whether damages have become an emergency and asked the chair and committee to stay open-minded about the role of the LFC.

02:01:51 Chair Ballance said Sen. Sesso's comments were well said. She said she just did not want to leave the public with the opinion that the committee is able to act on things they have no authority to act on. She said it doesn't preclude them as individuals to write a letter to the Governor or other actions.

ADJOURN

02:03:11 With no further business before the committee, Chair Ballance adjourned the meeting.

DRAFT