

MAINE STATE LEGISLATURE

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F I N A L R E P O R T
OF THE
JOINT STANDING COMMITTEE
ON
APPROPRIATIONS AND FINANCIAL AFFAIRS

A STUDY TO EVALUATE AND DETERMINE THE COST OF
IMPLEMENTING THE ADMINISTRATIVE STRUCTURE OF THE
MAINE VOCATIONAL-TECHNICAL INSTITUTE SYSTEM

January 1988

APPROPRIATIONS SUBCOMMITTEE MEMBERS:

Sen. Georgette B. Berube (Chair)
Sen. Jerome A. Emerson

Rep. Linwood M. Higgins
Rep. John Lisnik
Rep. Gregory G. Nadeau

STAFF:

James A. Clair
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- B. FY 1988/FY 1989 MVTIS System Office Budget
- C. Department of Finance Estimate: Provision of Requested State Central Services to the VTI System After Separation
- D. MVTIS Memorandum: Alternative Management Models for the System Office

INTRODUCTION

The 113th Legislature, during its First Regular Session, enacted Public Law of 1987, chapter 532, "AN ACT to Amend the Maine Vocational Technical Institute System Laws". Section 10 of this law authorized the Joint Standing Committee on Appropriations and Financial Affairs to "...conduct a study to evaluate and determine the cost of implementing the administrative structure of the vocational-technical institute system."

The Appropriations Committee organized a five-member subcommittee to conduct the study. The subcommittee was comprised of the following committee members:

Sen. Georgette B. Berube (chair)
Sen. Jerome A. Emerson
Rep. Linwood M. Higgins
Rep. John Lisnik
Rep. Gregory G. Nadeau

The subcommittee held four meetings during the summer and early fall of 1987 to do the following:

- Review the administrative structure of the Maine Vocational-Technical Institute System (MVTIS) that had been authorized by the MVTIS Board of Trustees;
- Review the funding provided to MVTIS to date for a System Office; and
- Evaluate additional funding needs of the System Office.

The subcommittee received valuable input from MVTIS Executive Director Audni Miller-Beach, MVTIS Finance Director Jack Nicholas, the MVTIS Board of Trustees, various MVTIS employees, Commissioner of Finance Jean Mattimore, Commissioner of Education Eve Bither, Commissioner of Administration Charles A. Morrison, and various Executive Branch staff members.

BACKGROUND INFORMATION

Public Laws of 1985, chapter 695, "AN ACT to Establish the Maine Vocational-Technical Institute System", established July 1, 1987 as the date by which the MVTIS System Office would be established and the separation of the VTI's from state government would be completed. During the First Regular Session of the 113th Legislature, MVTIS requested that the target date establishing the System Office be extended from July 1, 1987 to July 1, 1988. Public Law 1987, chapter 532, section 8, provided for that extension.

The Maine Vocational Technical Institute System, as represented by its Executive Director, cited two reasons for extending the implementation date:

- The System Office needed a significant additional General Fund appropriation (beyond what was provided in the "PART 1" budget) in order to develop and implement the financial and administrative systems needed to run an independent system; and
- The System Office was still dependent upon many of the Executive Branch's "central service agencies" (eg, accounting, payroll, personnel administration, etc.) and would need to maintain a close working relationship with the Executive Branch for certain services through June 30, 1988.

The Joint Standing Committee on Appropriations and Financial Affairs responded during the 113th Legislature's First Regular Session by including appropriations of \$900,000 in Fiscal Year 1988 and \$540,000 in Fiscal Year 1989 in the "PART 2" budget (Public Law 1987, chapter 349) to support the MVTIS System Office.

FINDINGS

After a number of meetings, the subcommittee was able to discern three major issues that needed to be addressed:

1. Funding of Personnel Function at System Office

The System Office has an operating budget of approximately \$1.1 million for Fiscal Year 1988 (this includes General Fund appropriations, use of balance forward, Carl Perkins grants, etc.) Of the total, \$900,000 was appropriated to the System Office in the "PART 2" budget for the ongoing operations of the System Office, including the purchase of a computer system to run the various finance functions (ie, payroll, accounting, etc.). See Appendix B for System Office budget detail.

One item that had not been funded in the System Office was the labor relations/personnel administration function. Although the System Office still has access to Executive Branch assistance in these areas under transition provisions established in the "Part 2" budget (see P.L. 1987, c.349, PART H, section 37), MVTIS representatives stated that the complexities involved in these areas compelled them to seek the subcommittee's guidance. Specifically, MVTIS representatives cited labor contract negotiations, the need to establish an MVTIS personnel system, and the need to resolve daily on-going personnel issues as their reasons for wanting to hire three employees to work in the personnel/labor area.

Ms. Miller-Beach proposed using \$155,000 of the \$900,000 provided in Fiscal Year 1988 to hire a Human Resources Manager, a Personnel Specialist, and a Clerk-Stenographer II and provide for related contractual services, software purchase and other costs. The subcommittee concurred with the proposal.

The implication for the establishment of a computerized financial system is that, most likely, the MVTIS will seek an additional General Fund appropriations during the 113th Legislature's Second Regular session to replace the \$155,000.

2. Use of Executive Branch Central Services

The MVTIS Board of Trustees concluded that in order to be successful the System Office needed to create their own management systems for some functions (eg, payroll, accounting, personnel) while continuing to utilize state "central services" for other management functions (eg, legal assistance, risk management, etc.). Appendix C has a list of most of the central services that the System Office will continue to utilize after separation. It is important to note that many of these services will be provided at no, or minimal, charge to MVTIS.

The subcommittee finds that it is an optimum use of state resources to have MVTIS continue its working relationship with the listed "central services" until such time that it can be demonstrated that it is no longer cost-effective for MVTIS or an exceptional burden on the Executive Branch agency involved.

3. Alternative Management Models for the System Office

In response to the Legislature's intent to establish an independent VTI System, the Board of Trustees initiated a plan to provide administrative and operational independence from state government. In response to subcommittee member questions concerning the cost of duplicating existing administrative functions, a discussion between the subcommittee and System Office staff ensued concerning alternative management models that would be capable of maintaining MVTIS independence while also providing cost-effective management (see Appendix D).

The subcommittee finds that the decision made by the 112th Legislature to create an independent VTI System supersedes any discussion of alternative management models. The subcommittee finds that suggesting improvements to the existing System Office is preferable to threatening the independence of MVTIS.

RECOMMENDATIONS

Listed below are the subcommittee's final recommendations as reviewed and approved by the Joint Standing Committee on Appropriations and Financial Affairs.

1. The MVTIS Board of Trustees should seek restoration of the \$155,000 used to hire personnel employees only to the extent funds are still needed for computerization of the finance function.
2. The Department of Finance and Department of Administration are encouraged to "track", to the extent possible, the cost of providing "central services" to MVTIS. The Commissioners of these respective departments should report on these costs to the Joint Standing Committee on Appropriations and Financial Affairs in January 1989.
3. The existing administrative structure of the System Office should be strengthened within the constraints of available resources to reflect independent, but cost-effective, management of the VTI System.

A P P E N D I X

- A. Transmittal Memo from Appropriations Committee to Legislative Council.
- B. FY 1988/FY 1989 MVTIS System Office Budget
- C. Department of Finance Estimate: Provision of Requested State Central Services to the VTI System After Separation.
- D. MVTIS Memorandum: Alternative Management Models for the System Office.

SENATE

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JUDITH C. FOSS, YARMOUTH

STATE OF MAINE
ONE HUNDRED AND THIRTEENTH LEGISLATURE
COMMITTEE ON APPROPRIATIONS AND FINANCIAL AFFAIRS

APPENDIX A

January 25, 1988

Honorable Charles P. Pray
President, Maine Senate
Honorable Jonn L. Martin
Speaker, House of Representatives

Dear President Pray and Speaker Martin:

Please find enclosed the final report of the Joint Standing Committee on Appropriations and Financial Affairs studying the cost of implementing the administrative structure of the Maine Vocational-Technical Institute System.

The Appropriations Committee has fulfilled its obligations as directed by Public Law 1987, Chapter 532, Section 10.

Respectfully submitted,

Michael D. Pearson
Senate Chair

Donald V. Carter
House Chair

Enclosure

APPENDIX B

MAINE VOCATIONAL-TECHNICAL INSTITUTE
SYSTEM OFFICE

Statement of Expenditures, Revenues, and Fund Balance
(Pro forma)

for the Year Ending June 30, 1988

	<u>Qtr.1</u>	<u>Qtr.2</u>	<u>Qtr.3</u>	<u>Qtr.4</u>	<u>Total</u>
(1) Beginning Balance:	\$109,941	\$152,618	\$107,430	\$ 67,228	\$109,941
Revenue:	(2)			(3)	
Appropriation	\$288,466	\$225,000	\$225,000	\$229,634	\$968,100
Interest Income	1,900	1,300	800	1,200	5,200
Perkins Grants	20,500				20,500
Total Revenue	<u>\$310,866</u>	<u>\$226,300</u>	<u>\$225,800</u>	<u>\$230,834</u>	<u>\$993,800</u>
Available	\$420,807	\$378,918	\$333,230	\$298,062	\$1,103,741
Expenditures					
Personal Services					
Regular Salary	\$ 67,492	\$ 75,562	\$ 87,465	\$ 75,986	\$ 306,505
Per diem	1,815	1,815	1,815	1,815	7,260
Overtime premium	675	756	875	760	3,066
Health insurance	3,397	4,621	4,621	4,621	17,260
Dental insurance	225	288	288	288	1,089
Retirement	14,809	16,536	19,122	16,105	66,572
Life insurance	223	254	274	254	1,005
Medicare FICA	417	597	697	597	2,308
Unemployment tax	374	622	2,086	538	3,620
Total Personal Services	<u>\$ 89,427</u>	<u>\$101,051</u>	<u>\$117,243</u>	<u>\$100,964</u>	<u>\$ 408,685</u>
All Other					
Consulting services					
H. Cranshaw	\$ 4,056	\$ 4,056	\$ 4,056	\$ 4,056	\$ 16,224
A. Pethick	1,875	1,875	1,875	1,875	7,500
Network hardware installation	20,000				20,000
Computer consulting		20,000			20,000
Coopers & Lybrand - review of microcomputer proposals	3,000				3,000
Price Waterhouse - computer installation	55,200				55,200
Chart of Accounts - development	25,000				25,000
Finance and Administration - Policy and Procedure Development			45,000		45,000
Personnel System development		15,000	15,000	15,000	45,000
Office consulting	4,819				4,819
Staff development	5,140	5,140	5,140	5,138	20,558
Auditing services		45,000			45,000
Office move	2,000				2,000
	<u>\$121,090</u>	<u>\$ 91,071</u>	<u>\$ 71,071</u>	<u>\$ 26,069</u>	<u>\$ 309,301</u>

APPENDIX B (cont'd)

MTIS Office

Statement of Expenditures, Revenues, and Fund Balance (cont.)

	<u>Qtr.1</u>	<u>Qtr.2</u>	<u>Qtr.3</u>	<u>Qtr.4</u>	<u>Total</u>
Custodial services	\$ 1,302	\$ 1,302	\$ 1,302	\$ 1,302	\$ 5,208
Instate travel	4,039	4,039	4,039	4,037	16,154
Out-of-State travel			1,250		1,250
Vehicle operation	0	400	400	400	1,200
Utility					
Telephone	3,391	4,144	4,898	4,898	17,331
Computer data line		11,232	11,232	11,232	33,696
Modem connection	1,400				1,400
	<u>\$ 4,791</u>	<u>\$ 15,776</u>	<u>\$ 16,530</u>	<u>\$ 16,530</u>	<u>\$ 53,627</u>
Office rent	8,615	13,350	13,350	13,350	48,665
Computer system					
lease/purchase	10,280	15,420	15,420	15,420	56,540
Computer software					
maintenance	3,932	5,898	5,898	5,898	21,626
Equipment maintenance					
computer hardware	604	1,813	1,813	1,813	6,043
CBA security equipment	180	0	0	0	180
office equipment	125	125	125	125	500
	<u>909</u>	<u>1,938</u>	<u>1,938</u>	<u>1,938</u>	<u>6,723</u>
Copier	613	725	725	725	2,788
Printing					
letterhead/envelopes	312	312	312	312	1,248
purchase orders	0	2,340	0	0	2,340
accounting documents	0	416	0	0	416
travel vouchers	0	416	0	0	416
invoice/payroll envelopes	0	0	1,000	1,000	2,000
typesetting	2,500	0	0	0	2,500
contract forms	0	208	0	0	208
miscellaneous forms	156	156	156	156	624
	<u>2,968</u>	<u>3,848</u>	<u>1,468</u>	<u>1,468</u>	<u>9,752</u>
Tuition	750	0	750	0	1,500
Publications	750	250	250	250	1,500
Association memberships	2,639	0	0	0	2,639
Advertising	3,000	0	3,000	0	6,000
Postage	690	690	3,053	3,053	7,486
Office supplies					
System Office	3,957	4,409	4,409	4,409	17,184
invoice/payroll envelopes	0	0	585	585	1,170
	<u>\$ 3,957</u>	<u>\$ 4,409</u>	<u>\$ 4,994</u>	<u>\$ 4,994</u>	<u>\$ 18,354</u>
Board expense	1,185	3,721	3,721	1,185	9,812
Total All Other	<u>\$171,510</u>	<u>\$162,437</u>	<u>\$148,759</u>	<u>\$ 96,219</u>	<u>\$578,925</u>
Capital					
office equipment	7,252	0	0	0	7,252
vehicle		8,000	0	0	8,000
Total Capital	<u>\$ 7,252</u>	<u>\$ 8,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,252</u>
Total Expenditures	<u>\$268,189</u>	<u>\$271,488</u>	<u>\$266,002</u>	<u>\$197,183</u>	<u>\$1,002,862</u>
Ending Balance	\$152,618	\$107,430	\$ 67,228	\$100,879	\$ 100,879

- Note: (1) Preliminary balance for the year ending June 30, 1987.
(2) Includes actual fiscal year 1987 salary adjustment of \$1,238.
(3) Includes estimated fiscal year 1988 salary adjustment of \$4,634.

APPENDIX B (cont'd)

MAINE VOCATIONAL-TECHNICAL INSTITUTE
SYSTEM OFFICE

Statement of Expenditures
(Pro forma)

for the Year Ending June 30, 1989

Personal Services	
Regular Salary	\$424,558.00
Per diem	\$7,260.00
Overtime premium	\$3,066.00
Health insurance	\$22,044.00
Dental insurance	\$1,461.00
Retirement	\$90,071.00
Life insurance	\$1,435.00
Medicare FICA	\$3,216.00

Total Personal Services	\$553,111.00
All Other	
Consulting services	
A. Fethick	\$7,500.00
Auditing services	\$45,000.00
Staff development	\$30,000.00
Bank payroll services	\$12,500.00

	\$95,000.00
Custodial services	\$11,141.00
Instate travel	\$21,000.00
Out-of-State travel	\$1,100.00
Vehicle operation	\$1,400.00
Utility	
Telephone	\$25,624.00
Computer data line	\$46,725.00

	\$72,349.00
Office rent	\$113,225.00
Computer system	
lease/purchase	\$78,747.00
Computer software	
maintenance	\$23,592.00
Equipment maintenance	
computer hardware	\$7,500.00
office equipment	\$500.00

	\$8,000.00
Copier	\$3,123.00
Printing	\$8,355.00
Tuition	\$1,500.00
Publications	\$1,500.00
Association memberships	\$2,669.00
Postage	\$12,823.00
Office supplies	
System Office	\$24,216.00
invoice/payroll envelopes	\$2,457.00

	\$26,673.00
Board expense	\$5,000.00

Total All Other	\$487,197.00

Total Expenditures	\$1,040,308.00
	=====

APPENDIX C

PROVISION OF REQUESTED STATE CENTRAL SERVICES TO THE
VTI SYSTEM AFTER SEPARATION

<u>PROVIDER AGENCY</u>	<u>COST ESTIMATE</u> ¹
General Fund Operations	
Attorney General	\$ 12,000 ²
Bureau of Employee Relations-Workers' Compensation Administration	13,500-14,000
Bureau of Public Improvements	40,000
Division of Risk Management-Administration	6,000-12,000
Transportation - credit card administration	Less than 500
Treasury - cash pool	Less than 500
	<hr/>
Total	\$71,500-79,000

Internal Service Fund Operations	
Bureau of Data Processing	Regular Service Charges
Office of Information Services	Regular Service Charges
State Employee Health Insurance Program	Per employee premium
Bureau of Purchases	Cost + usual % markup
Division of Risk Management - Policies	Premium

¹ These figures are an estimate of the continuing cost of providing services to the VTI System. There is no practice of charging for services provided by general fund agencies nor any intent to do so. All state agencies pay for internal service fund operations based on a published price schedule. Cost to the VTI's will depend on their usage.

² This is the amount of the VTI's payment in FY 87. Actual costs for legal services is still to be negotiated and may be reimbursed by the VTI System from non-general fund revenues.

Note: The VTI System has no authority to issue its own bonds so bond administration functions will necessarily remain with the State Treasurer.

APPENDIX C (Cont'd)

Appropriations Subcommittee Meeting - September 15, 1987, Room 228, State House

Re: Answer to the question: "Those 'central services' which MVTIS would prefer to maintain existing relationship with Executive Branch agencies (e.g., Attorney General, Workers' Compensation, etc.)"

Bureau of Employee Relations (Workers' Compensation)

- Processing of Workers' Compensation Forms
- Advice/consultation on pending claims
- Representation at informal hearings
- Consultation with Attorney General's office
- Training

Risk Management Division

- Automobile liability insurance
- Content insurance
- Physical plant/facility fire insurance
- Professional liability insurance
- Boiler insurance
- Facility liability insurance
- Tort claim processing
- Consultation with Attorney General's office
- Consultation on physical plant replacement cost
- Risk analysis consultation
- Fidelity insurance (bonding)

Bureau of Public Improvements

- Review/advice on BP 21 (repair/improvement) requests
- Assistance in capital construction bidding and contracting
- Assistance with technical repair/improvement projects
- Advice/consultation on architectural needs
- Capital planning assistance
- Receive/review/recommend to legislature capital construction/repair/improvement requests
- Assistance with lease agreements as lessee and lessor

State Employees' Health Insurance Program

- Administration of VTI employee health insurance and dental insurance program
- Processing of employee membership forms, formulation of employee and employer premium schedules, formulation of premium payment schedules, etc.
- Negotiation of health insurance and dental insurance premium rates

Bureau of Purchases

- Access to State contracts and bids for commodity and equipment purchases
- Use of the State Warehouse for purchases
- Use of Central Copy Center
- Use of Central Printing
- Use of State surplus
- Assistance with vendor information
- Use of State postal center (System Office only)

Office of Information Services

- Use of State centrex
- Use of State access by employee code including billing
- Assistance with telephone changes and work orders

Department of the Attorney General

General legal counsel, advice, and opinion
Legal advice, assistance and representation on tort claims, and
general liability issues
Legal advice, assistance, and representation before the Workers'
Compensation Commission
Review and approval of legal documents

Bureau of Data Processing

Access to computer programs as an outside, non-profit agency such
as the legislative on-line computer system

Treasury Department

General purpose bond administration including bond sales and
accounting for principal and interest due

Department of Transportation - Fuel Control

Gasoline Credit Cards

APPENDIX D

Subject: Alternative Management Models for the System Office

1 - Cabinet Level State Department

The Executive Director is appointed by the Governor on the recommendation of the Board of Trustees. The Board of Trustees is responsible for recommending budgets to the Governor as well as strategic planning.

Staff Requirements

Executive Director or Commissioner
 Assistant to the Executive Director
 Executive Secretary
 Personnel Manager
 Personnel Assistant
 Finance Director
 Accountant II or III
 Clerk Stenographer
 Account Clerk I or II
 Special Assistant for Economic Development
 Clerk Stenographer

2 - Bureau Within a Cabinet Level State Department

The Executive Director is appointed by the department commissioner on the recommendation of the Board of Trustees. The Board of Trustees is responsible for recommending budgets to the commissioner as well as strategic planning.

Staff Requirements

Executive Director or Associate Commissioner
 Executive Secretary
 Special Assistant for Economic Development

3 - Cabinet Level State Department (but separate finance and budget operations)

The Executive Director is appointed by the Governor on the recommendation of the Board of Trustees. The Board of Trustees is responsible for recommending budgets to the Governor as well as strategic planning. The legislature appropriates/allocates funds to the MVTIS as unallocated. The State Treasurer pays MVTIS' invoices by computer tape transfer with the State Controller recording the transactions as an advance or other receivable. The MVTIS records the appropriate expenditures and equity balances, similar to a home office/branch transaction. The MVTIS also is responsible for internal budgeting and accounting control including the retention of all revenues and year-end balances. At year-end, the MVTIS' financial transactions are consolidated with those of State Government for external reporting purposes.

Staff Requirements

All except Purchasing Agent
 Purchasing Clerk
 Treasury Officer

APPENDIX D (cont'd)

Alternative Management Models for the System Office (contd.)
page two

4 - University of Maine System

The Executive Director is appointed by the Chancellor on the recommendation of the Board of Trustees. The Board of Trustees is responsible for recommending budgets to the Chancellor as well as strategic planning. The MVTIS is a separate organizational entity within the University System with a System Office.

Staff Requirements

Executive Director
Assistant to the Executive Director
Executive Secretary
Personnel Manager
Personnel Assistant
Finance Director
Accountant II or III
Account Clerk I or II
Clerk Stenographer
Special Assistant for Economic Development
Clerk Stenographer

5 - University of Maine System

The Executive Director is appointed by the Chancellor on the recommendation of the Board of Trustees. The Board of Trustees is responsible for recommending budgets to the Chancellor as well as strategic planning. As an alternative, the responsibilities of the MVTIS Board of Trustees may be assumed by the University Board of Trustees. A System Office would not exist, and each campus would connect independently to the University System for services.

Staff Requirements

Executive Director
Executive Secretary
Special Assistant for Economic Development