

2017 BIENNIUM BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division Staff

December 7, 2015



GENERAL FUND BALANCE SHEET

General Fund December 2015				
(\$ Millions)				
	Actual FY 2014	Actual FY 2015	Budget FY 2016	Budget FY 2017
Beginning Fund Balance	\$537.600	\$424.451	\$455.108	\$353.534
Revenue	<u>2,077.044</u>	<u>2,199.653</u>	<u>2,262.932</u>	<u>2,355.360</u>
Total Funds Available	2,614.644	2,624.104	2,718.040	2,708.894
Disbursements				
Ongoing				
HB 2, pay plan, pension bills, lang. approps, bills with base funding lang.	1,763.500	1,822.770	1,937.368	1,985.308
HB 2 supplemental		21.168		
Statutory	254.621	261.240	276.987	293.498
Transfers	14.761	26.527	15.250	16.412
Other appropriation bills (includes 2015 bi remaining HB1 authority)	1.518	8.401	5.586	5.377
Assumed FY 2017 Appropriations (HB 1 & SB 260)				7.600
Reversions			(7.100)	(7.300)
OTO				
HB 2	20.600	21.923	60.888	45.922
Transfers - includes fire transfers	135.500	13.308	50.314	
Transfers - other (HB 10, HB 403)			11.300	
Contingent Fund Transfer & FY Transfer			12.500	5.000
Other (includes: carry forward)		<u>2.564</u>	<u>1.413</u>	
Total Disbursements	<u>2,190.500</u>	<u>2,177.901</u>	<u>2,364.506</u>	<u>2,351.816</u>
Adjustments	0.307	8.905		
Ending Fund Balance (Unassigned)	\$424.451	\$455.108	\$353.534	\$357.078

The updated general fund ending fund balance is \$357.1 million for FY 2017. This is a \$.413 million change from the September report. The following changes were made since September:

- A fiscal year transfer of \$7.5 million from FY 2017 HB 2 one-time-only (OTO) was moved to FY 2016 HB 2 OTO to show the adjustment made by the Commissioner of Higher Education to expend the remaining research initiative split biennial appropriation
- Movement from HB 2 OTO line to contingent fund transfer line for \$5.0 million in each fiscal year per SB 261
- Established carry forward authority added
- Coordination language in HB 33 that reduced \$1.0 million each fiscal year from HB 2 ongoing

REVENUES

FY 2016 YEAR-TO-DATE REVENUE

FY 2016 general fund revenues through the end of November are \$10.2 million or 1.4% ahead of FY 2015 revenues through the same period; this increase is below the anticipated growth of 2.9%. Nearly all of the increase can be attributed to the top seven sources. Individual income tax continues to increase over FY 2015; strong growth may continue through January 2016, as CY 2015 quarterly estimated payments are likely to be based on elevated CY 2014 capital gains income.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	11/30/2014 FY 2015	11/30/2015 FY 2016	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$521.980	\$553.784	\$31.803	6.1%
Property Tax	247.881	253.799	2.4%	11.641	8.320	(3.321)	-28.5%
Corporation Tax	172.729	179.898	4.2%	54.731	46.536	(8.196)	-15.0%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	35.766	38.838	3.073	8.6%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	-	-	-	
Insurance Tax	66.582	72.279	8.6%	13.436	14.524	1.088	8.1%
Video Gaming Tax	59.799	62.007	3.7%	29.511	15.252	(14.259)	-48.3%
Other Business Taxes							
Drivers License Fee	4.811	4.081	-15.2%	1.582	1.894	0.312	19.7%
Investment Licenses	6.773	7.412	9.4%	0.483	0.623	0.140	29.0%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	7.909	9.742	1.833	23.2%
Public Contractor's Tax	3.257	3.560	9.3%	2.827	2.102	(0.725)	-25.6%
Railroad Car Tax	3.706	3.741	0.9%	1.460	2.375	0.915	62.7%
Rental Car Sales Tax	3.907	3.486	-10.8%	1.701	1.987	0.286	16.8%
Retail Telecom Excise Tax	18.257	18.999	4.1%	3.880	4.233	0.352	9.1%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	-10.1%	4.492	4.366	(0.127)	-2.8%
Electrical Energy Tax	5.133	4.580	-10.8%	1.326	1.192	(0.134)	-10.1%
Metal Mines Tax	8.320	8.311	-0.1%	0.000	0.000	(0.000)	-51.0%
U.S. Mineral Leasing	26.960	24.069	-10.7%	7.374	7.830	0.455	6.2%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	0.983	0.913	(0.070)	-7.1%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	5.309	4.218	(1.090)	-20.5%
TCA Interest Earnings	2.164	8.527	294.0%	0.660	1.078	0.418	63.4%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.1%	1.145	1.117	(0.027)	-2.4%
Cigarette Tax	29.604	31.036	4.8%	11.943	12.706	0.763	6.4%
Liquor Excise Tax	19.257	19.521	1.4%	6.663	6.648	(0.015)	-0.2%
Liquor Profits	11.000	11.021	0.2%	-	-	-	
Lottery Profits	12.363	11.031	-10.8%	-	-	-	
Tobacco Tax	6.056	6.396	5.6%	2.238	2.219	(0.019)	-0.9%
Wine Tax	2.307	2.363	2.4%	0.814	0.825	0.011	1.4%
Other Sources							
All Other Revenue	40.822	40.060	-1.9%	14.455	13.743	(0.711)	-4.9%
Highway Patrol Fines	4.042	4.349	7.6%	1.281	1.344	0.064	5.0%
Nursing Facilities Fee	4.810	4.756	-1.1%	1.194	1.183	(0.012)	-1.0%
Public Institution Reimbursement	16.819	16.606	-1.3%	3.132	0.502	(2.631)	-84.0%
Tobacco Settlement	3.225	3.145	-2.5%	-	0.023	0.023	
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	667.066	677.254	10.188	1.5%
Remaining Sources Subtotal	297.352	299.883	0.9%	82.851	82.863	0.012	0.0%
Grand Total	\$2,199.653	\$2,262.932	2.9%	\$749.916	\$760.117	\$10.200	1.4%

Individual Income Tax: Currently Above HJ 2 due to Estimated Payments

Individual income tax collections through the end of November are \$31.8 million or 6.1% above the year-to-date collections in FY 2015. The strong growth in estimated payments likely reflects the elevated CY 2014 capital gains income, and may continue through January.

Individual Income Tax				
(\$ Millions)				
	YTD 2016	YTD 2015	\$ Difference	% Difference
Withholding	\$336.4	\$325.1	\$11.3	3.5%
Estimated Payments	107.6	90.9	16.7	18.4%
Current Year Payments	18.0	17.2	0.8	4.5%
Audit, P&I, Amended	15.4	11.4	3.9	34.4%
Refunds	(70.3)	(62.7)	(7.6)	12.1%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	3.8	2.5	1.3	53.3%
Mineral Royalties	2.8	4.9	(2.1)	-42.2%
Total	\$553.8	\$522.0	\$31.8	6.1%

Property Tax: Know More by End of January

Property tax collections are below last year by \$3.3 million or 25.8%. Fall property tax payments are due by the end of November, and are remitted to the state in December and January; the report at the end of January will be able to give more clarity to the year-to-date position of property tax revenue.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of November are \$8.2 million or 15.0% below the year-to-date collections in FY 2015. The collections by account type are shown in the following table.

Corporation Income Tax				
(\$ Millions)				
Account	YTD 2016	YTD 2015	\$ Difference	% Difference
Corporation Tax	\$7.0	\$10.7	(\$3.7)	-34.4%
Estimated Payments	39.1	40.6	(1.5)	-3.7%
Refunds	(5.6)	(8.4)	2.8	-33.1%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	1.8	3.8	(2.0)	-52.6%
Total	\$46.5	\$54.7	(\$8.2)	-15.0%

Vehicle Fees & Taxes: Currently Above HJ 2 Due to November Registrations

Five months into FY 2016, vehicle taxes and fees are 8.6% or \$3.1 million above collections last year at this time. The increase appears to be due to strong light vehicle registration growth in November.

Oil & Natural Gas Production Tax: No Data, But Likely Down Based on Price

Oil and natural gas production tax collections show zero through November. This is expected due to the statutory requirement of when taxes are due and the time allowed for the Department of Revenue to determine the distribution of taxes to local governments. Known price data suggests that collections for the first quarter of FY 2016 will be below FY 2015. Oil prices were still relatively high in the first quarter of FY 2015, so the decline will appear most severe with the first quarter comparison and will moderate throughout the remainder of the fiscal year.

Video Gaming Tax: Appears Low due to Accounting Anomaly

Revenue from video gambling is currently \$14.3 million or 48.3% below collections from last year. The apparent decline is due to an accounting anomaly in FY 2015; the difference should be resolved by next month.

Insurance Tax: On Track with Estimate

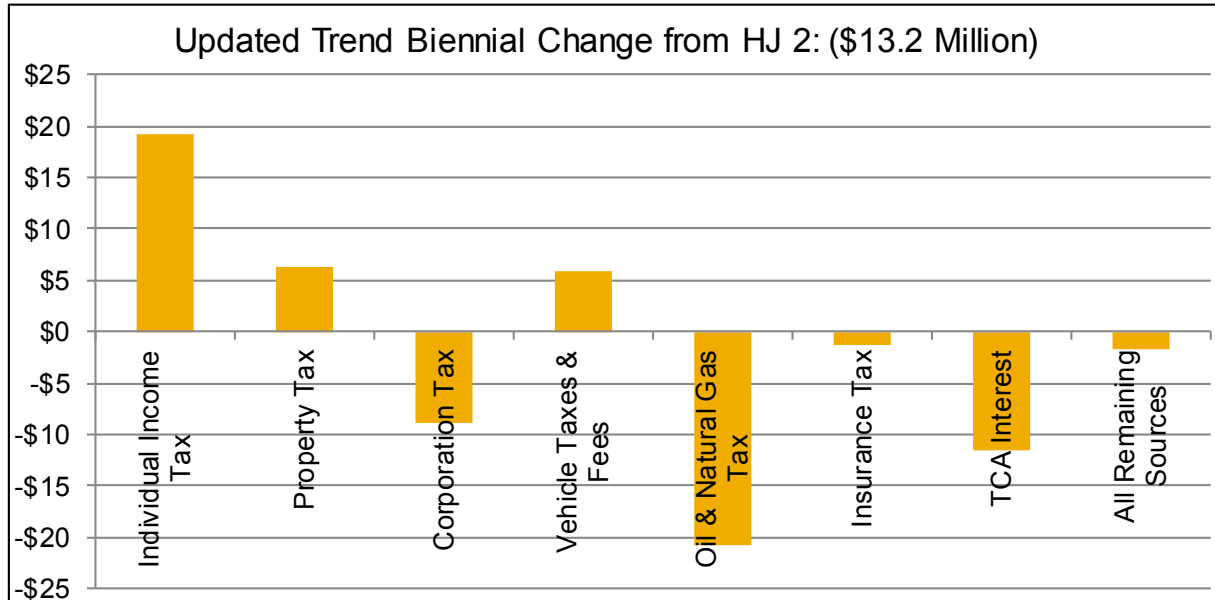
Current insurance tax collections are 8.1% or \$1.1 million above FY 2015 year-to-date, which is on track with the estimated increase in HJ 2.

SUMMARY OF UPDATED REVENUE TRENDS: CONSISTENT WITH HJ 2

The updated revenue trend for the 2017 biennium is in aggregate consistent with HJ 2, with a decrease of \$13.2 million or 0.3% over the biennium. Although the updated revenue trends will not be incorporated into the official revenue estimate, the changes could have a small negative impact on the ending fund balance. The table below shows the difference between the updated trend and HJ 2, and the differences are summed over the biennium to produce a potential decrease in the ending fund balance of \$13.2 million.

Potential Fund Balance Impact of Updated Trend (\$ Millions)			
	FY 2016	FY 2017	Total Impact
Updated Trend	\$2,249.6	\$2,355.5	
Less HJ 2	<u>2,262.9</u>	<u>2,355.4</u>	
Potential Change to Fund Balance	(13.3)	0.1	
Potential Change Total			(\$13.2)

Total biennium impacts of the updated trends by key source are shown below:



INTRODUCTION TO THE EXPENDITURE AND BUDGET PORTION OF THE 2017 BIENNIUM BUDGET STATUS REPORT

The purpose of this part is to introduce the new layout of the expenditure and budget section of this report. It adheres to statutory definitions of budget changes and incorporates Legislative Finance Committee (LFC) budget oversight responsibilities that formerly were contained in separate reports.

With the initiation of the new format, comes new terminology that is contained throughout the report and most specifically in Appendix A: Fiscal Year 2016 HB 2 Appropriations. The new terms “Allocated Budget” and “Modified Budget” are defined in this preface.

ALLOCATED BUDGET

The allocated budget includes HB 2 appropriations with allocations made by the executive in accordance with legislative instruction. Also included are changes by the Executive to “fine tune” the details of the budget within legislative intent. Examples of these types of transactions are contained in the Budget Policy Report table. The Allocated Budget does not include executive reallocations that modify legislative intent as described in HB 2 Section 2.

Section 2. First level expenditures. The agency and program appropriation tables in the legislative fiscal analyst narrative accompanying this bill, showing first level expenditures and funding for the 2017 biennium, are adopted as legislative intent.

Allocated Budget Detail

Appendix A in the report provides the steps from the HB 2 allocated budget to the modified budget for comparative purposes. Allocated budget includes the following:

- A. HB 2 as of 4/28/15; including one-time-only appropriations
- B. Less vetoes
- C. Less adjustments that do not impact intent(e.g. adjusting allocations between two state special revenue funds within a program)
- D. Allocated Personal Services Base as approved by the legislature
- E. Adjusted Contingency Base allocated to operating expenses per HB 2 Section 2
- F. Contingencies that impact HB 2
- G. Allocated pay plan as approved by the legislature

The details for Items A, HB 2 and B, HB 2 vetoes were included in the Fiscal Report published by the Legislative Fiscal Division (LFD) in June of 2015. Details for the remaining items are described below.

C. Adjustments that do not impact intent: The Executive made adjustments to the details of the budget during the process of translating from the budgeting system, IBARS to the accounting system, SABHRS and again in Budget Change Documents described by the Executive as “House Corrections” in order to implement the budget. Examples of this type of change would include changes between reporting levels within a program or changes between funds (or accounts) within fund type. These changes did not change intent, meaning they did not impact appropriations by program, by fund type, or by first level of expenditure. These changes are not shown in any table and are not discussed in this report.

D. Allocated Personal Services Base: The legislature included a line item for Personal Services Contingency Base amounts and 10.0 FTE to be allocated amongst agencies. The following table summarizes the Executive allocations of appropriations and FTE:

Personal Services Base Contingency Allocations - 2017 Biennium												
Agency	FY 2016					FY 2017					FTE	
	General Func	State Special Revenue	Federal Special Revenue	Proprietary Funds	2016 Total	General Func	State Special Revenue	Federal Special Revenue	Proprietary Funds	2017 Total	FY 2016	FY2017
32020 Comm. Political Practices	103,914				103,914	104,812				104,812	1.00	1.00
41100 Dept. of Justice		75,000			75,000		75,000			75,000	1.00	1.00
51020 Office of Higher Ed			119,504		119,504			124,685		124,685		
51170 Montana Hist. Society			15,879		15,879			15,879		15,879		
52010 Fish, Wildlife & Parks		472,535			472,535		472,535			472,535		
54010 Dept. of Transportation			235,000		235,000			265,000		265,000		
56030 Livestock	49,177		49,177		98,354	49,088		49,088		98,176	1.00	1.00
57060 DNRC	155,372	102,399	15,293		273,064	1,877	22,904	15,293		40,074		
58010 Dept. of Revenue	323,391			43,767	367,158	290,016			43,587	333,603		
61010 Dept. of Administration	136,602	47,952			184,554	126,287	38,945			165,232		
61080 Office of Public Defender	1,155,887				1,155,887	1,358,264				1,358,264	4.00	4.00
64010 Dept. of Corrections	447,668				447,668	447,668				447,668	1.00	1.00
64010 Dept. of Corrections-Board of Pardons	72,910				72,910	72,910				72,910	1.00	1.00
65010 Dept. of Commerce		86,086			86,086		85,894			85,894		
66020 Dept. of Labor & Industry		1,164,185	380,835		1,545,020	1,263,874	331,512			1,595,386		
67010 Military Affairs			230,000		230,000			230,000		230,000		
69010 Public Health & Human Services			240,102		240,102			259,057		259,057	1.00	1.00
Grand Total	\$2,444,921	\$1,948,157	\$1,285,790	\$43,767	\$5,722,635	\$2,450,922	\$1,959,152	\$1,290,514	\$43,587	\$5,744,175	10.00	10.00

Discussion of these allocations relative to specific agency budgets is contained in the Section and Agency portion of this report. Please note that 70% of the FTE went to Section D agencies.

E. Adjusted Contingency Base: The Contingency Base allocations among agencies are included in the Allocated Base. The Executive chose to reallocate from operating expense to other types of expenditures, these changes from first level are not included in the Allocated Base as it modifies intent as described in Section 2 of HB 2. The chart below summarizes the allocations by fund type. The table describing the first level expenditure changes is shown on page 10 and the description of agency impacts is included in the section and agency portion of this report.

Contingency Base Funding Allocations 2017 Biennium									
State Agency	FY 2016				FY 2017				
	General Fund	State Special	Federal	Total	General Fund	State Special	Federal	Total	Total
Judicial Branch	\$0	\$0	\$50,000	\$50,000	\$0	\$0	\$0	\$0	\$0
Office of Public Instruction	24,540	-	-	24,540	24,540	-	-	24,540	24,540
Office of the Commissioner of Higher Education	-	-	426,017	426,017	-	-	1,820,105	1,820,105	1,820,105
Department of Fish, Wildlife, and Parks	-	265,728	750,000	1,015,728	-	367,972	750,000	1,117,972	1,117,972
Department of Transportation	-	377,894	-	377,894	-	702,334	-	702,334	702,334
Department of Natural Resources and Conservation	1,550,000	-	100,000	1,650,000	1,700,000	-	200,000	1,900,000	1,900,000
Department of Revenue	556,688	-	-	556,688	500,678	-	-	500,678	500,678
Department of Administration	20,000	-	-	20,000	15,000	-	-	15,000	15,000
Office of the Public Defender	600,000	-	-	600,000	600,000	-	-	600,000	600,000
Department of Corrections	72,728	-	-	72,728	28,860	-	-	28,860	28,860
Department of Commerce	250,000	2,503,129	-	2,753,129	100,000	2,604,722	-	2,704,722	2,704,722
Department of Labor and Industry	-	200,000	40,000	240,000	-	200,000	40,000	240,000	240,000
Department of Military Affairs	-	-	350,000	350,000	-	-	350,000	350,000	350,000
Department of Public Health and Human Services	-	-	-	-	-	-	\$658,204	\$658,204	\$658,204
Total Allocations	\$3,073,956	\$3,346,751	\$1,716,017	\$8,136,724	\$2,969,078	\$3,875,028	\$3,818,309	\$10,662,415	

F. Contingency Legislation Impacts: The legislature provided for change to HB 2 in other bills. When this occurred, the changes have been included in the Allocated Budget. The following table describes these changes:

Conditional Legislation, Language, & Other Legislation related to HB2 - FY 2016		
General Fund	FY2016	Bill
Conditional Legislation (Bills that changed HB2 on passage and approval)		
Department of Natural Resources and Conservation	-\$5,000,000	SB 261
Department of Public Health and Human Services	-1,000,000	HB33
Department of Public Health and Human Services	-85,741	HB472
Department of Justice	<u>85,741</u>	HB472
Subtotal	-6,000,000	
HB2 Language (Appropriations changed due to HB2 language regarding other bills)		
Department of Public Health and Human Services	500,000	
Office of Public Instruction	-1,060,351	
Commissioner of Higher Education	<u>-1,600,000</u>	
Subtotal	-2,160,351	
Other Legislation (Bills that add to the base for the 2019 biennium budget process)		
Department of Public Health and Human Services	<u>1,000,000</u>	HB33
Subtotal	\$1,000,000	
Grand Total	-\$7,160,351	

The net impact of the legislative impacts is (\$7.2) million, of which \$5.0 is the movement of sage grouse funding into a state special revenue account and appropriated via SB 261.

G. Allocated Pay plan: The legislature included a line item for the pay plan in HB 2 to be allocated amongst agencies. The following table summarizes the Executive allocations of appropriations for pay plan.

2017 Biennium Pay Plan Allocations											
	2016				2016 Total	2017				2017 Total	Grand Total
	General Fund	State Special Revenue	Federal Special Revenue	Proprietary Fund		General Fund	State Special Revenue	Federal Special Revenue	Proprietary Fund		
Board of Public Education	\$3,315				\$3,315	\$10,025				\$10,025	\$13,340
Commissioner of Political Prac	7,735				7,735	23,394				23,394	31,129
Crime Control Division	15,621	45	3,893		19,559	47,220	137	11,880		59,237	78,796
Department of Administration	63,031	63,888		34,785	161,704	190,427	194,957		105,600	490,984	652,688
Department of Commerce	27,993	17,039	13,795		58,827	84,644	51,985	41,986		178,615	237,442
Department of Justice	327,477	497,713	9,938	14,872	850,000	989,009	1,519,236	30,211	45,166	2,583,622	3,433,622
Department of Livestock	26,416	115,149	18,788		160,353	79,790	351,177	57,252		488,219	648,572
Department of Revenue	701,369			35,442	736,811	2,119,338			107,551	2,226,889	2,963,700
Department of Transportation		1,666,187	643,285		2,309,472		5,083,228	1,962,351		7,045,579	9,355,051
Dept Nat Resource/Conservation	353,152	243,801	8,263		605,216	1,064,532	743,631	25,189		1,833,352	2,438,568
Dept of Corrections	1,421,084	2,838			1,423,922	4,296,480	8,652			4,305,132	5,729,054
Dept of Environmental Quality	49,720	186,719	176,982		413,421	150,395	570,767	539,756		1,260,918	1,674,339
Dept of Military Affairs	73,780		148,360		222,140	223,050		452,534		675,584	897,724
Dept. of Fish,Wildlife & Parks		572,544	211,099		783,643		1,745,558	641,736		2,387,294	3,170,937
Governor's Office	63,459				63,459	191,623				191,623	255,082
Historical Society	52,705	845	10,216	4,087	67,853	159,144	2,577	31,153	12,410	205,284	273,137
Labor & Industry	24,684	433,137	311,384		769,205	74,551	1,321,776	948,928		2,345,255	3,114,460
Library Commission	30,889	2,112	1,968		34,969	93,272	6,441	6,004		105,717	140,686
Montana Arts Council	2,873	2,321	3,026		8,220	8,662	7,069	9,211		24,942	33,162
MT Dept of Agriculture	10,291	102,846	8,865	6,809	128,811	30,332	314,390	27,090	20,923	392,735	521,546
Office of Public Defender	283,086				283,086	855,376				855,376	1,138,462
Office of Public Instruction	76,387	2,921	103,618		182,926	230,607	8,868	315,889		555,364	738,290
Public Health & Human Services	1,746,020	305,187	1,183,433		3,234,640	5,519,728	930,749	3,607,662		10,058,139	13,292,779
Public Service Regulation		40,212			40,212		122,366			122,366	162,578
School for the Deaf & Blind	108,709				108,709	327,457				327,457	436,166
State Auditor's Office		91,690			91,690		279,674			279,674	371,364
Grand Total	\$5,469,796	\$4,347,194	\$2,856,913	\$95,995	\$12,769,898	\$16,769,056	\$13,263,238	\$8,708,832	\$291,650	\$39,032,776	\$51,802,674

Discussion of these allocations relative to specific agency budgets is contained in the Section and Agency portion of this report.

MODIFIED BUDGET INCLUDES MODIFICATIONS TO INTENT

Transactions in which the Executive modified intent are segregated and included in separate columns and included in the total Modified Budget column. The following statutes govern how the Executive is allowed to modify the intent of HB 2 appropriations.

Operation Plan Changes (OP), [MCA 17-1-138](#)
Program Transfers (PT), [MCA 17-7-139](#)
Reorganization (RO), [MCA 2-15-112](#)
Administrative Transfer (AT*), [MCA 17-8-101 \(5\)](#)

Statute 17-7-138 and 139, MCA defines when these modifications are deemed significant. Only significant modifications are reported to the Legislative Finance Committee at each meeting by the Executive.

Note that all of these transactions are defined in statute and audited by the Legislative Auditor. Transactions to record a change in intent include documentation and are maintained by the Office of Budget and Program Planning. When these changes occur, the LFD is notified and the documents are reviewed by staff for consistency with law. Certain transactions must be reported to the LFC and have previously been reported under the "Required Reports" section of the LFC agenda, but are now included in this report.

Modified Budget Details

Following the Allocated Budget column is a heavy black line of separation. All modifications to HB 2 intent are shown in various columns to the right of the black line. The columns represent different types of transactions that modify intent. Each column is defined below.

Executive Reallocations

The first column is titled, "Executive Reallocations" and includes two types of changes that initiate the budget. After the December meeting, the LFD intends to fold these changes into the previous Modified Base and not describe them again in future reports.

Executive HB 2 Changes Correct Items in HB 2

These modifications include changes defined in statute as program transfer or operations plan change, but were made to correct the details within HB 2. Examples of these types of changes are: accounting policy was not properly recorded in HB 2 with adopted adjustments through session and movement of smaller components of the budget between programs to account for funding shifts approved by the legislature. Details of these changes are included in the agency narratives.

Reallocations of Contingency Base

The Executive Reallocation column includes changes in the first level expenditures of the allocations of the Contingency Base line item in HB 2. The Contingency Base was understood by the LFD to be for operations and recorded as the first level expenditure type of operating expenses. The Executive modified to other types as summarized in the table below. The shaded column represents the allocation as recorded in HB 2 detail, or in Operating Expenses:

Allocation of Contingency Based Funding - Fiscal Year 2016								
Agency	Personal Services 61000	Operating 62000	Equipment 63000	Local		Transfers 68000	Unassigned	Grand Total
				Assistance 65000	Grants 66000			
Office of Public Instruction				\$24,540				\$24,540
Commissioner of Higher Education						426,017		426,017
Fish, Wildlife and Parks	300,000	360,347	96,730			258,651		1,015,728
Department of Transportation		50,000			377,894			427,894
Natural Resources and Conservation		150,000					1,500,000	1,650,000
Department of Revenue	134,536	422,152						556,688
Department of Administration	20,000							20,000
Office of the Public Defender	600,000							600,000
Board of Pardons and Parole		72,728						72,728
Department of Commerce		39,590			2,463,539		250,000	2,753,129
Department of Labor and Industries		240,000						240,000
Department of Military Affairs	270,000	80,000						350,000
Grand Total	\$1,324,536	\$1,414,817	\$96,730	\$24,540	\$2,841,433	\$684,668	\$1,800,000	\$8,186,724

The Executive Reallocation column contains the values of this distribution that are not shaded and moved appropriation authority from the first level expenditure category of Operating Expenses. These values represent the change in first level categories.

Reorganizations MCA 2-15-112

The Reorganization column records the budget impact related to changes in agency structure. If the entirety of program A was transferred to program B, the Executive would create transactions that would change the authority in program A to zero and add it to program B. Reorganization changes typically involve five or more FTE or it is recorded as a program transfer. Reorganization transactions are discussed in the section and agency detail section of the report.

Program Transfers MCA 17-7-139

The Program Transfer transactions follow the provisions of 17-7-139, MCA and represent changes in appropriation authority between programs of an agency. Statute provides that when a Program Transfer is significant, it must be submitted to the Legislative Finance Committee:

- (1)... An explanation of any transfer that involves a significant change in agency or program scope, objectives, activities, or expenditures must be submitted to the legislative fiscal analyst for review and comment by the legislative finance committee prior to any implementation of the change....
- (2) For the purposes of subsection (1), an agency or program is considered to have a significant change in its scope, objectives, activities, or expenditures if:
 - (a) the budget transfer exceeds \$1 million; or
 - (b) the budget transfer exceeds 25% of a program's total operating plan and the transfer is greater than \$75,000. If there have been other transfers to or from the program in the current fiscal year, all the transfers, including the transfer under consideration, must be used in determining the 25% and \$75,000 threshold.

In previous LFC meetings these transactions were reported by the Executive under required reports. With this new format, the Executive Report is in Appendix E of this report.

This column includes all Program Transfers and does not specifically identify statutorily defined significant program transfers. The section and agency detail portion of the report will identify when a transaction is significant.

Operating Plan Changes MCA 17-7-138

Operating Plan Changes are those changes that modify the first level expenditure plan contained in HB 2. Operating Plan transactions follow the provisions of 17-7-138, MCA and represent changes in

first level expenditure plan recorded in HB 2. Statute provides that when an Operating Plan change is significant, it must be submitted to the Legislative Finance Committee:

(1)(a) ...An explanation of any significant change in agency or program scope, objectives, activities, or expenditures must be submitted to the legislative fiscal analyst for review and comment by the legislative finance committee prior to any implementation of the change. A significant change may not conflict with a condition contained in the general appropriations act.

...

(b) For the purposes of this subsection (1), an agency or program is considered to have a significant change in its scope, objectives, activities, or expenditures if:

(i) the operating budget change exceeds \$1 million; or

(ii) the operating budget change exceeds 25% of a budget category and the change is greater than \$75,000. If there have been other changes to the budget category in the current fiscal year, all the changes, including the change under consideration, must be used in determining the 25% and \$75,000 threshold.

As with program transfers the significant transactions were reported by the Executive under required reports. With this new format, the Executive Report is included in Appendix E of this report.

This column includes all Operating Plan transactions and does not specifically identify statutorily defined significant Operating Plan changes. The section and agency detail portion of the report will identify when a transaction is significant.

Other

Any type of appropriation change that is not represented in the columns identified above will be included in the "Other" column. Three types of changes that will be included in this column are described below.

HB 2 Language

Any HB 2 language appropriation authority that is not contained within the line items of the bill, but is written in the language of the bill are included in the "Other" column. Two language appropriations have not been established in SABHRS; continuing authority for pass-through grants (general fund) in Board of Crime Control and prior liens purchase in the Department of Natural Resources and Conservation.

Workers' Compensation

The 62nd legislature adopted legislation that implemented workers' compensation premium reductions. The appropriation for the state agency is reduced by the same amount that the workers' compensation premium was reduced and the difference is returned to the originating fund instead of being applied to other purposes. The refunded amounts are segregated in the state accounting system. These amounts have been included in the "other" column.

Triggered Appropriations

HB 2 contains language that appropriates funds when a specific action occurs, or when spending exceeds a certain level. (e.g. Medicaid Triggers). Since these appropriations are not yet valid, they will be recorded in this column when and if they are implemented. A summary of such appropriations is included in Appendix C to this report.

MARCH 2016 BUDGET STATUS REPORT

The Budget Comparison will begin at the December report's Modified Budget. Changes addressed in this report will not be repeated in the following reports. Like this report, the March report will have columns to the right of the previous or December Modified budget that are totaled to the March

Modified Budget. The columns in the March report will address any executive budgets transactions completed between December 1, 2015 and an appropriate cutoff day prior to the March LFC meeting.

FY 2016 APPROPRIATIONS AND EXPENDITURES

This section of the report discusses the following areas by budget section:

- Appropriation changes that have been made to the HB 2 FY 2016 budget through November 30
- Expenditure and spending patterns relative to the portion of the fiscal year that has passed
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments
- Carry forward authority
- Other appropriation authority granted to agencies

It should be noted that the vast majority of appropriation changes do not impact the overall agency budget, but alter allocated budgets between programs, expenditure categories, or the organizational units of the agency. Refer to Appendix A for changes by program and funding source. As of November 30, state agencies have reallocated 0.5% of their HB 2 appropriations.

Typically, through November 30 of each year personal service costs for the first 10 pay periods or 38.4% of personal services and 41.7% of other costs is normally what has been spent, leaving between 58% and 62% in remaining authority.

By statute, an agency may re-appropriate up to 30% of unused appropriations for personal services, operating expenses, and equipment in HB 2. The funding may be “carried forward” for use in the next two years for any purpose that is consistent with the agencies goals and objectives. State agency carry forward amounts are included in the summary chart of state resources on page 15.

The LFC receives a report from the LFD on budget amendments that have added additional state or federal special revenue or proprietary authority to the agency’s budget. This is included as Appendix F. As part of the agency narrative, budget amendments processed between July 1 and November 30 are outlined.

HB 2 GENERAL FUND BY AGENCY

The following table illustrates the budgeted and actual expenditures of general fund for HB 2. Budgetary changes such as agency transfers of authority, movement between expenditure categories, and supplemental appropriations are included. A summary of budgetary changes by section, agency, and program can be found in Appendix A. This report emphasizes HB 2 supported by general fund however major state and federal special revenues, general fund statutory appropriations, and major non-budgeted proprietary funds are included.

HB 2 - General Fund Only			
	FY 2016 Modified Budget	FY 2016 Actuals	% Expended
Section A - General Government			
11040 Legislative Branch	\$12,794,317	\$4,516,271	35.3%
31010 Governor's Office	9,376,140	2,488,377	26.5%
32020 Commissioner of Political Practices	681,125	224,811	33.0%
34010 State Auditor's Office	4,500,000	2,541,902	56.5%
58010 Department of Revenue	54,282,625	18,652,248	34.4%
61010 Department of Administration	7,685,762	2,537,117	33.0%
65010 Department of Commerce	7,324,891	2,571,085	35.1%
66020 Department of Labor and Industry	1,875,267	740,639	39.5%
<u>67010 Department of Military Affairs</u>	<u>6,481,572</u>	<u>2,072,648</u>	<u>32.0%</u>
Section A - General Government Total	105,001,699	36,345,098	34.6%
Section B - Health and Human Services			
<u>69010 Department of Public Health and Human Services</u>	<u>505,884,833</u>	<u>177,669,904</u>	<u>35.1%</u>
Section B - Health and Human Services Total	505,884,833	177,669,904	35.1%
Section C - Natural Resources and Transportation			
52010 Department of Fish, Wildlife, and Parks	973,158	368,765	37.9%
53010 Department of Environmental Quality	5,595,412	1,822,498	32.6%
56030 Department of Livestock	2,656,816	514,043	19.3%
57060 Department of Natural Resources and Conservation	28,265,506	11,228,167	39.7%
<u>62010 Department of Agriculture</u>	<u>981,141</u>	<u>319,549</u>	<u>32.6%</u>
Section C - Natural Resources and Transportation Total	38,472,033	14,253,021	37.0%
Section D - Judicial Branch, Law Enforcement, and Justice			
21100 Judicial Branch	48,531,678	16,213,030	33.4%
41070 Board of Crime Control	2,480,780	1,000,491	40.3%
41100 Department of Justice	34,759,844	12,629,511	36.3%
61080 Office of the State Public Defender	34,682,575	12,368,158	35.7%
<u>64010 Department of Corrections</u>	<u>198,777,205</u>	<u>68,578,336</u>	<u>34.5%</u>
Section D - Judicial Branch, Law Enforcement, and Justice Total	319,232,082	110,789,527	34.7%
Section E - Education			
35010 Office of Public Instruction	780,805,388	318,885,096	40.8%
51010 Board of Public Education	187,428	57,216	30.5%
51020 Commissioner of Higher Education	241,563,673	111,607,933	46.2%
51130 School for the Deaf & Blind	7,044,650	2,629,710	37.3%
51140 Montana Arts Council	550,429	187,891	34.1%
51150 Montana State Library	3,062,738	1,289,142	42.1%
<u>51170 Montana Historical Society</u>	<u>3,481,038</u>	<u>1,313,004</u>	<u>37.7%</u>
Section E - Education Total	1,036,695,344	435,969,991	42.1%
Grand Total	\$2,005,285,991	\$775,027,541	38.6%

HB 2 STATE RESOURCES BY AGENCY

The following table illustrates the budgeted and actual expenditures for all state resources appropriated to state agencies including general fund, state and federal special revenue, and budgeted proprietary funds. As discussed budgetary changes are included.

HB 2 - State Resources			
	FY 2016 Modified Budget	FY 2016 Actuals	% Expended
Section A - General Government			
11040 Legislative Branch	\$15,393,379	\$5,299,470	34.4%
11120 Consumer Counsel	1,706,559	449,621	26.3%
31010 Governor's Office	10,126,140	2,488,377	24.6%
32010 Secretary of State	104,892	34,744	33.1%
32020 Commissioner of Political Practices	681,125	224,811	33.0%
34010 State Auditor's Office	13,400,734	5,508,974	41.1%
58010 Department of Revenue	196,837,234	55,869,716	28.4%
61010 Department of Administration	22,680,738	6,728,711	29.7%
65010 Department of Commerce	33,303,553	4,565,077	13.7%
66020 Department of Labor and Industry	85,045,363	25,508,570	30.0%
<u>67010 Department of Military Affairs</u>	<u>49,235,631</u>	<u>13,218,900</u>	<u>26.8%</u>
Section A - General Government Total	428,515,348	119,896,971	28.0%
Section B - Health and Human Services			
<u>69010 Department of Public Health and Human Services</u>	<u>2,087,396,095</u>	<u>631,340,622</u>	<u>30.2%</u>
Section B - Health and Human Services Total	2,087,396,095	631,340,622	30.2%
Section C - Natural Resources and Transportation			
52010 Department of Fish, Wildlife, and Parks	83,629,525	25,801,597	30.9%
53010 Department of Environmental Quality	66,671,802	17,538,985	26.3%
54010 Department of Transportation	676,917,950	272,519,204	40.3%
56030 Department of Livestock	12,604,916	4,276,022	33.9%
57060 Department of Natural Resources and Conservation	70,108,347	20,880,537	29.8%
<u>62010 Department of Agriculture</u>	<u>17,849,466</u>	<u>4,447,941</u>	<u>24.9%</u>
Section C - Natural Resources and Transportation Total	927,782,006	345,464,285	37.2%
Section D - Judicial Branch, Law Enforcement, and Justice			
21100 Judicial Branch	50,483,875	16,874,790	33.4%
41070 Board of Crime Control	13,134,004	2,774,745	21.1%
41100 Department of Justice	98,674,313	35,239,476	35.7%
42010 Department of Public Service Regulation	4,133,777	1,497,064	36.2%
61080 Office of the State Public Defender	34,956,501	12,466,024	35.7%
<u>64010 Department of Corrections</u>	<u>203,704,236</u>	<u>70,033,580</u>	<u>34.4%</u>
Section D - Judicial Branch, Law Enforcement, and Justice Total	405,086,706	138,885,679	34.3%
Section E - Education			
35010 Office of Public Instruction	958,325,159	359,134,131	37.5%
51010 Board of Public Education	365,420	111,279	30.5%
51020 Commissioner of Higher Education	329,203,260	128,560,777	39.1%
51130 School for the Deaf & Blind	7,373,045	2,678,990	36.3%
51140 Montana Arts Council	1,485,491	598,143	40.3%
51150 Montana State Library	6,483,763	2,544,642	39.2%
<u>51170 Montana Historical Society</u>	<u>5,699,820</u>	<u>2,186,770</u>	<u>38.4%</u>
Section E - Education Total	1,308,935,958	495,814,732	37.9%
Grand Total	\$5,157,716,113	\$1,731,402,289	33.6%

SECTION A – GENERAL GOVERNMENT

Legislative Branch

HB 2 Budget

Allocated Budget (Introduction)

Pay Plan

As provided in HB 2 language, the Legislative Branch allocated pay plan funding between programs, transferring \$22,052 in general fund to Legislative Fiscal Division and \$57,946 in general fund to the Legislative Audit Division.

Modified Budget (Appendix A)

Operating Plan Changes

The Legislative Services Division (LSD) transferred \$31,482 in operating expenses to personal services to support student interns. The legislature redefined the status of student interns in statute and required that they be hired as employees paid from personal services funding. In addition, LSD transferred \$53,178 from operating expenses to transfers out to reimburse the Montana Historical Society for digitally archiving legislative records such as committee hearings during the legislative session.

HB 2 Expenditures

The budget remaining is higher than anticipated at this point in the budget process for the Legislative Services, Legislative Fiscal, and Legislative Audit Divisions. The exception to this is the Legislative Committees and Activities which has expended over half of its allocated budget. Legislators and staff attended a number of conferences over the summer, as planned, including:

- National Conference of State Legislators
- Pacific NorthWest Economic Region
- Council on State Governments

In addition, dues and association memberships are paid at the beginning of the fiscal year.

Other Bills

Two other bills passed, providing appropriations for interim activities. HB 430 provided \$20,170 in general fund to support an interim Judicial Redistricting Commission and HB 627 provided \$24,000 in general fund to support the Office of the Public Defender Task Force.

Carry forward

Appropriations for carry forward authority of \$293,295 in general fund were recorded for the Legislative Branch. Due to the biennial budget of the branch, carry forward is calculated at the end of each biennium.

Consumer Counsel

HB 2 Expenditures

Consumer Counsel has \$250,000 in state special revenue one-time-only authority each year of the 2017 biennium restricted for costs associated with unanticipated caseload. The authority has not yet been utilized during FY 2016, which is consistent with trends in previous biennia.

Carry forward

The Consumer Counsel received FY 2015 carry forward authority in FY 2016 of \$147,155. These state special revenue funds support operating expenses and are for consultant fees.

Governor's Office

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Governor's Office allocated \$5.7 million in Personal Services Contingency Base funds to agencies for FY 2016 as allowed in HB 2. Refer to page 7 for the figure summarizing the allocations. These are discussed within narratives of state agencies that received them.

Contingency Base Funding

The Governor's Office allocated \$6.4 million of the \$8.1 million in contingency base funds to agencies for FY 2016 as allowed in HB 2. Refer to page 7 for the figure summarizing the allocations. These are discussed within narratives of state agencies that received them.

Pay Plan

The Governor's Office allocated \$12.8 million in appropriation authority for the pay plan to agencies in FY 2016 as required in HB 2. Increases to appropriation authority by agency are shown on page 9.

Personal Services Contingency Funds

The Governor's Office was appropriated \$1.75 million in personal services contingency funds in FY 2016; these have not been allocated.

Modified Budget (Appendix A)

Program Transfers

The Governor's Office transferred 1.00 permanent FTE, and related general fund of \$65,000 in FY 2016, from the Office of Budget and Program Planning to the Executive Office Program to provide for workload relief with an Administrative Specialist Assistant in the Chief Legal Counsel's Office.

HB 2 Expenditures

The personal services contingency funding of \$1.75 million is historically allocated to state agencies at the end of each fiscal year as needs are identified. Remaining expenditures are in line with the allocated budget.

Secretary of State

HB 2 Budget

Modified Budget (Appendix A)

Operating Plan Changes

The Secretary of State added 1.00 modified FTE in each fiscal year of the biennium to provide help desk support for the elections unit as part of the Help America Vote Act (HAVA) funding. Funding for this FTE was transferred from operating expenses into personal services.

HB 2 Expenditures

The Secretary of State received authority to spend \$210,000 from interest generated on federal HAVA funds for the 2017 biennium. Approximately 33.0% of this appropriation has been used in FY 2016 to date, which is consistent with previous biennia.

Commissioner of Political Practices

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Commissioner of Political Practices (COPP) received a Personal Services Contingency Base allocation of \$105,000 general fund each fiscal year, and 1.00 FTE which will allow for full-time use of an attorney on staff over the 2017 biennium. This position was appropriated as one-time-only in the 2015 biennium. For the 2017 biennium, HB 2 included a provision to fund attorney services by restricting the COPP to engage services with an attorney from the Attorney General's Office. The Governor vetoed this line-item in HB 2.

State Auditor's Office (SAO)

HB 2 Budget

Allocated Budget (Introduction)

Executive Reallocation

SAO transferred \$134,768 in state special revenues within the Insurance Division from benefits and claims to operating expenses to offset changes that occurred as a result of the change in the base budget year.

Modified Budget (Appendix A)

The Insurance Division transferred \$269,570 in state special revenues from benefits and claims, \$189,570 to personal services and \$80,000 to operating expenses for the Insure Montana Program. The legislature approved the continuation of Insure Montana through the end of December and included authority within benefits and claims. Program personnel and associated operating costs of the program are supported through this transfer.

HB 2 Expenditures

The State Auditor's Office received \$4.52 million in general fund as a one-time-only appropriation in FY 2016, \$20,000 of which is for equipment (0.0% expended), and the remaining \$4.5 million is for the phase-out of the Insure Montana program (56.0% expended). The State Auditor's Office estimates the following payables upon closure of the Insure Montana program on December 31, 2015:

- \$400,800 for the purchasing pool subsidy program
- \$3.5 million for the tax credit program

Businesses have up to five years to claim the tax credit with the exception of the upcoming 2015 tax credit, which will only be allowed three years to claim.

Carry forward

The State Auditor's Office received FY 2015 carry forward authority in FY 2016 of \$581,759. These state special revenue funds are intended to be used for personal services, retirement payouts, and other expenditures that are within the goals and objectives of the agency.

Department of Revenue (DOR)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

Personal services base funding was allocated to the Liquor Control Division in both FY 2016 and FY 2017 to implement HB 506. The funding is in the form of enterprise funds and will be for 1.00 modified FTE. The Property Assessment Division was provided a personal services contingency allocation for 9.00 modified FTE to implement SB 157 in both years of the biennium, all in general fund. The Business and Income Tax Division received allocations funding for 2.00 modified FTE in FY 2016 and 3.00 modified FTE in FY 2017 to implement SB 157 and SB 410.

Contingency Base Funding

Contingency base was allocated to the Director's Office in both FY 2016 and FY 2017 to implement SB 157, SB 410, and HB 506. These three bills respectively changed property reappraisal from six to two years, provided tax credits for contributions to public and private schools, and allowed micro-distilleries to deliver directly to agency liquor stores. In FY 2016, funds will be used in operating costs to update the GenTax System. All contingency base allocations were general fund.

Other Bills

SB 405 appropriated \$393,213 to the department in general fund authority for the 2017 biennium to administer the taxpayer integrity fee component of SB 405. This authority is considered base funding for the preparation of the 2019 biennium budget. To date, the department has not yet received these funds.

Modified Budget (Appendix A)

Executive Reallocation

The Property Assessment Division transferred \$6,385 of operating expenses authority to debt service. In past years similar amounts have been used for debt service. The Business and Income Taxes Division transferred \$134,536 in contingency base funding appropriated from the general fund from operating expenses to personal services. The funding supports the changes in the property tax reappraisal cycle approved by the 2015 Legislature.

Operating Plan Changes

The Director's Office transferred \$2.600 in general fund from operating expenses to debt service to properly account for principle and lease payments for copiers as required by state accounting policy. The Business and Income Taxes Division \$12,000 of state special revenue authority in personal services to operating expenses for the Tobacco Compliance Program.

HB 2 Expenditures

Through the first five months of FY 2016 the Department of Revenue expended 28.4% of its HB 2 budget of \$196.8 million. This is in line with the five-year expenditure average of 27.9%. General fund expenditures account for 27.6% of total HB 2 expenditures, and to date 34.4% has been expended.

The Department of Revenue has a budgeted proprietary program, the Liquor Division. To date, the Liquor Control Division has expended \$1.0 million of its \$2.9 million HB 2 authority. The Liquor Control Division also has a language appropriation of \$138.0 million to maintain inventories, pay freight

charges, and transfer profits and taxes to appropriated accounts. The division has thus far expended 26.0% of this appropriation, which is in line with historical expenditures.

Budget Amendments

The department processed one budget amendment totaling \$199,574 in additional federal special revenue to perform audits and investigations in accordance with the Federal Oil and Gas Royalty Management Act.

Carry forward

The department increased appropriations by \$135,016 in general fund carry forward authority in personal services. According to the agency, it was allocated across all five agency programs to help mitigate the effects of the FTE reduction.

Department of Administration (DOA)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Department of Administration was allocated \$184,554 in FY 2016 in personal services base contingency funds from the Office of Budget and Program Planning (OBPP). This allocation supports salary adjustments provided in the previous biennium including fully funding the 5% pay increase provided in November 2014. The costs of implementation above that appropriated by the legislature were \$169,609 each year of the biennium.

Contingency Base Funding

The State Tax Appeal Board (STAB) was allocated \$15,000 in FY 2016 contingency base funds. These funds will be used to offset increased costs for county tax appeal boards reimbursements. SB 335 adjusted the reimbursement amount for members of the appeal boards based on the number of hours worked. Previously the members received \$45 day, SB 335 differentiates the number of hours worked providing \$45 a day for 4 hours of work and \$90 for more than four hours.

Modified Budget (Appendix A)

Reorganizations

DOA reorganized the procurement function within the agency, transferring the function from the General Services Division to the State Financial Services Division. As a part of the reorganization the agency transferred 11.75 FTE, \$841,056 in personal services, and \$194,505 in operating expenses from one division to the other. This change is supported by approximately \$862,000 in general fund and \$174,000 in state special revenue.

Agency Transfers

The legislature restricted \$27,000 in general fund authority within the General Services Division for the Original Governor's Mansion (mansion) each year of the 2017 biennium to ensure the funding continued to be used for the mansion. At the end of FY 2015 General Services Division transferred to the Architecture and Engineering Division - Long-range Building Program:

- \$101,544 in general fund remaining of the MHS transfer from the 2015 biennium
- \$27,000 in general fund for each year of the 2017 biennium

The effect of the transfer is that the base budget of the General Services Division, and the overall agency budget for the general appropriations act, is reduced by \$27,000. This is because the transfer

is to a separate “agency”, the Long Range Building Program, which is not budgeted as part of the general appropriations act.

HB 2 Expenditures

Overall HB 2 expenditures for DOA are below anticipated budget projections for this point in the year, 29.7% compared to 41.7% if one uses the percentage of the year completed as a measurement. The majority of the differences are due to lower operating expenses.

Operating costs are below anticipated levels mainly due to lower than anticipated expenditures for the federal FirstNet grant within the State Information Technology Services Division. The grant supports the planning process for a specific radio frequency for emergency responders. It is anticipated that expenditures for the grant will be higher once the deployment plan is established by the contractor at the federal level. Montana is currently preparing a deployment plan outlining coverage area objectives and other required materials.

Non-budgeted Proprietary Funds

DOA has a number of functions that are supported by non-budgeted proprietary funds including information technology services, state employee group benefits, and state agency self-insurance. Each of the funds is experiencing pressures that will be described in the following paragraphs.

State Information Technology Services Division (SITSD)

SITSD charges state agencies for services each month. Revenues for services provided in any given month are received the following month, thus revenue estimates are used to determine the financial position of the SITSD proprietary fund. Through November 2015 revenues are estimated to be \$17.6 million. Expenditures for the same period are \$17.8 million. Included in the expenditures is a non-budgeted liability for software of \$1.0 million. While the liability reduces the fund balance for the account, the costs have not yet been realized. In addition, depreciation of \$0.4 million is included in the expenditures for the fund.

Both state agencies and SITSD have ORACLE software, some of which is used within virtualized platforms. As a regular business process, software vendors including ORACLE perform compliance audits - reviewing to ensure purchasers are in compliance with guidelines for installing software including the number of licenses needed. ORACLE selected four state agencies for the latest compliance audit:

- o Department of Labor and Industry
- o Department of Justice
- o State Auditor’s Office
- o Secretary of State

The State Information Technology Services Division hosts the Department of Labor and Industry and Secretary of State within its platforms and as such is included as part of the audit.

While the audit process is not yet completed ORACLE has indicated that based on the review of the four selected agencies, Montana requires additional licenses. State Information Technology Services Division is in discussion with ORACLE to examine its findings. At the same time the SITSD and other state agencies are in the process of inventorying ORACLE software uses and licenses to assess the validity of ORACLE’s compliance findings. The results of the audit and the resolution of the need for additional licenses may have an impact on the costs of the ORACLE software which was not included in the rates for the 2017 biennium.

State Employee Group Benefits Plan (SEGBP)

As reported in the FY 2015 FYE Report, in the first two quarters of plan year 2015 revenues had increased and expenditures decreased compared to the previous plan year. As of October 2015:

- Revenues for the plan were \$170.3 million
- Expenditures were \$169.6 million

The Healthcare and Benefits Division issued a request for proposal for a third party administrator related to the SEGBP. Allegiance, a wholly owned subsidiary of Cigna, was the successful contractor.

The LFD is continuing to track the financial status of the SEGBP throughout the interim with periodic reports to the Legislative Finance Committee.

State Agency Self-insurance Account

The fund balance of the state agency self-insurance account was (\$4.0 million) at the beginning of FY 2015 due to higher than anticipated claims costs. The self-insurance account began FY 2016 with a fund balance of \$2.1 million due to legislative provision of \$6.0 million in general fund appropriated to establish reserves for the self-insured risks and increased contribution rates. Risks include:

- Automobiles
- Property
- General liability

Currently the fund has a fund balance of \$10.8 million as contributions from state agencies are collected at the beginning of the fiscal year. Expenditures for claims are \$1.0 million as of November 2015 compared to \$3.6 million for the same period in FY 2015. Claims are down for every risk with the most notable difference in cyber claims which are \$2.1 million less than at the same time last fiscal year.

Carry forward

The following figure shows the carry forward authority that is available for the agency in FY 2016 by division.

Department of Administration				
FY 2016 - HB 2				
	Budget	Expenditures	Remaining	% Expended
Personal Services	\$11,974,868	\$3,149,881	\$8,824,987	26.30%
Operating Eqpenses	10,424,160	2,253,888	8,170,272	21.62%
Equipment	144,500	23,033	121,467	15.94%
Local Assistance	30,060	3,137	26,923	10.44%
Transfers	17,173	0	17,173	0.00%
Debt Service	89,977	24,920	65,057	27.70%
Total	\$22,680,738	\$5,454,859	\$17,225,879	24.05%

Of the \$767,571 of carryforward funds available from FY 2015 unspent appropriations \$11 is appropriated for operating expenses and the remaining \$767,560 is appropriated for personal services. FY 2014 carry-forward funds were allocated in the same manner with \$10 to operating expenses and the remainder allocated to personal services.

Department of Commerce

HB 2 Budget

The legislature increased the percentage of coal severance taxes allocated to the coal natural resource account within the state special revenue fund that provides funding for the Coal Board. HB 228 did not include an appropriation for the additional funding made available as a result of the increase in the allocation to the coal natural resource account. HB 228 included coordination

language that stated if HB 2 appropriated \$3,514,423 or more to the Coal Board then HB 228 was void.

HB 2, as passed by the legislature, contained a biennial appropriation of \$3,711,904 for Coal Board grants. Governor Bullock line item vetoed this appropriation stating “Section 2 of HB 228. . . , contains a coordination instruction drafting error.” The Governor instructed the Department of Commerce to work with the Office of Budget and Program Planning to ensure sufficient funds were available for the grants. OBPP provided a total of \$5,279,831 in funding for the Coal Board from the personal services base contingency and the contingency base funding. See the figure below for a summary of the changes to this funding.

Department of Commerce Coal Board Funding			
	FY 2016	FY 2017	Total
2.9% coal severance taxes appropriated in HB 2 that were vetoed	\$1,856,555	\$1,855,349	\$3,711,904
Appropriation provided from contingency funding	<u>2,589,215</u>	<u>2,690,616</u>	<u>5,279,831</u>
Difference between HB 2 and contingency funding	732,660	835,267	1,567,927
5.8% coal severance taxes transferred to coal resource per HB 228	3,460,000	3,568,000	7,028,000
Difference between funding available and appropriation	(\$870,785)	(\$877,384)	(\$1,748,169)

As shown, the appropriation authority made available to the Coal Board provides \$1.6 million above that appropriated by the legislature in HB 2. However, funding transferred into the fund is estimated to exceed appropriation authority by \$1.7 million over the biennium.

Allocated Budget (Introduction)

Personal Services Contingency Base

The Governor’s Office transferred \$86,086 in state special revenue in FY 2016 of the personal services base contingency funding to the Community Development Division for the Coal Board.

Contingency Base Funding

OBPP transferred \$2,503,129 in state special revenue in FY 2016 to the Community Development Division within the Department of Commerce for the Coal Board.

Modified Budget (Appendix A)

Executive Reallocation

The Department of Commerce made a number of changes including:

- Transferred \$600,000 from personal services, operating and grants to transfers in each year of the biennium to implement SB 163 within the Business Resources Division. SB 163 allows the agency to transfer appropriations for primary business sector training appropriated in HB 2 into a HB 2 appropriated state special revenue account
- Transferred funding from operating to grants. The budgeting process combined these two categories as operating adjustments rather than providing for separate appropriations.

In addition, the agency transferred \$45,520 in general fund from operating costs to personal services to align the legislative budget with the original Governor’s budget request.

Contingency Base Change

The Community Development Division received allocations to support the Coal Board. The majority of the funds for the Coal Board is provided to local governments impacted by coal development. The

agency transferred operating expenses to grants to properly account for the funds granted to local governments.

Reorganizations

The Department of Commerce consolidated the Business Resource and Montana Promotion Divisions into the Montana Office of Tourism and Business Development at the beginning of the fiscal year. State special revenue appropriations of \$0.8 million were transferred into the Business Resource Division which was then renamed.

In addition, the agency consolidated the Community Development Block Grant Program which was previously in two divisions:

- o Business Resources
- o Community Development

Community Development Division received \$3.5 million in federal and \$0.1 million in general fund as part of the transfer of the program. The funding supports \$0.2 million in personal services, \$0.9 million in operating expenses, and \$2.4 million in grants.

Operating Plan Changes

The Board of Horse Racing (BOHR) transferred \$74,900 from personal services to operating expenses to provide funding for contracted services. BOHR contracts with an individual to administer horse racing in Montana rather than hire a program manager. As a result, funding for the vacant positions supports the contract.

The Office of Tourism and Business Development transferred \$192,309 in general fund and state special revenues from operating expenses: \$119,981 to personal services and \$72,328 in grants. Funding transferred to personal services is to offset the impacts of the 2% vacancy savings contained in HB 2.

HB 2 Expenditures

Expenditures for the Housing and the Community Development Divisions are below levels anticipated in the budget. The majority of the funding appropriated for the Community Development Division supports grants. The application and award period is timed so that it occurs in the spring.

The Housing Division is mainly supported by non-budgeted proprietary funds. Requests for assistance under the division's HB 2 programs are currently below that anticipated in the budget as only Shelter Care Plus funding has been utilized. Services for foreclosure mitigation, comprehensive counseling, and emergency homeowners' loans are available but the need for the services has dropped as the housing market has continued to recover from the financial crisis and "Great Recession".

Statutory Appropriations

As discussed under reorganizations, the agency combined the Business Resources and Montana Promotion Divisions. Statutory authority of \$24.3 million supporting the Montana Promotion Division was transferred to the new division as part of the reorganization.

Budget Amendments

Department of Commerce added federal authority to its budget through budget amendments including:

- o \$347,688 for the State Trade and Export Promotion Program including \$41,260 in personal services supporting 0.75 modified FTE in FY 2016 and \$306,428 in operating expenses

- \$100,000 for Small Business Administration Federal and State Technology Program including \$53,881 in personal services supporting 0.75 modified FTE in FY 2016 and \$46,119 in operating costs

Department of Labor and Industry (DOLI)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

OBPP allocated \$1.5 million in FY 2016 for Personal Services Contingency Base funds to DOLI. \$1.2 million in FY 2016 was allocated in state special revenues with the remaining funding appropriated in federal authority. According to DOLI staff, about \$0.2 million of the funding was for costs of implementing SB 405 and the remainder was provided to restore the personal services budget of the various divisions to the level requested in the Governor's budget request.

Contingency Base Funding

DOLI was allocated \$240,000 each year of the biennium from contingency base funding. A portion was allocated to the Human Rights Bureau for federal Equal Employment Opportunity Commission (EEOC) investigations. EEOC contracts with the Human Rights Bureau for investigations. The EEOC reimburses the bureau for the costs of the investigations once they are completed. DOLI anticipates they will receive an additional \$40,000 each year of the biennium in federal reimbursements. The remaining \$200,000 is appropriated from the workers' compensation regulation state special revenue fund. The funding brings the budget of the Employment Relations Division to the level requested in the Governor's 2017 biennium budget request.

Modified Budget (Appendix A)

Executive Reallocation

DOLI processed two allocations that modify legislative intent as outlined in HB 2. One adjusts funding within the Workforce Services Division and the Commissioner's Office. The legislature eliminated general fund for the Jobs for Montana Graduates and Office of Research and Analysis and funded the activities with state special revenues from the employment security account. Formulas used by the LFD to calculate personal services and fixed costs did not incorporate these changes. The document adjusts the funding in the Workforce Services Division and moves the general fund to the Commissioner's Office.

State accounting policy requires that funding granted to state agencies is recorded as a transfer instead of a grant. Another reallocation transfers \$232,000 from grants to transfers in accordance with the accounting policy.

Program Transfers

DOLI transferred \$9,000 in employment security account funding from the Commissioner's Office to the Workforce Services Division. Personal services of \$8,000 and operating expenses of \$1,000 were transferred. This effect of the transfer is to partially offset the allocations of general fund between the two divisions.

HB 2 Expenditures

Overall DOLI is below the level of expenditures anticipated in the budget. The figure below shows the budget for the agency and related expenditures, budget remaining, and % of the budget expended.

Department of Labor and Industry Budget and Expenditure Comparison FY 2016				
	Budget	Expenditures	Budget Remaining	% Expended
Personal Services	\$48,554,877	\$15,305,571	\$33,249,306	31.52%
Operating Expenses	27,398,867	8,572,799	18,826,068	31.29%
Equipment	312,574	1,710	310,864	0.55%
Grants	8,177,444	1,474,149	6,703,295	18.03%
Benefits and Claims	100,389	34,935	65,454	34.80%
Transfers	311,805	94,696	217,109	30.37%
Debt Service	189,407	24,726	164,681	13.05%
Total	\$85,045,363	\$25,508,586	\$59,536,777	29.99%

Personal services are below anticipated levels as of November. Overall the agency has 49.00 FTE vacant as of October 22, 2015 or 7.1% of the agency HB 2 positions. The annualized personal services costs budgeted for these positions in FY 2016 is \$3.2 million, excluding increases for the pay plan. 12.00 of the vacant FTE are associated with SB 405.

Operating costs are also below anticipated levels at this point in the fiscal year. According to DOLI staff this is in part due to a month delay in billing for technology services costs within the agency.

Equipment and grant expenditures are cyclical in nature within the agency. Expenditures are in line with historical trends for this point in the fiscal year.

Non-budgeted Proprietary Funds

The largest non-budgeted proprietary fund within DOLI is the unemployment insurance trust fund. State unemployment taxes (SUTA) are paid into a proprietary account to fund unemployment benefits for claimants. The amount of the tax depends on the ratio of unemployment insurance trust fund balance to the total covered wages in Montana and the employer's experience. Montana uses 11 schedules with 9 contributions rates in each schedule to assess the SUTA. In calendar year 2015 the rate is calculated using schedule III.

As of November \$31.0 million in unemployment benefit payments were made to claimants. This is 23.1% of the budget estimate of \$134.2 million for FY 2016. Currently the unemployment rate in Montana is 4.1%.

Budget Amendments

DOLI amended spending authority for two federal grants into the Employment Relations Division budget for this period including:

- o \$17,285 for the US Department of Labor Occupational Safety and Health Administration (OSHA) grant. The funds will be used to purchase industrial hygiene equipment that is used by occupational safety and health specialists in the evaluations.
- o \$110,407 for the Centers for Disease Control and Prevention and the National Institute for Occupational Safety and Health to develop a new Montana Occupational Health and Safety Surveillance Program. The objective of the program is to improve occupational health and safety around the state through data collection and analysis of the factors influencing occupational injuries and illnesses. Montana has one of the highest incidence rates of occupational injuries and illnesses in the country. These funds support 2.00 modified FTE, \$80,060 in personal services, \$24,495 in operating expenses, and \$5,000 in transfers.

- \$296,155 for the Reemployment Services and Eligibility Assessment grant. The funding provides for services to participants through job service offices around the state. These funds support 6.00 modified FTE, \$215,273 in personal services, and \$107,363 in operating expenses.

Carry forward

DOLI has not processed their carry forward for FY 2015. As of November 2015, DOLI had \$0.9 million of carryforward from FY 2014 available to support FY 2016 expenditure. The majority of the carryforward is supported by federal funds.

Department of Military Affairs

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

DMA received allocations of \$230,000 each year of the biennium in federal authority for Personal Services Contingency Base. Additional allocations of \$270,000 each year of the biennium was transferred from contingency base funding but used for personal services rather than operating expenses as anticipated by the legislature. \$50,000 each year within the Director's Office is for the centralized personal plan providing federal reimbursement for a portion of the salaries of state funded personal within DMA. A portion of the allocation was 3.00 FTE in modified positions:

- 1.00 FTE for a STARBASE director in Helena
- 1.00 FTE for an Army telecommunications technician
- 1.00 FTE for a financial position for the Air National Guard Program

The remaining amount ensured DMA was able to provide for the 5% raise provided to employees in November of 2014 and provides for anticipated overtime costs within the Air National Guard Program. Costs for fully funding the pay raise were \$213,728 each year of the biennium above the amount approved by the legislature.

Contingency Base Funding

DMA was allocated \$350,000 each year of the biennium in contingency base funding. As discussed under Personal Services Base Contingency \$270,000 each year of the biennium provided for a portion of personal services costs.

The STARBASE Program did not receive its full allocation of federal funding in the 2015 biennium. Due to the uncertainties of the Congressional budget process, DMA requested funding for the program at the lower levels received in FY 2014, reducing both personal services and operating costs accordingly. STARBASE received its full allocation of federal funds for FY 2016 and anticipates the same in FY 2017. Increases in personal services and operating expenses for the STARBASE from the contingency base funding allowances reflect the higher level of funding provided by the federal granting agency.

Modified Budget (Appendix A)

Contingency Base Changes

The legislature appropriated contingency base funds to support operating expenses in the 2017 biennium. DMA received \$350,000 in contingency base funds and transferred \$270,000 of the funding to personal services in both fiscal years.

Program Transfers

The Army National Guard Program transferred \$112,000, \$50,000 in federal authority and \$62,000 in general fund to the Director's Office to support the assistant TAG (The Adjutant General) position and provide for legal fees that are centrally paid by the Director's Office.

Operating Plan Changes

The Army National Guard Program transferred \$63,731 in operating expenses with:

- o \$38,731 for equipment. The program received additional federal funds for new vehicles but needed additional state funds for matching requirements
- o \$25,000 for transfers for Fish, Wildlife, and Parks to provide an Elkhorn Study over the next two years. Accounting policy requires state agencies to record grants to other state agencies as transfers

HB 2 Expenditures

As of November 2015 both personal services expenditures and operating expenses are in line with the budget. Grants are provided by the Disaster and Emergency Services Division (DES) to local and tribal governments for federal grants, mainly homeland security funding. Of the \$5.7 million in budgeted authority for grants for homeland security grants only \$625,000 or 11.0% has been expended. Timing related to the grant application process can impact the distribution of funding, the LFD will continue to monitor grant expenditures going forward to identify any other issues associated with the grant program.

The figure below shows the expenditure of funding by source for DMA.

Department of Military Affairs Budget Comparison - Funding FY 2016				
General Fund	\$6,481,572	\$2,072,648	\$4,408,924	31.98%
State Special Revenues	783,395	294,586	488,809	37.60%
Federal Revenues	41,970,664	10,851,666	31,118,998	25.86%
Total	\$49,235,631	\$13,218,900	\$36,016,731	26.85%

Some of the federal grants are reimbursement-based so that the general fund is spent first and then the agency receives reimbursement. In addition the amount of state match varies with the grant, for example some are matched at 50% and some at 75%.

Statutory Appropriations

Agency Transfers

The Department of Natural Resources and Conservation transferred \$2.9 million in state special revenue from the fire fund to DMA to support Disaster and Emergency Service Division overtime and Montana National Guard soldiers and equipment assigned to fight fires throughout Montana.

Budget Amendments

The Disaster and Emergency Services Division added \$0.9 million of federal authority for an extension of the Hazard Mitigation Grant into its budget through budget amendments. The funding is used for state, local, and tribal partners to mitigate specific hazards.

Carry forward

The Department of Military Affairs has not yet established carry forward authority for FY 2015. FY 2014 carry forward authority of \$284,954 is available to the agency for FY 2016 expenditures.

SECTION C – NATURAL RESOURCES AND TRANSPORTATION

Department of Fish, Wildlife, and Parks (FWP)

HB 2 Budget

Allocated Budget (Introduction)

Personal Service Contingency Base

The Department of Fish, Wildlife, and Parks received \$472,535 in state special revenue Personal Services Contingency Base funding for both the Wildlife and Communication and Education Divisions. In the Wildlife Division, it will provide additional funding for administration of the Hunting Access Program (Block Management) as federal funds cannot be used for administration. In the Communication and Education Division, the allocation will supplement authority for educational program.

Contingency Base Funding

The department received a contingency base allocation of \$265,765 state special and \$750,000 in federal special revenue in order to:

- Implement HB 167 that changed the costs of non-resident off-highway vehicles
- Support creation of a snowmobile trail pass under HB 300
- Match Pittman-Robertson federal funds for shooting range grants and other eligible projects.

Modified Budget (Appendix A)

Executive Reallocation

FWP processed a number of reallocations in order to bring the appropriation in line with a new department structure. During the last session, the Joint Subcommittee on Natural Resources and Transportation reviewed and approved this structure. However, the budgeting process did not fully incorporate this change. The reallocations aligned the legislatively-approved budget with the new departmental structure.

Program Transfers

FWP transferred \$51,707 from the Communication and Education Division and \$90,000 of general fund from Fisheries into the Enforcement Division as part of aquatic invasive species prevention.

Operating Plan Changes

FWP requested operations plan changes that:

1. Reallocated \$498,630 of general fund from operating expenses to personal services and equipment, moved \$4,000 general fund from operating expenses to transfers, and created 21.76 FTE as part of the aquatic invasive species program in the Fisheries Division
2. Switched \$50,000 of state special revenue from operating to personal services as part of the state wildlife grant program in the Fisheries Division
3. Moved \$36,729 of state special revenue out of operating expenses into equipment and transfers in the Enforcement Division.
4. Created 11.5 FTE in the Wildlife Division for wolf technicians, hunt coordinators, game damage herders, and nongame wildlife biologists
5. Shifted \$6,000 of state special revenue out of operating expenses into equipment in the Parks Division
6. Relocated \$9,013 of state special revenue out of operating expenses to transfers in order to fund payments to department of justice

7. Converted \$186,293 in state special revenue out of personal services into grants and operating expenses in order to meet the intent of the shooting range grant line item

HB 2 Expenditures

To date, the department expended 30.9% of its HB2 appropriation. No major areas of over expenditure exist. Several areas of under expenditure exist due to timing of major purchases and disbursements. These include:

- Purchases of snow grooming equipment in the Parks Division
- Shooting range grants in the Communication and Education Division
- Legal services in the Department Management Division

The department depends on the general license account for much of its financial support. The department has seen increased license sale and has begun to analyze this increase. The general license account fund balance at the end of November was \$30.0 million, similar to the yearly ending fund balance in FY 2013, 2014 and 2015.

Non-Budgeted Proprietary

The equipment enterprise fund, which is funded by internal vehicle rates, started December 2015 with a \$7.0 million fund balance. This represents over twice the previous year's expenditure. However, the department has started the process to purchase over \$1.0 million in new vehicles as part of its replacement cycle which will draw the balance down.

Statutory Appropriations

FWP administers the "Payment in Lieu of Taxes" (PILT) state special revenue statutory appropriation, in which FWP pays counties for the tax income lost due to department land ownership. For FY 2016, the LFD estimated the payments as \$173,369 in state funds and \$640,770 in federal funds. To date, \$526,758 in state special revenue and \$228,808 in federal special revenue has been paid under this authority.

Budget Amendments

The department received 28 budget amendments adding \$2.7 million in federal special revenue in FY 2016. The amount includes \$110,587 and 1.0 FTE in the Wildlife Division for sage grouse projects. Appendix F provides specific detail on these amendments.

Department of Environmental Quality

HB Budget

Modified Budget (Appendix A)

Executive Reallocation

The Department of Environmental Quality (DEQ) administered 15 reallocations as part of budget implementation process. Most of these did not alter legislative intent. One change of note transferred the \$7.0 million state special revenue orphan share appropriation from Permitting and Compliance to the Remediation Division. This relocation aligns the appropriation with divisional function.

Reorganizations

DEQ has restructured itself through a series of reorganization and program transfers in order to focus more on planning and citizen service rather than compliance after the fact. DEQ previewed these changes to the budget subcommittee during the last legislative session and the process will continue throughout the current fiscal year. The table below outlines the total impact of these changes on FTE.

Department of Environmental Quality Reorganization				
	Funding (in millions)		FTE	
	Planning, Prevention, and Assistance	Permitting and Compliance	Planning, Prevention, and Assistance	Permitting and Compliance
RO667	2.6	-2.6	27	-27
PT676	0.2	-0.2	0	0
PT642	<u>-0.2</u>	<u>0.2</u>	<u>-2</u>	<u>2</u>
Total	2.6	-2.6	25	-25

DEQ's one reorganization transferred \$47,176 in general fund, \$2.5 million in state special revenue, \$130,209 in federal special revenue, and 27.00 FTE from the Permitting and Compliance Division to the Planning, Prevention, and Assistance Division. Additional details of the program transfers can be found below.

Program Transfers

Through November 2015, DEQ transferred:

- o \$180,000 in state special revenue from Permitting and Compliance Division to Planning, Prevention, and Assistance Division (see above)
- o \$57,535 in general fund and \$142,962 in state special revenue from Planning, Prevention, and Assistance Division to Permitting and Compliance Division (see above)
- o 2.39 FTE across the department

HB 2 Expenditures

To date, the department has expended 26.3% of its HB2 appropriation. This number includes two appropriations which have not yet been expended:

- o \$250,000 of general fund for Zortman/Landusky
- o \$1.0 million in state special revenue as part of a language appropriation for Petroleum Tank Clean-up related to recovery of funds

Budget Amendments

DEQ requested three budget amendments which reduced federal budget authority by \$13.3 million total. The reductions were due to unused authority in the Federal Abandoned Mine Lands Program.

Montana Department of Transportation (MDT)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

MDT received \$235,000 federal revenues for personal services to the General Operations Program. The authority is not committed for use at this time

Contingency Base Funding

MDT allocated contingency base funding to the following programs:

- o \$50,000 in federal revenues in FY 2016 in the General Operations Program to transfer license reinstatement fees to counties as required by HB 132
- o \$377,894 in state special revenues in FY 2016 in the Rail, Transit, and Planning Program to implement SB 180 for transportation services for senior citizens and individuals with disabilities

Modified Budget (Appendix A)

Contingency Base Changes

MDT transferred its contingency base funding for transportation services from operating expenses to grants as the funding is expected to be used to implement HB 180 in the 2017 biennium.

HB 2 Language

Language in HB 2 allowed remaining federal pass-through grant authority for highway traffic safety to be continued and appropriated in FY 2016 and FY 2017. MDT included \$3.0 million of federal authority in the Rail, Transit, and Planning budget under this provision. Because this action was authorized in a language appropriation, it is considered one-time-only and will not be included in the 2019 biennium base.

Program Transfers

MDT transferred \$75,189 of state special revenue personal services authority from the General Operations Program to the Maintenance Program. This change was related to the addition of 1.00 FTE in HB 2 to administer the Public Safety Radio System which is managed in the Maintenance Program.

Operating Plan Change - Significant

The executive has informed the LFC of an operating plan change that would trigger 17-7-138, MCA. This change is requested in the General Operations Program. The change would reduce the grants budget of \$156,968 by \$81,968, or 52.2%, in both years of the biennium and increase operating expenses by a like amount. The change is made due to the results of an audit, which found that the use would be more accurately accounted for as an operating expense.

State Special Revenues

The MDT HB 2 budget is funded with 38.0% state special funds and 62.0% federal special funds. The highway state special restricted revenue (HSRA) account is the primary state special revenue fund dedicated to the construction and maintenance of state roads and highways. The primary revenue sources in HSRA are the fuel taxes, gasoline and diesel taxes. Over the last few biennia the fund balance for HSRA has been declining, putting pressure on MDT to reduce project expenditures. As of November 2015, changes including carry forward have further eroded the working capital balance.

Staff will continue to keep the LFC informed on the status of the HSRA working capital balance.

Federal Special Revenue Funding

There has been uncertainty related to federal surface transportation funding over the past year. In recent months Congress and the President have made several short-term extensions of the current surface transportation act, with the most recent in place until December 4, 2015. At this time, Congress is working to resolve differences in the House and Senate versions of long-term surface transportation legislation. Both versions of the legislation appear to provide federal highway funding to the states at a levels that are consistent with recent funding.

HB 2 Expenditures

The following chart shows the HB 2 budget, expenditures, and remaining budget authority for the MDT programs.

Program	Modified Budget	Actual & Accruals	% Expended
01 General Operations Program	31,165,942	12,942,218	41.5%
02 Highways & Engineering	448,403,144	199,759,123	44.5%
03 Maintenance Program	140,483,553	46,059,799	32.8%
22 Motor Carrier Services Div.	12,071,309	4,268,542	35.4%
40 Aeronautics Program	8,986,482	1,067,188	11.9%
50 Rail, Transit & Planning	35,807,520	8,422,332	23.5%
Grand Total	\$676,917,950	\$272,519,204	40.3%

Expenditures, as of November, are consistent with expectations and historical trends. Some of the details include:

- o The Aeronautics Program expenditures appear low, but that is due to a \$6.4 million federally funded project, the West Yellowstone airport taxiway, included in the budget. Through November, only about 1% of the project authority has been expended on project planning
- o Rail, Transit, and Planning expenditures appear low. 53% of the program appropriations are budgeted as grants. Historically, the majority of the grant funding in the program is paid out in June, so the related expenditures follow the historic trend

Budget Amendments

Through November, MDT added a total of \$19.7 million in federal authority through the budget amendment process. The authority included \$19.6 million of new authority and a net of \$75,561 in changes to existing budget amendments. The largest budget amendment, \$18.6 million, was provided through a redistribution of federal funds that were not used by the federally set deadline in other states. Total budget amendments through November increase the MDT FY 2016 federal budget by 4.7%.

Carry forward

Carry forward of \$32.1 million was recorded for MDT. Of the total carry forward, \$24.4 million or 76.2% was federal fund authority and the remainder was state special authority. From the \$7.6 million in state special authority, \$7.3 was in the Highway State Special Revenue Restricted (HSRA) account, which is experiencing significant pressure as mentioned earlier.

Department of Livestock

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Department of Livestock received \$49,177 in general fund, \$49,177 in federal special revenue, and 1.00 FTE of personal services base contingency in the Meat/Poultry Inspection Division. The department has used this position as a compliance officer to meet federal inspection requirements.

Modified Budget (Appendix A)

Executive Reallocation

As a part of the budget implementation, the department processed multiple corrections that changed legislative intent, one of which was classified as significant under 17-7-138, MCA. The LFC reviewed this item during the September 2015 meeting.

HB 2 Expenditures

To date, the department expended 33.9% of HB 2 appropriations. The Milk and Egg Division shows under expenditure due to declining revenues in the milk and egg inspection state special revenue fund. Declining numbers of large producers has translated to less income and increased expense for this fund. The department has started a rule change in order to raise fees and took up the issue during its November meeting.

The department is heavily reliant on three principle funds – per capita, animal health, and brand inspection fees. Together, these compose 57.0% of the total department budget. Through SB 108, the 2015 legislature changed the collection of the principle fee – per capita – but the modification has yet to fully take effect. The department has put in place a plan to increase expenditures through brand inspection fees, animal health fees, and general fund in an attempt to reduce the expenditures from per capita. This would have the effect of increasing the per capita fund balance, potentially at the expense of these other funds.

Budget Amendments

The department requested one budget amendment to create a position out of an existing animal disease traceability grant fund to meet federal requirements.

Department of Natural Resources and Conservation (DNRC)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Department of Natural Resources and Conservation received personal services base contingency of \$155,372 in general fund, \$102,399 in state special revenue, and \$15,293 in federal special revenue.

Contingency Base Funding

OBPP transferred contingency base funding of \$50,000 general fund and \$100,000 federal special revenue to DNRC. OBPP documents note an additional allocation of \$1.5 million general fund, but this authority has not yet been established in the state accounting system.

Modified Budget (Appendix A)

Executive Reallocation

DNRC shifted authority to capture the differences between how information was entered in to the budgeting system and how it needed to be set up in the accounting system. Additionally, the department made a number of house adjustments and operating plan changes. These include:

- An operating plan change that moved \$91,986 state special revenue from operating expenses to personal services in order to hire 1.00 FTE to administer the sage grouse program
- The movement of \$52,640 from operating to personal services in federal special revenue in order to fund 0.79 FTE for the Federal Emergency Management Agency Community Assistance Program

Operating Plan Changes

DNRC requested an operating plan change that added 1 modified FTE for the Forest in Focus Program.

HB 2 Expenditures

To date, DNRC expended 29.8% of its HB2 appropriation. The most volatile part of the DNRC annual expenditure is in fire suppression costs. State fire costs during FY 2016 total \$12.3 million and the balance in the fire protection fund stands at \$79.8 million as of the beginning of December.

Fire Suppression Fund Update December 2015			
	FY 2014	FY 2015	FY 2016
Beginning Fund Balance	\$115,155	\$42,502,103	\$38,719,044
Revenue			
Corporation Tax Transfer*	25,497,421	-	15,229,061
General Fund Reversion Transfer	13,338,027	3,653,421	21,596,093
Governor's Emergency Fund Transfer	943,867	-	13,484,448
Supplemental (HB3) Excess Transfer	11,912,088	-	-
Other Income	84,206	147,516	54,195
Total Revenue	51,775,610	3,800,937	50,363,797
Disbursements			
Personal Services	4,209,267	1,884,252	4,170,256
Operating Expenses	5,179,395	2,563,871	5,144,440
Equipment	-	340,000	-
Grants	-	2,795,873	-
Total Disbursements	9,388,662	7,583,996	9,314,696
Ending Fund Balance (Unaudited)	\$42,502,103	\$38,719,044	\$79,768,145
*Corporation Tax Transfer ends after 2016			

Statutory Appropriations

DNRC manages a number of statutory appropriations. Of note, the fire suppression fund has paid \$9.3 million to date. Additionally, the department transferred \$2.9 million of the statutory authority related to this fund to the Department of Military Affairs to cover costs related to activation of the Montana National Guard for wildfire suppression.

Budget Amendments

The department requested budget amendments totaling \$9.7 million in additional federal special revenue. Of note, \$4.7 are Environmental Protection Agency grants for State Revolving Fund Clean Water loan forgiveness and \$870,870 relate to flood plain mapping. Appendix F contains the details on all budget amendments.

Department of Agriculture

HB 2 Budget

Modified Budget (Appendix A)

Program Transfers

The Department of Agriculture made two program transfers. The first moved \$17,415 in state special revenue from the Agriculture Sciences Division to the Central Management Division to address the indirect expenses for statewide weed coordination. The second moved federal special revenue in Agricultural Sciences Division from personal services, operating expenses, and equipment into grants - \$223,928 and to the Agricultural Development Division - \$30,550 - as part of changes in federal funding.

Operating Plan Change - Significant

OBPP has notified the LFC of an operating plan change that triggers 17-7-128, MCA review. This change moves coal tax shared state special revenue funds out of transfers into grants in the Agricultural Development Division. The shift is needed after the Agriculture Development Council directed that the coal tax shared funds should be awarded as loans/grants rather than technical assistance. The LFD analysis raises no concerns about this change.

HB 2 Expenditures

To date, the department expended 24.9% of its HB2 appropriation. Grants within Agricultural Sciences Division for the Growth through Agriculture Program are under expended at this point in the biennium due to timing of the grant awards.

Statutory Appropriations

The Department of Agricultural has a number of statutory appropriations including hail insurance enterprise fund to provide for hail insurance claims. The LFD estimated the department would spend \$7.7 million during FY 2016. To date, the department has used \$259,035. The lower than expected pattern stems from a new reinsurance agreement which uses a quota share arrangement. Under these terms, the department is obligated to pay 5.0% of the claims, but receives only 5.0% of the premiums after administrative costs.

SECTION D – JUDICIAL BRANCH, LAW ENFORCEMENT JUSTICE

Judicial Branch

HB 2 Budget

Allocated Budget (Introduction)

Executive Reallocation

In the Supreme Court Operations Program, the Judicial Branch moved \$3.07 million from transfers and \$0.47 million from operating expenses to benefits and claims to comply with accounting requirements. In the District Court Operations Program, the branch allocated \$35,000 from operating expenses to benefits and claims to comply with accounting requirements.

HB 2 Expenditure

Based on current expenditure patterns, the Court Help Program could exceed its appropriation level by more than \$61,000 general fund or 20.3%. If so, the agency would need this appropriation from other program areas.

Crime Control Division

HB 2 Budget

Modified Budget (Appendix A)

Operating Plan Changes

During the September 2015 LFC meeting, the Office of Budget and Program Planning included this change as part of its required reports on operating plan changes that met statutory triggers for LFC review. The LFD has included it in this report to ensure FY 2016 data is complete.

HB 2 Language

HB 2 includes language that allows remaining federal pass-through grant authority for to be continued and appropriated in FY 2016 and FY 2017. The division included \$5.0 million of authority, \$144,386 in state special revenue and \$4,843,227 in federal special revenues under this provision. Because this action was authorized in a language appropriation, it is considered one-time-only and will not be included in the 2019 biennium base.

Budget Amendments

The Crime Control Division moved \$75,000 in a previously approved budget amendment from operating expenses to transfers to comply with accounting policies. The federal funding is to increase crime victims' technology access to state victim resources and increase accuracy of administrative reporting. The operating plan change was done to transfer the authority to the Department of Justice.

Department of Justice

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

Funding for 1.00 FTE was provided to the Montana Highway Patrol to replace the 1.00 FTE the legislature moved to the Department of Transportation for interoperability radio coordination.

HB 2 Conditional Language

HB 2 language appropriates \$1,697,988 in state special revenue to the Motor Vehicle Division if HB 628 was not passed and approved. HB 628 was not passed and approved.

Modified Budget (Appendix A)

Operating Plan Changes

In the Division of Criminal Investigations \$34,000 of federal funds was moved from operating expenses to equipment to purchase two replacement vehicles in support of investigations of Medicaid fraud.

Public Service Regulation

HB 2 Expenditures

The Public Service Regulation expenditures are in line with historical trends compared to budgets at this point in the fiscal year.

Office of State Public Defender

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

Funding of \$1.2 million in general fund for 4.00 FTE and up to 20.00 modified FTE was allocated to address caseloads.

Contingency Base Funding

\$600,000 in general fund from the contingency base funding appropriation was allocated in FY 2016 for the attorney career ladder.

Modified Budget (Appendix A)

Executive Reallocation

Contingency base funding was transferred from operating expenses to personal services to support the career ladder.

Program Transfers

The office transferred 1.00 FTE and \$54,300 general fund from the State Public Defender program to the Appellate Defender program to address workload issues in the Appellate Defender program. This transfer will apply to each fiscal year of the 2017 biennium.

Required Reports

Since the committee's September meeting, the following three reports required in 47-1-201, MCA, were received from the Office of State Public Defender (OPD) that provide information for FY 2015:

- Numbers of cases opened, closed, open and active, and open but inactive
- Number of days between case openings and closings for each case type
- Information about assessments and collections on court imposed assessments to OPD clients as reimbursements for services rendered

The detailed reports are available on the committee's Internet page at:

<http://leg.mt.gov/css/Committees/Administration/Finance/2016-17/2015-lfc-default.asp>

The reports show that during FY 2015 the net number of cases opened by the office as opposed to closed grew by 2,418, or a 9.4% growth over FY 2014. In FY 2014, net case growth was 2,595, or an 11.3% growth over FY 2013. At the beginning of FY 2014, 22,998 cases were open (19,002 active and 3,996 inactive). FY 2015 ended with 28,011 cases open (21,889 active and 6,122 inactive), or a 21.8% growth over two years.

During FY 2015, the office also saw a growth in the average number of days cases were open for the following case types: criminal, juvenile, dependent and neglect, and courts of limited jurisdiction. At the end of FY 2015, a \$3.3 million balance was due to the office from represented clients with court assessments of public defender fees. The number of clients with assessments is unavailable. The data received from the courts does not provide this detail. The management of account receivables from court assessments was a finding in the 2014 financial audit report for the office.

Department of Corrections

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

Department of Corrections received a total of \$1.7 million general fund Personal Services Contingency Base funding. The funding provides for overtime in three programs:

- Secure Custody Facilities (mostly for Montana State Prison)
- Youth Services Division (mostly for Pine Hills Youth Correctional Center)
- Clinical Services Division (mostly for Montana State Prison clinic)

It also supports the following positions:

- 1.00 FTE was added in the Clinical Services Division to add a psychiatrist at Montana State Prison

- 1.00 FTE was added in the Board of Pardons and Parole for a multimedia analyst to implement the provisions of HB 28 that requires the board to audio-record and video-record meetings of the board to consider parole, rescission, revocation, or clemency decisions, including making the recordings available to the public

Contingency Base Funding

\$72,728 in general fund from the contingency base funding appropriation was allocated in FY 2016 to address the provisions of HB 28.

Modified Budget (Appendix A)

Program Transfers

The department transferred \$50,000 general fund from the Probation and Parole program to the Clinical Services program to administer mental health pharmacy costs through the Clinical Services program. This transfer will apply to each fiscal year of the 2017 biennium.

4% FTE Reduction Reallocation		
Program	FTE	General Fund
Secure Custody Facilities	(9.33)	(\$483,628)
Director's Office	1.50	74,795
Probation and Parole	3.00	161,019
Montana Correctional Ente	0.83	44,548
Youth Services	1.50	80,510
Clinical Services	<u>2.50</u>	<u>122,756</u>
Grand Total	0.00	\$0

Additionally, the department reallocated the FTE and funding associated with the 4% FTE reduction from the 2013 Legislature. Positions associated with long-term vacant FTE and funding in the Secure Custody Facilities program were reallocated across the department as shown in the figure to the right.

Budget Amendments

The department received \$15,821 in federal funds from the U.S. Department of Education for the Rural Education Achievement Program. The funds are available through September 2016 and will be used in the Youth Services Division for school supplies and contracted services.

SECTION E – EDUCATION

Office of Public Instruction (OPI)

HB 2 Budget

Allocated Budget (Introduction)

Contingency Base Funding

\$24,540 of general fund was allocated from contingency base funding for Agricultural Education Programs. SB 255 increased the funding for the Advancing Agricultural Education in Montana Program by \$24,540 per year. SB 255 increases the amount paid for each full-time equivalent teacher endorsed in agricultural education who teaches approved agricultural education courses through the local agricultural education program from \$500 per program to \$1,000.

The executive allocated \$24,540 to OPI to cover expected increases funding requirements for Advancing Agricultural Education in Montana. SB 255 amends 20-7-334 MCA, which defines the formula for funding agricultural education programs in the school districts, and increased the amount of funding for agricultural education programs. This additional funding will increase base funding for the next biennium.

HB 2 Conditional Language

HB 2 required OPI to reduce the general fund appropriation for BASE Aid by \$1,060,351 in FY 2016 should SB 157 be passed and approved. SB 157 revises property tax laws creating a savings in Guaranteed Tax Base payments starting in FY 2016 of \$1,060,351 and \$1,205,462 in FY 2017;

Other Bills

The legislature passed SB 272 and appropriated \$45,000 for the biennium in general fund to support Indian language immersion schools. The appropriation is one-time-only. To date the agency has distributed \$10,900 for this program.

Modified Budget (Appendix A)

Operating Plan Changes

OPI transferred \$500,000 of federal funding from operating expenses to personal services to fund modified level FTE for short-term workers employed in the area of special education (Title I).

HB 2 Language

HB 2 included language the following language directing OPI to limit the total appropriation for the traffic safety program to \$1.1 million. HB2 appropriated \$750,000 in base funding for traffic education, OPI amended the base by increasing the appropriation by \$300,000 to \$1,050,000 total. The executive could increase the appropriation by an additional \$50,000

HB 2 Expenditures

OPI State Level Activities has expended \$5.8 million or 49.0% of its general fund appropriation of \$11,893,969. In the first month of the fiscal year, the agency transferred, to the university system, \$1,900,000 of a \$2,000,500 appropriation for the Montana Digital Academy (MTDA) for the operation of that program. HB 2 language requires that the balance (\$100,500) be held by OPI unless the MTDA documents a minimum of 6,000 enrollments by March 1 of the fiscal year. This July transfer to MTDA represents 33.0% of total expenditures year to date.

The 2015 legislature appropriated \$635.4 million general fund for BASE Aid and \$133.5 million for other payments to local school districts (total \$768.9 million). As of November, \$313.1 million or 40.7% of the general fund appropriation has been distributed to local districts. In addition to HB 2 appropriation, the agency is appropriated \$1.0 million for career and technical education and statutory appropriations of \$46.6 million from the guarantee account for BASE Aid. When compared to total appropriation (\$816.5 million) the agency has distributed 38.4% of available appropriations.

As of this report, payments for BASE Aid are anticipated to be \$0.8 million or 0.1% higher than FY 2016 legislative appropriations. Factors impacting expenditures are as follows:

- Guarantee Account revised forecast: As of November 2015, estimates that revenue available from the guarantee account will be \$46.6 million; \$2.2 million lower than the HJ 2 estimate of the 2015 legislature. The reduction in the forecast for guarantee account funding is offset primarily by lower than anticipated guaranteed tax base payments (\$1.6 million) and lower quality educator payments (\$0.4 million)
- Unanticipated increases in enrollments: OPI calculates that an additional \$0.8 million in direct state aid will be required due to unanticipated enrollment increases in the fall. Unanticipated enrollment increases result when projected ANB (Average Number Belonging) enrollment is lower than the actual ANB enrollment realized by a school district in the fall

- Reimbursement to the state general fund for anticipated ANB increases that do not materialize: ANB for budgeting purposes is based on head counts done in the previous year. School districts may apply to OPI for an increase in their ANB should they anticipate an influx of new students in the following year. Should the “anticipated increase” not materialize the school district must refund to the state general fund payments related to the anticipated increase. In FY 2015 five school districts did not realize their anticipated ANB enrollment and were required to return \$1.0 million in state support. The table below summarizes the anticipated increases for FY 2016.

Anticipated ANB Increases FY 2016				
District	<u>Elementary</u>	<u>Middle School</u>	<u>High School</u>	<u>Total Increase</u>
Bainville	4	0	6	10
Billings EI	91	39	0	130
Billings HS	0	0	182	182
Bozeman EI	76	58	0	134
Lustre EI	9	0	0	9
Monforton	24	13	0	37
St Regis	11	5	0	16
Terry K12	18	0	0	18
West Glacier	10	0	0	10
Yellowstone Academy	0	16	0	16
Total	243	131	188	562

Statutory Appropriations

The guarantee account is statutorily appropriated to BASE Aid and offsets the need for general fund required to support BASE Aid. HJR 2 from the 2015 legislature estimated revenue from the guarantee account to be \$48.8 million for FY 2016. As of November 2015, the LFD estimates that the guarantee account will provide \$46.6 million in FY 2016, or \$2.2 million less than anticipated during the 2015 session. The lower estimate is due to lower estimates for oil bonus payments resulting from lower market price for oil. The table below gives the LFD November 2015 forecast compared to HJ2 estimate of the 2015 legislature.

Forecast of Revenue Available for BASE Aid Guarantee Account			
	<u>HJ2 2015 Legislature</u>	<u>LFD Estimate Nov 2015</u>	<u>Change</u>
FY 2016	\$48,825,000	\$46,596,000	(\$2,229,000)
FY 2017	\$49,362,000	\$46,827,000	(\$2,535,000)

Board of Public Education (BPE)

HB 2 Expenditures

In the first five months of the fiscal year, the BPE has expended 30.5% of the general fund appropriation and 30.5% of total appropriations, which is in line with historical expenditure patterns. In previous years the BPE paid legal fees out of vacancy savings and operating expenses, the 2015

legislature appropriated \$30,000 general fund as a restricted, one-time-only appropriation for legal fees. To date, the BPE has expended \$2,700 or 9.0% of the appropriation for legal fees. The appropriation for legal fees is restricted for its intended purpose and any balance must be remitted to the general fund. Excluding restricted expenditures, the BPE has expended 29.1% of its general fund appropriation and 32.4% of total appropriations.

Commissioner of Higher Education (OCHE)

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The Office of the Commissioner of Higher Education was allocated \$119,504 in Personal Services Contingency Base funds for the 2017 biennium in the form of federal special revenue. The funds are for the GEAR UP Program (Gain Early Awareness and Readiness Undergraduate Program). The GEAR UP Program has not been fully staffed due to turnover during the recent fiscal years. The Commissioner's Office has addressed the staffing issue and intends for the program to be fully implemented in the coming biennium.

Contingency Base Funding

The Office of the Commissioner of Higher Education was allocated \$426,017 in contingency base funding for the 2017 biennium in the form of federal special revenue for the GEAR UP Program.

HB 2 Conditional Language

HB 2 language reduced the appropriation to Appropriation Distribution by \$1.6 million in general fund if SB 416 was not passed and approved.

Modified Budget (Appendix A)

Executive Reallocation

OCHE requested a reallocation in the Improving Teacher Quality Program. This program is entirely federally funded, and the budget change increased personal services to fully fund a new employee to take over the program. The federal government limits allowable administrative costs. \$16,390 each fiscal year concurs with personal service levels in FY 2010 which was prior to the heightened turnover.

OCHE requested a reallocation in the GEAR UP Program. This program is federally funded and disbursed to students by the Commissioner's Office. The reallocation includes \$900,000 out of the transfers and into the operating expenses.

As shown in the allocated contingency base table on page 10, the executive reallocated \$426,017 in federal revenues from operating expenses to transfers.

The Appropriation Distribution Program and the Research and Development Agency Funds allocated \$3.5 million from personal services to transfers for implementation of the pay plan. The funding is transferred to the universities, colleges, and agencies.

Fiscal Year Transfers

The Administration Program budget includes \$15.0 million in biennial, one-time-only general fund appropriation for a research initiative. The biennial funding was split between fiscal years in HB 2. The agency transferred the \$7.5 million in FY 2017 appropriations into FY 2016. All but approximately

\$1.0 million of these funds has been awarded to 10 different research projects across the Montana University System.

HB 2 Expenditures

University of Montana (U of M) FTE Reductions

U of M recently announced budget reductions due to receiving less than anticipated tuition revenue. The budget reductions do not impact HB 2 as the lump sum appropriation is not affected by changes in tuition revenue for the 2017 biennium.

Montana School for Deaf and Blind (MSDB)

HB 2 Expenditures

Over 95% of the funding for the MSDB is general fund. In the first 5 months of the fiscal year, the school has expended 37.25% of the general fund appropriation and 36.3 % of total appropriations; this is in line with historical expenditure patterns. The school received \$69,438 general fund in restricted, one-time-only appropriation of which \$16,814 or 24.2 % has been expended including:

- Student travel (\$30,000 in each year of the biennium)
- Upgrading the lending library (\$12,500 in each year of the biennium)
- Funding for extracurricular activities (\$26,938 each year of the biennium)

The school also is paying down debt incurred for boiler upgrades and energy conservation projects at their campus.

Montana Arts Council

HB 2 Expenditures

In the first five months of the fiscal year, the Arts Council has expended 34.1% of its general fund appropriation and 40.3% of total appropriations, which is in line with historical expenditure patterns.

Montana State Library

HB 2 Budget

Modified Budget (Appendix A)

Operating Plan Changes

The Montana State Library (MSL) transferred \$1,052,472 in federal revenues from grants. \$732,516 in personal services and \$319,956 in operating expenses were allocated to implement Library Services and Technology Act programs in FY 2016. Historically MSL budgets the funds as grants as the allocation of the funding is not known at the time the legislature meets. MSL then transfers the funding to appropriate expenditure categories based on discussion with the Montana Library Commission.

HB 2 Expenditures

To date the Montana State Library has expended 42.1% of its general fund appropriation and 39.3% of total appropriations, which is in line with historical expenditure patterns.

Montana Historical Society

HB 2 Expenditures

In the first five months of the fiscal year, the Historical Society has expended 36.5% of the general fund appropriation and 38.4% of total appropriations, which is in line with historical expenditure patterns.

Budget Amendments

The agency had two budget amendments that totaled \$254,000. Of that amount, \$199,000 of additional federal revenues is to assist Idaho State Historical Society with digitizing Idaho newspapers and \$55,000 in additional enterprise spending authority is for file search and copy fees. Refer to the budget amendment in Appendix F for further details.

SECTION B – DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

Department of Public Health and Human Services

HB 2 Budget

Allocated Budget (Introduction)

Personal Services Contingency Base

The appropriation transferred to the department is utilized in the Director's Office. In FY 2016, this amounts to \$240,102 federal funds authority to be used for the newly established State Office of American Indian Health. This office is expected to be funded with a split of general and federal funds, with the general funds coming from other funding sources in DPHHS. Remaining federal funds authority is expected to be utilized to cover anticipated shortfalls in federally funded programs such as in the Public Health and Safety Division.

HB 2 Coordination Language

Language within HB 2 appropriated an additional \$500,000 in general fund to the Child and Family Services Division when HB 305 was not passed and approved.

Modified Budget (Appendix A)

Executive Reallocation

Within the Director's Office, \$146,411 was moved between first level expenditure categories, from operating expenses to grants, to align with accounting requirements. This impacted two state special accounts in the amount of \$78,406 and four federal special accounts in the amount of \$68,005.

The Public Health and Safety Division made a large number of changes, but with no change to the overall level of funding for this division. For FY 2016, over \$1.3 million was transferred out of grants, with \$0.9 million of this being transferred into operating expenses. This was done to be consistent with accounting requirements stipulating that, though the money for these expenses was provided through grants, when the department is spending the money rather than providing it to another entity as a grant, those expenses are to be recorded as operating expenses. Another \$0.5 million was moved into transfers.

The Developmental Service Division (DSD) transferred \$0.8 million from personal services and \$0.9 million from benefits and claims into operating expenses for FY 2016. The total amount budgeted for

operating expenses in FY 2016 is \$5.9 million with this change. This is comparable to actual operating expenditures of \$5.6 million in FY 2014 and \$5.1 million in FY 2015.

Senior and Long-Term Care transferred authority between first-level expenditure categories, with \$94,437 coming out of operating expenses, and \$19,250 out of equipment. Of this amount, \$90,437 was moved into grants to align with current accounting standards, \$23,250 was moved into debt service. These changes moved funds within three state special accounts and over 20 federal special accounts.

Program Transfers

Several program transfers occurred in the first quarter of FY 2016 in various programs. The Director's Office, under federal regulations, must charge termination payouts through the agency-wide cost allocation plan. \$2.2 million was transferred into the Director's Office from across all department programs that had termination costs. This budget change explains the majority of the numbers seen in the "Program Transfer" column in Appendix B for DPHHS. It was included in the Required Reports for the September 2015 LFC meeting. In addition, \$22,000 in general fund was moved from the Human and Community Services Division to Business and Financial Services and Quality Assurance Divisions as cost allocation for the Child Care Program.

Operating Plan Changes

Economic Security Services programs continued 17.50 modified FTE from the 2015 biennium and created 26.00 modified FTE as part of the Safe Child Initiative implementation. In addition, the Child and Family Services Division transferred \$48,815 general fund from operating expenses to transfers to support two MOUs (memoranda of understanding) with the judicial courts.

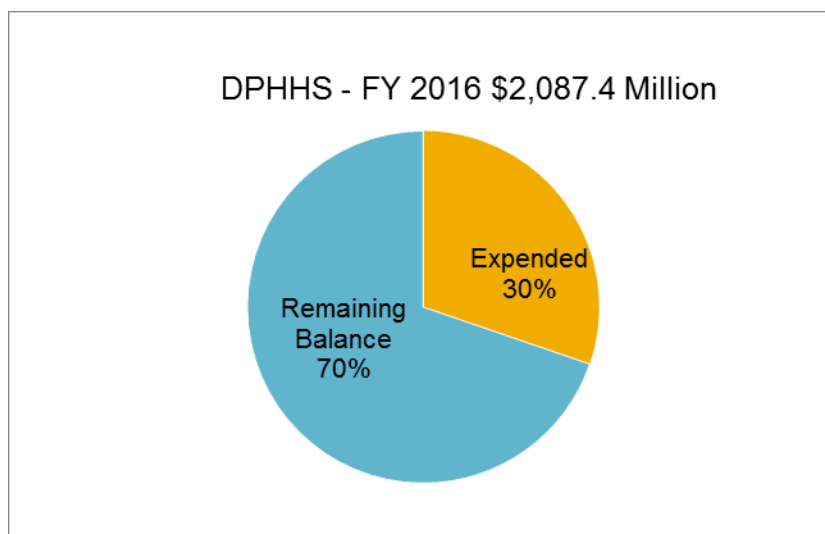
The Quality Assurance Division continued two modified FTE positions in FY 2016. The first position provides administrative and data entry support to the Child Care Licensure Program. This position is 100% federally funded. The second position provides for a recovery audit coordinator required by the Affordable Care Act. This position analyzes paid claims to identify Medicaid overpayments and underpayments. The position is funded at the Medicaid administrative match rate (50% Federal/50% General Fund) requiring \$32,285 general fund for the year.

Other

Disability Employment and Transitions has a language appropriation of \$775,000 in each year of the biennium for the Montana Telecommunications Access Program. This is contingent upon transfer of responsibility for video relay aspects of the program from the federal government to the state. This is the third biennium this contingency appropriation has been in effect.

HB 2 Expenditures

The following chart illustrates the HB 2 budget, expenditures, and remaining budget authority for DPHHS. The department has spent roughly \$631.3 million of \$2,087.4 million to date.



Appropriations for services have been spent at a level consistent with year-to-date expectations according to historical expenditure patterns.

The Economic Security Services Branch has one major new initiative: the Safe Child Initiative in the Child and Family Services Division. There were no expenditures recorded from that appropriation through the end of November, but the division has received approval for modified FTE positions and is working through the planning stages.

Budget Amendments

Several amendments were added for FY 2016 regarding the Substance Abuse and Mental Health Services Administration (SAMHSA), providing federal funds authority totaling \$3.5 million and 2.75 FTE across both Addictive and Mental Disorders Division (AMDD) and DSD. SAMHSA is the agency within the US Department of Health and Human Services that leads public health efforts to advance the behavioral health of the nation. SAMHSA’s mission is to reduce the impact of substance abuse and mental illness in local communities. In addition, a Title XX block grant was awarded to the Developmental Services Division; this funding may be used as a cash incentive to private providers supporting SB 411 and moving clients into the private sector. There are two additional budget amendments from the Food and Drug Administration for tobacco inspection and tele-services for veterans living in rural areas in AMDD.

DPHHS has submitted two budget amendments for the Economic Security Services Branch. The Disability Employment and Transitions Division received funding from the Social Security Administration for 1.00 modified FTE to support information technology in its disability determination services function. The Human and Community Services Division received federal grants to support continuation of the Healthy Montana Teen Parents Program and an associated 1.00 modified FTE to oversee award distribution.

Other Bills

The 64th legislature passed HB 33, an act that expanded mental health crisis intervention and jail diversion services and provided an appropriation. This bill contained coordination instruction regarding the final appropriation amount in the event that both HB 2 and HB 33 passed. The executive adjusted the HB 2 appropriation to \$850,000 and established a HB 33 appropriation for \$1.0 million.

The passage of HB 472 reauthorized (and permanently established) the Office of the Child and Family Ombudsman. This office is housed in the Department of Justice, but oversees functions of the Child and Family Services Division in the Department of Public Health and Human Services. This bill required that \$85,471 be transferred from DPHHS to DOJ in FY 2016; this transfer was taken from the Director's Office.

Other Items of Legislative Interest

Legislative Audit Findings

The Legislative Audit Division has recently completed a performance audit of the Child Protective Services (CPS) function of DPHHS which is administered by the Child and Family Services Division (CFSD). The audit findings and department responses were as follows:

- 1) Audit: Prioritize and require documentation of intake and investigative activities by clearly defining documentation requirements in policies and procedures
Department response: Revision, clarification, and initial training are slotted to be completed by the end of November, with on-going training to follow.
- 2) Audit: Clarify and implement existing policies and procedures regarding the role of supervisors, including attrition contingencies
Department response: Revision and clarification are scheduled to be completed by the end of November.
- 3) Audit: Implement development of an electronic records management system and an integrated, automated case management system in addition to developing a plan to actively use current data collection tools within existing resources
Department response: A data management plan is complete, and the department is in the process of finding a vendor for a case management system. Expected completion is 9/30/16.
- 4) Audit: Comply with state law and department policies regarding priority and investigative time frames
Department response: The department only partially concurs in that it does not believe that it can meet this need within existing resources. Implementation of a revised assessment policy occurred in August and September.
- 5) Audit: Resolve inconsistencies between state law and department protocol regarding substantiations and other determinations
Department response: The department has already implemented this change and will continue with periodic review to determine the potential need for further changes.

Update on Closure of MDC

The closure of MDC as directed by SB 411 requires an oversight committee. This committee and the LFC meeting are scheduled back to back. Staff will provide an update at the LFC meeting.