JUNE FY 2016 BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By

Legislative Fiscal Division Staff

June 9 , 2016

LFD
MONTANA LEGISLATIVE FISCAL DIVISION

GENERAL FUND ENDING BALANCE

The March Budget Status Report projected an ending fund balance for FY 2017 of $357 million. By July 2016, fiscal year-end data will be complete for FY 2016 and the numbers may be significantly different than the projected amounts in the March Budget Status Report. Current 2017 biennium forecasts based on FY 2016 year-to-date revenues are about $166 million lower than the revenue estimate. Conversely, some expenditures are projected to be lower than estimated in the 2017 Biennium Fiscal Report. Therefore expenditures could be less than originally projected, resulting in higher reversions. The chart below demonstrates the projected changes and the potential impact on the 2017 general fund ending balance. The various assumed projections could result in an ending fund balance between $163 and $188 million, or approximately between 3.5% and 4.0% of 2017 biennial expenditures. Further information on the potential impacts are described in the 2019 Biennium Outlook presented at the June 2016 Legislative Finance Committee.

Variable	Change	Impact on EFB
GF 2017 Bi Revenues	↓	↓
2017 Bi Supplemental Risk	↑	↓
2017 Bi Statutory Appropriations	↓	↑
2017 Bi Non-Budgeted Transfers	↑	↓
Reversions	?	?

REVENUES

General fund revenue collections are $54.0 million or 2.9% less than FY 2015 amounts through May, and are currently below the overall estimate of a 2.9% increase contained in HJ 2.

Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns (see page 3) indicate total general fund collections of $2,136 million, about $127 million less than the HJ 2 estimate. Detailed analysis by source suggests that FY 2016 collections will be $2,166 million, or about $97 million below the HJ 2 estimate. The volatility of capital gains income, oil price and production, and corporation income may result in total revenue collections that are higher or lower than what current collections suggest for FY 2016; in addition, the accruals posted at the close of FY 2016 may impact the final growth rates of several sources.

YEAR-TO-DATE GENERAL FUND REVENUE

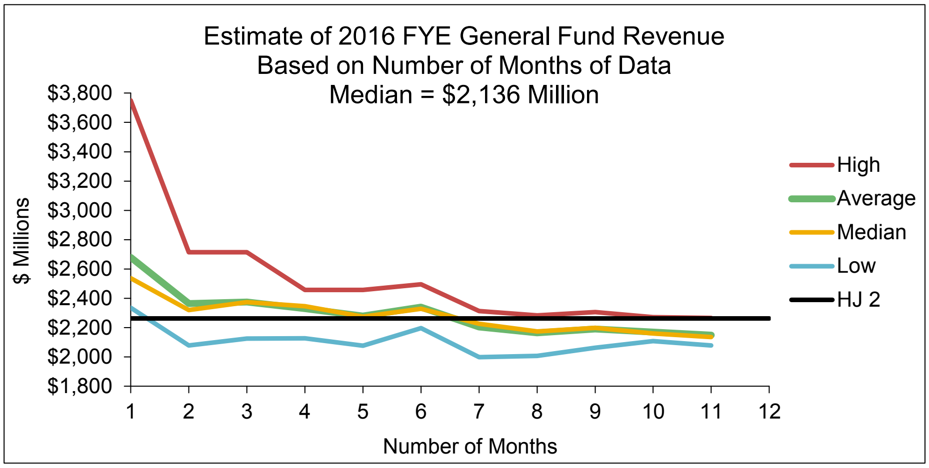
FY 2016 general fund revenues through the end of May are $54.0 million or 2.9% less than FY 2015 revenues through the same period; this decrease is below the HJ 2 estimated increase of 2.9%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report
($ Millions)

Revenue Source	Actual FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	5/31/2015 FY 2015	5/31/2016 FY 2016	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	$1,175.745	$1,229.616	4.6%	$1,142.097	$1,168.623	$26.526	2.3%
Property Tax	247.881	253.799	2.4%	148.299	152.953	4.654	3.1%
Corporation Tax	172.729	179.898	4.2%	150.983	100.094	(50.888)	-33.7%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	86.666	89.318	2.652	3.1%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	46.256	21.571	(24.685)	-53.4%
Insurance Tax	66.582	72.279	8.6%	53.269	53.710	0.441	0.8%
Video Gaming Tax	59.799	62.007	3.7%	44.699	45.319	0.620	1.4%
Other Business Taxes							
Drivers License Fee	4.811	4.081	-15.2%	4.191	3.858	(0.333)	-8.0%
Investment Licenses	6.773	7.412	9.4%	6.604	7.035	0.430	6.5%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	14.478	16.311	1.833	12.7%
Public Contractor's Tax	3.257	3.560	9.3%	2.337	1.230	(1.107)	-47.4%
Railroad Car Tax	3.706	3.741	0.9%	3.672	3.500	(0.172)	-4.7%
Rental Car Sales Tax	3.907	3.331	-14.7%	3.028	3.227	0.199	6.6%
Retail Telecom Excise Tax	18.257	18.999	4.1%	13.227	12.653	(0.574)	-4.3%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	-10.1%	12.282	10.199	(2.083)	-17.0%
Electrical Energy Tax	5.133	4.580	-10.8%	3.900	3.458	(0.442)	-11.3%
Metal Mines Tax	8.320	8.311	-0.1%	3.854	2.012	(1.842)	-47.8%
U.S. Mineral Leasing	26.960	24.069	-10.7%	20.927	14.799	(6.128)	-29.3%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	2.871	2.704	(0.168)	-5.8%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	16.293	14.888	(1.405)	-8.6%
TCA Interest Earnings	2.164	8.527	294.0%	1.743	3.134	1.391	79.8%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.1%	2.463	2.442	(0.022)	-0.9%
Cigarette Tax	29.604	31.036	4.8%	25.940	26.822	0.882	3.4%
Liquor Excise Tax	19.257	19.521	1.4%	15.773	16.049	0.276	1.7%
Liquor Profits	11.000	11.021	0.2%	-	-	-	
Lottery Profits	12.363	11.031	-10.8%	6.575	5.471	(1.104)	-16.8%
Tobacco Tax	6.056	6.396	5.6%	5.072	5.104	0.032	0.6%
Wine Tax	2.307	2.363	2.4%	1.927	1.970	0.042	2.2%
Other Sources							
All Other Revenue	40.822	40.060	-1.9%	26.659	24.380	(2.279)	-8.5%
Highway Patrol Fines	4.042	4.349	7.6%	3.202	3.324	0.122	3.8%
Nursing Facilities Fee	4.810	4.756	-1.1%	3.637	3.575	(0.062)	-1.7%
Public Institution Reimbursement	16.819	16.606	-1.3%	12.890	11.948	(0.942)	-7.3%
Tobacco Settlement	3.225	3.145	-2.5%	3.225	3.394	0.169	5.3%
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	1,672.269	1,631.589	(40.680)	-2.4%
Remaining Sources Subtotal	297.352	299.728	0.8%	216.771	203.484	(13.287)	-6.1%
Grand Total	$2,199.653	$2,262.777	2.9%	$1,889.040	$1,835.073	($53.967)	-2.9%

Year-to-Date Relative to Historical Collection Patterns

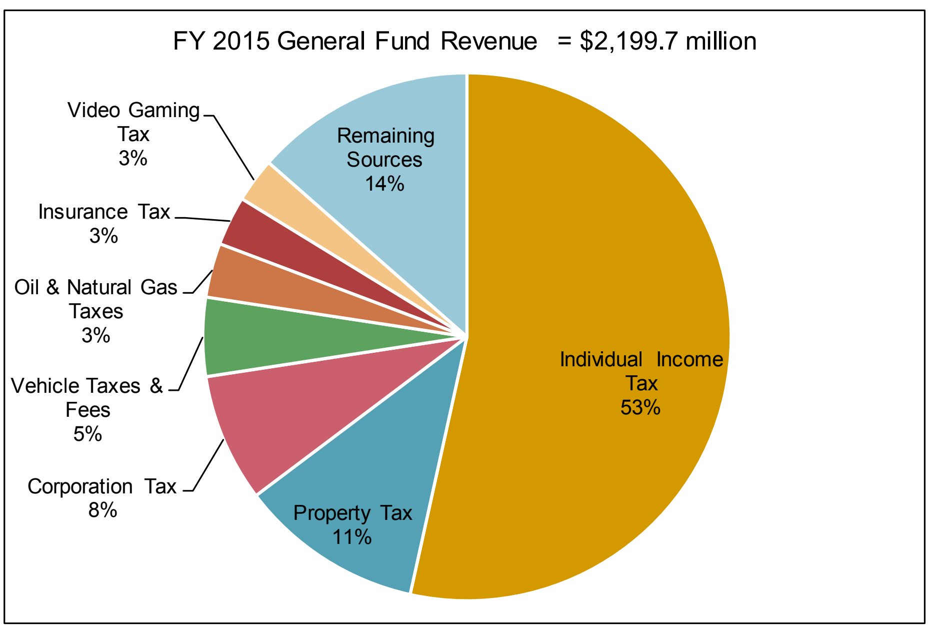
As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2016 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of May, the difference between the high and low amounts is about $190 million, with the average and median values below the HJ 2 estimate.



Potential total general fund collections range from a low of $2,079 million to a high of $2,266 million, with a median value of $2,136 million and an average value of $2,149 million. The FY 2016 forecast for total general fund in HJ 2 is $2,263 million.

MAJOR SOURCES

In FY 2015, the largest seven revenue sources accounted for just over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



Individual Income Tax: Currently Below HJ 2

Individual income tax collections are $26.5 million or 2.3% above last year, which is below the anticipated growth of 4.6% contained in HJ 2. Cumulative withholding growth through May increased to 3.7%, which is above the growth of 3.3% through April. Withholding tax accounts for about one-third of general fund revenue.

Individual Income Tax
($ Millions)

	YTD 2016	YTD 2015	$ Difference	% Difference
Withholding	$800.2	$771.8	$28.4	3.7%
Estimated Payments	233.3	219.6	13.7	6.3%
Current Year Payments	186.5	197.1	(10.6)	-5.4%
Audit, P&I, Amended	43.3	33.1	10.2	30.7%
Refunds	(266.3)	(247.4)	(18.9)	7.6%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	20.4	21.4	(1.0)	-4.8%
Mineral Royalties	11.3	13.9	(2.6)	-18.7%
Total	$1,168.6	$1,142.1	$26.5	2.3%

Property Tax: In Line with Estimate

Property tax collections are above last year by $4.7 million or 3.1%, and currently above the HJ 2 estimated growth of 2.4%. The second large property tax payment will occur in June. Final collections will likely come in close to HJ 2 estimates, and perhaps slightly above due to strong growth in Class 9 pipeline property.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of May are $50.9 million or 33.7% below last year, and below the anticipated increase of 4.2% contained in HJ 2.

Corporation Income Tax
($ Millions)

Account	YTD 2016	YTD 2015	$ Difference	% Difference
Corporation Tax	$27.7	$29.9	($2.2)	-7.5%
Estimated Payments	91.4	107.1	(15.8)	-14.7%
Refunds	(31.1)	(21.4)	(9.6)	45.0%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	7.8	27.3	(19.5)	-71.4%
Total	$100.1	$151.0	($50.9)	-33.7%

The year-over-year decrease is due to a variety of reasons:

- There was a large one-time audit in FY 2015 that contributed to the large discrepancy in audit collections from FY 2015 to FY 2016
- A monthly record level of refunds was distributed in April of FY 2016—just over $16 million
- FY 2016 April estimated payments were $11.8 million less that the corresponding FY 2015 payments

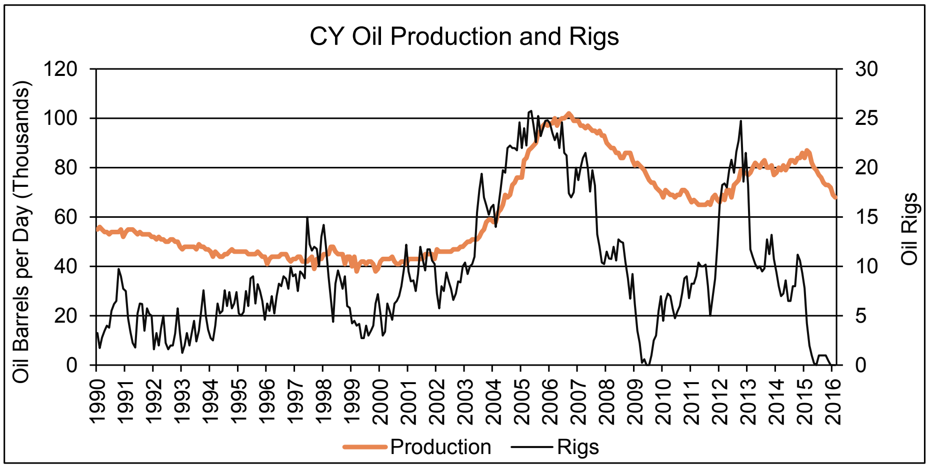
On average, estimated payments account for about 80% of total corporation tax revenue. If the decline in estimated payments continues, FY 2016 total estimated payments could come in about 20% below FY 2015.

Vehicle Fees & Taxes: Above Estimate

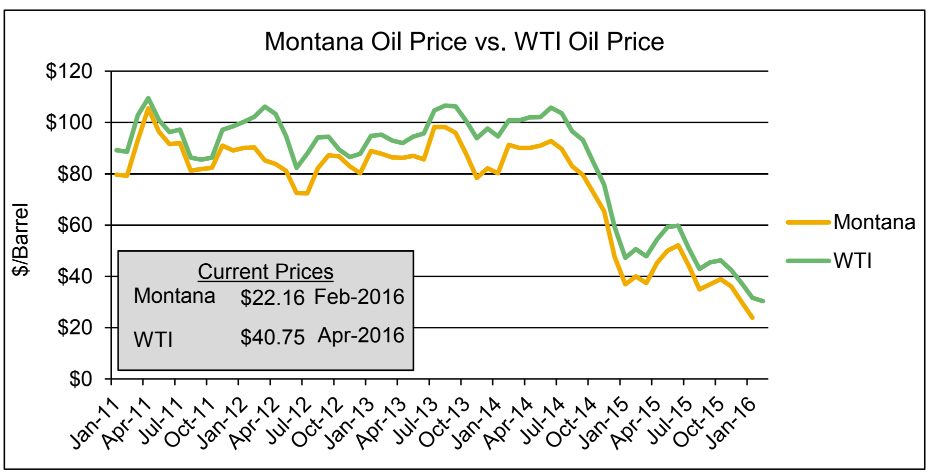
Through May of FY 2016, vehicle taxes and fees are 3.1% or $2.7 million above collections from last year. In HJ 2, this source was expected to decline by 0.2% from the FY 2015 collections. This source is expected to slowly continue to grow throughout the remainder of the fiscal year.

Oil & Natural Gas Production Tax: Below Estimate

With the first and second quarter collections posted, oil and natural gas tax is below last year's collections by 53.4% or $24.7 million, and below the HJ 2 anticipated decline of 19.0%. The amount of difference will continue to increase but the percentage difference should move somewhat closer to HJ 2 as the fiscal year closes, because the first quarter contained the biggest discrepancy in oil prices from FY 2015 to FY 2016. Production continues to decline as shown in the chart below, and there has only been at most one rig operating in the state since March 2015.



The decline in price is the primary driver in the reduced revenue collections. The following chart compares the monthly average price for Montana oil with the WTI price. There is a two-to-three month lag in available monthly price data.



Insurance Tax: Slower-than-Expected Growth

Current insurance tax collections are 0.8% or $0.4 million above FY 2015 year-to-date. HJ 2 anticipates growth of 8.6% at fiscal year end. The third quarter payments that were due in April came in $3.1 million below the previous year. Research is ongoing with the State Auditor's Office to understand the discrepancy.

Video Gaming Tax: Slightly Below HJ 2

Revenue from video gambling is currently $0.6 million or 1.4% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%.

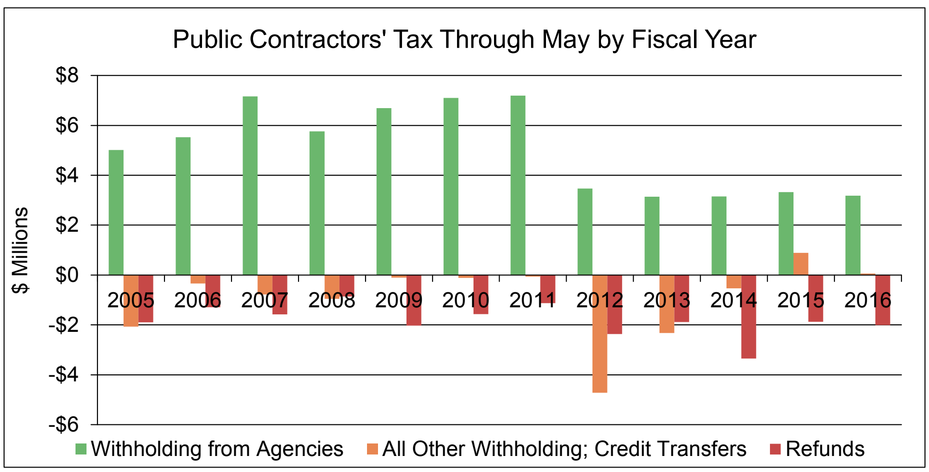
OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Above Estimate Due to Online Travel Companies' Remittances

Lodging facilities sales tax collections are $1.8 million or 12.7% above last year, and above the anticipated growth of 11.0% contained in HJ 2. The growth is driven by $1.1 million in payments made in November by online travel companies as a result of litigation with DOR. Going forward, the online travel companies are anticipated to remit about $0.1 million per quarter. The litigation also impacted rental car sales taxes, with an additional $0.3 million in payments by the online travel companies.

Public Contractors' Tax: Below Estimate

Public contractors' tax collections are $1.1 million or 47.4% lower than last year, and below the anticipated growth 9.3% contained in HJ 2. Most of the difference is due to unusually high other withholding through May FY 2015. However, the remaining net tax is still below FY 2015 by 20% and unlikely to reach the estimate contained in HJ 2.



Coal Severance Tax: Below Estimate Due to Lower Production

Coal severance tax revenue is $2.1 million or 17.0% below year-to-date collections in FY 2015, and below the HJ 2 estimated decline of 10.1%. General fund collections were expected to decrease primarily due to HB 228 which shifted coal distribution from the general fund to the coal board account; however, total coal collections were expected to stay flat. A decrease in production is responsible for the additional year-to-date decline.

Metal Mines Tax: Below Estimate Primarily Due to Lower Commodity Prices

Metal mines tax revenue through May is $1.8 million or 47.8% below last year, and below the anticipated decline of 0.1% in HJ 2. The reduced revenue is primarily driven by lower metal prices; for several metals, production has increased from last year, while for the remaining metals, the decline in production is not as significant as the drop in price.

U.S. Mineral Royalties: Below Estimate, Likely Due to Oil

U.S. mineral royalties are down year-to-date 29.3% or $6.1 million, and below the HJ 2 forecast decrease of 10.7%. The larger-than-expected decrease is likely due to lower oil royalties; however, the U.S. Department of the Interior's Office of Natural Resources Revenue does not release the royalty payment category breakdowns until the end of the federal fiscal year, so detailed information by revenue type will not be available until November 2016.

Coal Trust Interest Earnings: Slightly Below Estimate

To date, coal trust interest earnings are $1.4 million or 8.6% below collections from one year ago. The year-to-date decline is due to a lower rate of return on the coal permanent trust. In HJ 2, collections were expected to decline by 6.4%, so this source is tracking slightly lower than expected.

TCA Interest Earnings: Below Estimate Due to Lower Interest Rates

To date, TCA interest earnings are trending below the estimate contained in HJ 2 due to continued low interest rates. While interest rates are low, they have increased from last year as year-to-date collections are up 79.8% or $1.4 million. However, in HJ 2 collections were expected to grow by $6.4 million.

Lottery Profits: Currently Below Estimate Due to Large Payouts

Lottery profits are 16.8% or $1.1 million behind last fiscal year. Prior research indicated that as of the end of March, lottery prize payouts were up $3.8 million over FY 2015, a year-to-date record of $26.6 million.

All Other Revenue: Below Estimate Due to SB 405 Premiums

To date, all other revenue collections are 8.5% or $2.3 million below last year's collections, primarily due to a decrease in abandoned property collections. In HJ 2, collections were expected to decrease by 1.9%. In addition, the official estimate included nearly $3.0 million in premium collections from SB 405 and to date, only $1.0 million has been collected.

BUDGET AND EXPENDITURES

FY 2016 APPROPRIATIONS AND EXPENDITURES

This portion of the report discusses the FY 2016 appropriations and related expenditures by budget section including:

- Modifications to FY 2016 HB 2 appropriations that have been made between March 1 and May 31. (For changes occurring between July 1 and February 29 refer to the FY 2016 Budget Status Report provided to the Legislative Finance Committee (LFC) at its March meeting.)
- Expenditure and spending patterns relative to the portion of the fiscal year that has passed with emphasis on personal services and state special revenue funding where revenues or expenditures are above or below expectations
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments
- Carry forward authority
- Supplemental appropriation requests
- Other appropriations authority granted to state agencies

The following definitions are used in the report:

- Allocated budget - HB 2 appropriations provided by the legislature including allocations of appropriation authority between state agencies made by the executive in accordance with legislative intent as directed in HB 2 and companion legislation. Allocated budgets include pay plan distributions and transfers of contingency funds to various state agencies. Changes that do not modify the legislative budget by first level expenditure or funding category are also included
- Modified budget – HB 2 allocated budget as modified by the Executive, Legislative, or Judicial Branch for transfer of authority between programs, changes between expenditure categories, or

transfer of appropriation authority and FTE to restructure agency functions. Statute provides for the Executive, Legislative, and Judicial Branches to make these types of budget modifications when the legislature is not in session

The Legislative Fiscal Division (LFD) has developed a guide to the transactions included in each both budget types.

The vast majority of the appropriation changes examined in this report do not impact the overall agency budget, but alter allocated budgets between programs, expenditures categories, or the organizational units of the agency. As illustrated in Appendix A, Budget Changes by Program, the March report's allocated and modified budgets are used as the beginning point. Further columns in Appendix A show modifications for reorganizations, program transfers, and operating plan changes that occurred between the March and June reports. These modifications establish the June modified budget used to compare budgeted appropriations to actual expenditures and to determine the remaining budget authority. It should be noted that for the purposes of this report appropriations provided as one-time only are included as part of total appropriations and expenditure.

Expenditure and spending patterns relative to the portion of the fiscal year that has passed is equal to 88.5% of personal services and 91.7% of other costs, leaving between 11.5% and 8.3% respectively in remaining authority. Analysts examined differences in expenditures that varied from these percentages that are calculated based on the amount of time elapsed in the budget year, referred to in this report as fiscal year expenditure percentages. This report focuses on fiscal year expenditure percentages that were materially above or below anticipated fiscal year expenditure percentages.

> Fiscal year expenditure percentages are calculated based on the amount of time elapsed in a budget year.

To provide a complete picture of agency resources, the following narrative includes appropriation authority beyond HB 2 provided through non-budgeted proprietary funds[1], statutory appropriations, budget amendments, and carry forward authority[2]. These additional appropriations are included in the summary chart of state resources in Appendix B, State Resource Summary of FY 2016 Budgeted Authority and Actual Expenditures. It should be noted that budget amendments and carry forward authority that have been "continued" from a previous fiscal year are included along with Long-Range Building and Information Technology Program projects approved by previous legislatures under continuing appropriations. Those that were added to the budget in FY 2016 are reflected in the appropriate columns.

Required Report and Budget Amendments

The Legislative Finance Committee (LFC) receives a number of reports from various state agencies including:

- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between March 1 and May 31. Details by budget amendment and a summary of the changes are provided in Appendix C

[1] Non-budgeted proprietary funds include both internal service and enterprise funds. HB 2 includes legislatively adopted rates for internal service funds. The rates approved by the legislature act as both revenue and expenditure caps as the rates are the maximum the program may charge during the biennium. However, the legislature does not approve rates or appropriate funds for the majority of enterprise funds.

[2] 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. For budgeting purposes carry forward authority is considered a one-time-only (OTO) appropriation.

- Operating plan changes and program transfers meeting requirements for LFC review received between March 10 and June 9. Letters from the Office of Budget and Program Planning outlining these proposed changes are included in Appendix D
- Supplemental appropriation requests to transfer funding from FY 2017 to FY 2016 due to funding shortfalls in FY 2016. Notice from the Budget Director to the Legislative Fiscal Analyst regarding a supplemental appropriation request for Department of Justice is included in Appendix E
- Other agency reports statutorily required to be provided to the LFC

LFC Review

Staff reviewed budget amendments, operating plan changes, program transfers, and supplemental appropriation requests and have raised no concerns of the transactions meeting statutory criteria. The LFC may wish to comment on the transactions during its review and discussion of the June FY 2016 Budget Status update. It is the role of the Legislative Finance Committee (LFC) to report to the Governor whether, in the committee's view, the supplemental appropriation request meets statutory criteria and to raise any necessary compliance issues. If the LFC does not provide a report, the Governor can authorize the transfer 90 days after the request was forwarded to the LFC. The LFC does not approve or deny the request.

The LFC may take one of three actions for this transfer:

1. Report to the Governor that the LFC does not raise any issues of statutory compliance with the proposed transfer;
2. Report to the Governor of statutory compliance issues with the proposed transfer; or
3. Do not report.

HB 2 General Fund By Agency

The following table illustrates the budgeted and actual expenditures of general fund for HB 2 through May 31. The budgeted number reflects the June modified budget as previously discussed. A summary of budgetary changes by section, agency, and program can be found in Appendix A

As reflected in the figure, state agency expenditures supported through general fund are 82.8% expended compared to about 91% using fiscal year expenditure percentages or about $170 million less than a linear trend would indicate. Over $1,727.2 million of the $2,005.1 million in FY 2016 general fund appropriations or 86.1% is contained in four state agencies:

- Department of Public Health and Human Services (DPHHS)
- Department of Corrections
- Office of Public Instruction (OPI)
- Commissioner of Higher Education (OCHE)

Agency spending by these four agencies drives the total fiscal year general fund expenditure percentages. Discussion of general fund expenditures can be found in the section narratives for each agency beginning on page 14.

Comparison of Modified Budget to Year to Date Expenditures FY 2016 HB 2 - General Fund Only			
	Modified Budget	FY 2016 Actual and Accruals	% Expended
Section A - General Government			
Legislative Branch	$12,794,317	$10,834,736	84.7 %
Consumer Counsel	0	0	0.0 %
Governor's Office	9,008,028	5,619,061	62.4 %
Secretary of State's Office	0	0	0.0 %
Commissioner of Political Practices	681,125	620,728	91.1 %
State Auditor's Office	4,500,000	2,601,061	57.8 %
Department of Revenue	54,282,625	44,846,244	82.6 %
Department of Administration	7,685,762	6,006,176	78.1 %
Department of Commerce	7,324,891	4,620,840	63.1 %
Department of Labor and Industry	1,916,267	1,805,793	94.2 %
Department of Military Affairs	6,481,572	5,158,818	79.6 %
Section A - General Government Total	104,674,587	82,113,458	78.4 %
Section B - Health and Human Services			
Department of Public Health and Human Services	505,884,833	426,473,988	84.3 %
Section B - Health and Human Services Total	505,884,833	426,473,988	84.3 %
Section C - Natural Resources and Transportation			
Department of Fish,Wildlife, & Parks	973,158	405,637	41.7 %
Department of Environmental Quality	5,690,038	4,108,959	72.2 %
Department of Transportation	0	0	0.0 %
Department of Livestock	2,656,816	2,016,739	75.9 %
Department of Natural Resources and Conservation	28,261,515	23,230,739	82.2 %
Department of Agriculture	981,141	764,024	77.9 %
Section C - Natural Resources and Transportation Total	38,562,668	30,526,097	79.16%
Section D - Judicial Branch, Law Enforcement, and Justice			
Judicial Branch	48,531,678	37,521,885	77.3 %
Crime Control Division	2,480,780	1,986,071	80.1 %
Department of Justice	34,759,844	29,209,848	84.0 %
Public Service Regulation	0	0	0.0 %
Office of the Public Defender	34,682,575	28,637,236	82.6 %
Department of Corrections	198,812,191	167,533,025	84.3 %
Section D - Judicial Branch, Law Enforcment, and Justice Total	319,267,068	264,888,066	83.0 %
Section E - Education			
Office of Public Instruction	780,805,388	620,924,081	79.5 %
Board of Public Education	187,428	133,669	71.3 %
Commissioner of Higher Education	241,740,783	224,177,045	92.7 %
School for the Deaf and Blind	7,044,650	5,765,488	81.8 %
Montana Arts Council	550,429	430,679	78.2 %
Montana Library Commission	3,062,738	2,369,974	77.4 %
Montana Historical Society	3,481,038	2,894,165	83.1 %
Section E - Education Total	1,036,872,454	856,695,099	82.6 %
Grand Total	2,005,261,610	1,660,696,708	82.8 %

HB 2 STATE RESOURCES BY AGENCY

The following table illustrates the budgeted and actual FY 2016 expenditures for all state resources appropriated to state agencies through HB 2. This includes general fund, state and federal special revenue, and budgeted proprietary funds. As discussed previously budget changes made by the executive are included in the modified budget used for comparisons.

As shown in the figure, overall expenditure of state resources is at 76.4% of the total HB 2 appropriated by the legislature compared to about 91% using fiscal year expenditure percentages or about $789 million less than a linear trend would indicate at this point in the budget year. When looking at total state resources over 40.4% of the funding is allocated to the Department of Public Health and Human Services. Together with DPHHS, the following agencies make up 86.3% of the remaining state budget:

- Office of Public Instruction – 18.5%
- Department of Transportation – 13.1%
- Commissioner of Higher Education – 6.4%
- Department of Corrections – 3.9%
- Department of Revenue – 3.8%

Spending is lower than a linear trend would indicate in these agencies is the majority of the reason for the lower expended ratio of 76.4%. Discussion of state resources can be found in the section narratives for each agency beginning on page 14.

Comparison of Modified Budget to Year to Date Expenditures
FY 2016
HB 2 - State Resources

	Modified Budget	FY 2016 Actual and Accruals	% Expended
Section A - General Government			
Legislative Branch	15,393,379	12,415,845	80.7 %
Consumer Counsel	1,706,559	1,092,169	64.0 %
Governor's Office	9,758,028	5,619,061	57.6 %
Secretary of State's Office	104,892	99,929	95.3 %
Commissioner of Political Practices	681,125	620,728	91.1 %
State Auditor's Office	13,400,734	9,215,586	68.8 %
Department of Revenue	196,868,953	133,871,477	68.0 %
Department of Administration	22,680,738	15,866,968	70.0 %
Department of Commerce	33,303,553	11,656,577	35.0 %
Department of Labor and Industry	84,186,673	62,972,342	74.8 %
Department of Military Affairs	49,235,631	31,521,708	64.0 %
Section A - General Government Total	427,320,265	284,952,390	66.7 %
Section B - Health and Human Services			
Department of Public Health and Human Services	2,087,396,095	1,621,659,725	77.7 %
Section B - Health and Human Services Total	2,087,396,095	1,621,659,725	77.7 %
Section C - Natural Resources and Transportation			
Department of Fish,Wildlife, & Parks	83,839,525	64,149,347	70.0 %
Department of Environmental Quality	66,706,428	44,215,902	57.0 %
Department of Transportation	678,317,950	491,210,318	66.2 %
Department of Livestock	12,604,916	9,902,759	78.6 %
Department of Natural Resources and Conservation	70,101,975	47,628,686	61.9 %
Department of Agriculture	17,849,466	11,857,427	59.6 %
Section C - Natural Resources and Transportation Total	929,420,260	668,964,439	71.98%
Section D - Judicial Branch, Law Enforcement, and Justice			
Judicial Branch	50,483,875	38,906,246	77.1 %
Crime Control Division	13,134,004	7,458,345	56.8 %
Department of Justice	98,674,313	79,156,326	80.2 %
Public Service Regulation	4,133,777	3,295,495	79.7 %
Office of the Public Defender	34,956,501	28,843,859	82.5 %
Department of Corrections	203,739,222	170,845,964	83.9 %
Section D - Judicial Branch, Law Enforcment, and Justice Total	405,121,692	328,506,235	81.1 %
Section E - Education			
Office of Public Instruction	958,325,159	749,530,840	78.2 %
Board of Public Education	365,420	262,394	71.8 %
Commissioner of Higher Education	331,780,370	270,917,275	81.7 %
School for the Deaf and Blind	7,373,045	6,030,758	81.8 %
Montana Arts Council	1,485,491	1,337,162	90.0 %
Montana Library Commission	6,483,763	4,495,595	69.3 %
Montana Historical Society	5,699,820	4,799,864	84.2 %
Section E - Education Total	1,311,513,068	1,037,373,888	79.1 %
Grand Total	$5,160,771,380	$3,941,456,677	76.4 %

SECTION A – GENERAL GOVERNMENT

Governor's Office

HB 2 Budget

Allocated Budget

The Office of Budget and Program Planning (OBPP) transferred $30,000 in general fund of operating base contingency authority to the Department of Environmental Quality. The Governor's Office also transferred general fund from the personal services contingency to the:

- Department of Labor and Industry - $41,000
- Office of the Commissioner of Higher Education - $77,111
- Department of Environmental Quality - $220,002

Modified Budget

Program Transfers

The Governor's Office transferred $52,620 in personal services and $59,709 in operating expenses supported by general fund from the Centralized Services Division to the Executive Office Program, the Executive Residence Operations, the Office of Indian Affairs, the Lieutenant Governor's Office, and the Mental Disabilities Board of Visitors.

Reorganizations

The Governor's Office reorganized its Citizens Advocate Office into the Executive Office Program, and it's Central Services Division into OBPP. These office organizations transferred 2.00 FTE in the Citizens Advocate Office and 4.00 FTE in the Central Services Division. The merge included moving $409,360 in personal services and $18,114 in operating expenses in FY 2016.

HB 2 Expenditures

The level of expenditures for general fund in the Governor's Office are low when compared to the anticipated expenditures for this time of the fiscal year, 62.4% compared to 91.7% or $2.6 million less than anticipated due to $1.7 million of contingency base funding remaining and $0.7 million of personal services contingency funding still available.

Budget Amendments

The Governor's Office reverted unused authority that was acquired for the Montana State Small Business Credit Initiative allocation agreement. The authority resides in a shared fund with the Department of Commerce and, due to a change in accounting procedure, $8.8 million in federal special revenue authority was reverted. Remaining program expenditures are in line with budget expectations.

State Auditor's Office (SAO)

HB 2 Budget

Modified Budget

Program Transfers

SAO transferred 1.00 FTE and $74,000 in state special revenues for personal services from the Central Management Division to the Securities Division. The FTE is working with financial examinations conducted on the various entities reviewed by the Securities Division.

HB 2 Expenditures

General fund expenditures for the SAO are $1.5 million below fiscal year expenditure percentages or 57.8% expended. This is primarily due one-time only appropriations for the phase-out of the Insure Montana Program. The Insure Montana Program included a tax credit available to businesses that provided health insurance to their employees. SAO estimates that remaining costs will be approximately $2.5 million for the tax credit portion of the program. Costs above that funded by the remaining general fund will be paid using other state special revenues.

Department of Revenue (DOR)

HB 2 Budget

Modified Budget

Operating Plan Changes

There has been one modification made to the Department of Revenue's HB 2 budget since the last update. The department transferred $1,900 from the operating budget to budget authority for principal and lease payments for both FY 2016 and FY 2017 in the Director's Office. This was to cover a shortfall in lease principal and interest payments.

HB 2 Expenditures

Through the first eleven months of FY 2016 the Department of Revenue had expended 68.0% of its budgeted $196.8 million in HB 2 authority. General fund expenditures account for 92.3% of total HB 2 expenditures, and through May 82.9% have been expended. The department typically expends slightly more in the last month of the fiscal year compared to prior months due to accruals for contracted services but this is still slightly low due to $0.4 million having not yet been expended for server replacement and other operating expenses.

Statutory Appropriations

To date, DOR has expended $122.1 million or 51.3% of their statutory appropriation authority, primarily for local assistance in the form of entitlement share payments and oil and gas payments to local governments. This is somewhat lower than historically average, the result of much lower oil and gas payments to counties than was budgeted. Tribal statutory appropriations for cigarette/tobacco, beer, wine, and liquor was increased by $1.0 million as tax collections exceeded what was originally anticipated causing the appropriations to not be sufficient to cover the revenue sharing distributions.

Department of Administration (DOA)

HB 2 Expenditures

Overall the Department of Administration budget is 70.0% expended compared to fiscal year expenditure percentages of 91% at this point in the fiscal year. Expenditures supported by general fund are 78.1% expended partially due to $0.3 million in appropriations which have yet to be utilized, vacant positions within State Information Technology Services Division, and generally lower spending in Office of Labor Relations and State Human Resources Division.

State special revenues are at 70.8% when compared to fiscal year expenditure percentages of 91%. Ongoing vacancies within Banking and Financial Institutions Division and lower than anticipated operating expenses for Architecture and Engineering Division drive the lower spending level.

Non-Budgeted Proprietary Funds

State Information Technology Services Division (SITSD)

Through June 2016 revenues are estimated to be $42.7 million, an increase from FY 2015 of $3.4 million. Expenditures through May 2016 were $34.6 million and are projected at $38.6 million as of June 2016, leaving a fund balance in the proprietary fund of $4.1 million. It should be noted that SITSD financed the cost of the Oracle licensing agreement of $2.9 million which would decrease the level of the fund balance.

State Employee Group Benefits Plan (SEGBP)

As of May 2016, the expenditures for the SEGBP exceeded revenues by $1.0 million. Costs for benefits are currently estimated to be about $10.00 million lower compared to the same period in FY 2015. If current trends continue through the end of the fiscal year the SEGBP will finish the year with revenues exceeding expenditures.

State Agency Self-Insurance Account

As of May 2016, the fund balance in the state agency self-insurance account was $9.3 million. If current trends continue through the end of the fiscal year, the state agency self-insurance account will be able to establish reserves for each insurance risk such as property or general liability that were depleted in prior years.

Statutory Appropriations

Estimates for the general fund statutory appropriations within DOA have been revised. The following figure provides a comparison between the original estimate and the updated estimate for the June report for FY 2016.

Department of Administration
Changes in Estimated General Fund Statutory Appropriations
FY 2016

Appropriation Description	Beginning Budget	June Estimate	Difference
Fees and Bond Costs	$56,900	$56,900	$0
Banking Charges	2,160,000	2,277,621	117,621
Local Government PERD Contribution	1,071,000	980,835	(90,165)
Teachers GABA Contributions	923,000	878,887	(44,113)
Teachers Supplemental Contribution	44,162,000	43,246,228	(915,772)
Debt Service Bonds	12,338,100	11,591,849	(746,251)
MPERA Contribution - coal tax and interest	31,942,000	30,180,862	(1,761,138)
Federal fund rebates for procard and fuel cards	164,000	100,000	(64,000)
Federal part state fund dividend and retention	1,000	252,172	251,172
Total General Fund Statutory Appropriations	$92,818,000	$89,565,354	($3,252,646)

As shown, the change in the estimated appropriations results in $3.3 million less for general fund statutory appropriations than anticipated as of July 2015. The 2015 Legislature authorized increased coal severance revenues to the Coal Board reducing the amount available to the Montana Public Employee Retirement Administration for the Public Employee's Retirement System. This reduction combined with lower coal severance taxes makes up the majority of the reductions for MPERA. The reduction in the teacher's supplemental contribution results from a lower growth in compensation in the base year than anticipated. Debt service estimates are lower due to two bond refinancing at a lower rate.

Department of Commerce

HB 2 Budget

Modified Budget

Operating Plan Changes

The Department of Commerce had one operating plan change with a fiscal impact and one operating plan change that added modified FTE. The Montana Indian Language Preservation Program incurred unanticipated operating expenditures for language workshops and presentations. Commerce transferred general fund of $4,000 in FY 2016 and $8,000 in FY 2017 from grants to operating expenses. Additionally, the Office of Tourism and Business Development established an additional 0.25 FTE modified position for an intern for FY 2016 and FY 2017.

HB 2 Expenditures

The HB 2 budget of $33.3 million for the Department of Commerce is 35.0% expended as of the end of May. Of the HB 2 budget, $7.3 million is general fund and is 63.1% expended. Personal services, operating expenses, and grants are contributing to the lower percentage of HB 2 expenditures. Personal services are 74.8% expended through the end of May lagging behind the 88.5% year to date measure. Operating expenses are 39.9% expended which is $3.2 million lower than anticipated. Grants are 24.2% expended through May. The lower percentage of expenditures is due to the execution of several grant programs. Each program has different requirements and may face unique challenges. However, the majority of grants are under contract and will be accrued at fiscal year end.

Department of Labor and Industry (DOLI)

HB 2 Budget

Modified Budget

Program Transfers

There were three program transfers at DOLI since the March report:

- DOLI transferred $39,000 in federal special revenue funds from the Workforce Services Division to the Centralized Services and Office of Administrative Hearing Division and the Employment Relations Division. The agency also transferred $200,000 in state special revenue funds from the Unemployment Insurance Division to the Workforce Services Division. These two transfers were made to allow for information technology expenditures to be recorded in the correct division.
- Additionally, there was a transfer of federal authority from the Workforce Services Division to the Unemployment Insurance and Centralized Services Divisions which totaled $190,000 in the 2017 biennium. The transfer of $140,000 for the biennium to the Unemployment Services Division occurred as the result of an audit finding. The transfer of the remaining $50,000 for the biennium provides for the Centralized Services Division to maximize their Project Operating Plan Agreement with the Unemployment Insurance Division.

Operating Plan Changes

DOLI had two operating plan changes with fiscal impact. State special revenue funds of $10,000 were transferred from personal services to grants to establish additional grant authority for the Montana Health and Economic Livelihood Act (HELP) in the Workforce Services Division. The department also transferred $265,483 in FY 2016 and $273,287 in FY 2017 of state and federal special revenues to allow for expenditures to be recorded in the correct bureau within the Workforce Services Division. Additionally, the department had one operating plan change that added modified FTE of 0.10 in FY 2016 and 0.25 modified FTE in FY 2017 for a short-term summer intern in the Workers Compensation Court.

Fiscal Year Transfers

The Department of Labor and Industry had a fiscal transfer for its HELP Act appropriation. The department launched workforce training programs in January and estimates that there will be a slight increase in expenditures each month. To better align the $1.76 million biennial appropriation into the fiscal years it will be expended, the department transferred $899,690 of state special revenue funds from FY 2016 to FY 2017. This transfer included, $232,036 in operating expenses, $667,654 of personal services and $180,000 for grants.

HB 2 Expenditures

The HB 2 budget for the Department of Labor and Industry, which primarily consists of state and federal special revenue, is 74.8% expended. Personal services are 76.8% expended through the end of May which is approximately $5.6 million lower than anticipated. This is primarily due to FTE vacancies. Operating expenses are $4.0 million lower than anticipated because of the delay in the billing cycle for several large technology services and fixed cost bills. Finally, grants are 60.0% expended which is expected because a large percentage of grant expenditures occur in June.

Department of Military Affairs (DMA)

HB 2 Budget

Modified Budget

Program Transfers

The Director's Office transferred $4,000 in general fund in FY 2016 to the Army National Guard and Veterans Affairs Divisions and $30,000 in general fund for FY 2017 to the Army National Guard, Air National Guard, Disaster and Emergency Services, and Veterans Affairs Divisions. This program transfer funds the Employee Assistance Program for National Guard service members.

Operating Plan Changes

The Disaster and Emergency Services Division transferred $134,000 from operating expenses into personal services and $500 from grants into operating expenses. This change included both general fund and federal special revenue. The Army National Guard Program transferred $3,000 into personal services and $31 into equipment and intangible assets from operating expenses. This general fund transfer provides a positive fund balances for fiscal year end.

DMA also implemented one operating plan change that added 1.00 modified FTE to supplement a permanent position because of military leave.

HB 2 Expenditures

The HB 2 budget for the Department of Military Affairs, which consists primarily of federal special revenue, is 64.0% expended as of the end of May. Operating expenses and grants are contributing to the low percentage expended. Operating expenses are 74.3% expended and grants are 31.4% expended through the end of May. The lower percentages are due to the DMA not receiving the level of grant funding from the Department of Homeland Security that was projected in the budget and reimbursements occurring later in the fiscal year.

Section B – Health and Human Services

Department of Public Health and Human Services (DPHHS)

HB 2 Budget

Modified Budget

Program Transfers

DPHHS completed a variety of program transfers in the most recent fiscal quarter, all of which combine for a net zero effect on the overall budget and no overall change in the level of general fund, state or federal special revenue authority. The most significant of these resulted in net transfers to the following divisions:

- Almost $0.5 million in federal special revenue authority was transferred out of the Human and Community Services Division, to the Public Health & Safety Division to utilize grant increases for immunization expenses
- A variety of transfers combined to increase the appropriation for the Director's Office by just over $0.1 million, including $17,338 of general fund authority
- Almost $0.1 million state special revenue authority was transferred out of the Addictive & Mental Disorders Division (AMDD) to the Technology Services Division for security compliance with the National Institute of Standards and Technology.

Executive Reallocation

DPHHS reallocated appropriation authority a total of 16 times this budget period. Most notably, SB 418 requires DPPHS to designate savings generated from the HELP Act as frozen so that the funding may not be spent. This requirement reduced the overall DPHHS budget by close to $3.0 million during the last quarter. The general fund savings include:

- $0.7 million in AMDD related to the Health Insurance Flexibility Act
- $2.1 million in HRD related to parent/caretaker groups
- $0.1 million in HRD for the medically needy

Operating Plan Changes

There were three operating plan changes during this budget period. They are as follows:

- $33,000 transfer from operating expenses to personal services in Child and Family Services Division due to a strategic change in the plan for electronic case management
- $37,932 transfer from benefits and claims in the Montana Developmental Center to debt service supporting the State Building Energy Conservation Energy Program
- $423,971 transfer from benefits and claims to grants in the Senior and Long Term Care Division to support expected spending trends

Reorganizations

There was one reorganization that impacted three programs in the DPHHS during this budget period. This change transferred 6.0 FTE and the related budget from the Quality Assurance Division and 3.00 FTE and the related budget from the Business and Financial Services Division and placed those personal services and operational costs within the Management and Fair Hearings Division. The re-organization was implemented to better align agency audit and budget functions and represents roughly $0.9 million in movement within the agency. There is no net increase in agency budget with this change.

HB 2 Budget

The Department of Health and Human Services (DPHHS) general fund expenditures through May were $426.5 million, which was 84.3% of the budget to date, 91.7% of the way through the fiscal year. Total expenditures to date were $1,621.7 million, or 77.7% of the total appropriation.

The largest portion of the budget is benefits and claims, totaling $1,303.6 million and is expected to experience a lag in expenditures, as providers have up to a year to bill for services rendered to Medicaid clients. Benefits and claims are currently 76.9% expended, which explains much of the difference between the overall expenditure level and fiscal year timing. In other categories:

- Personal services expenditures are 87.5% of the appropriation, compared to 88.5% expected
- Operating expenses are only 80.9% expended, with a $23.2 million budget balance. An unused appropriation level of 10% in this category would result in $12.2 million of unused authority.

DPHHS provides LFD with a monthly update on their budget and projections, and are currently projecting a total of $65.7 million of unused appropriations, including $4.4 million general fund. However, the budget status of the divisions within DPHHS vary greatly:

- Child & Family Services Division is currently projected to have a shortfall of $3.2 million in general fund appropriations
- Senior & Long-Term Care Division is projected to have $23.8 million unused authority.

The department has the ability to transfer funds through program transfers similar to those referenced in this report, and is expected to transfer authority as needed. Of note however, is the fact that Medicaid is currently projected by DPHHS to have unused appropriation authority totaling $53.9 million, including $13.2 million general fund. The overall status of the budget is projected by DPHHS to result in only $4.4 million general fund of unused authority. One can thus assume this will require a transfer of $8.8 million in general fund from Medicaid programs to non-Medicaid programs.

Budget Amendments

DPHHS has two budget amendments since the last report, totaling $5.6 million of federal special revenue funding.

Within Public Health & Safety Division, $4.3 million of federal special revenue authority was added as the result of receiving a federal grant for a Maternal, Infant, and Early Childhood Program. Included in this budget amendment are 4.00 modified FTE.

The Developmental Services Division received a federal grant in the amount of $1.3 million for a Title XX Social Service Block Grant. There are no FTE associated with this budget amendment.

SECTION C – NATURAL RESOURCES AND TRANSPORTATION

All Section C agencies are impacted by seasonality. Expenditures may lag or precede fiscal year expenditure percentages due to when work needs to be accomplished. Only expenditure patterns that deviate from both historic and fiscal year expenditure percentages will be noted in this section of the report.

Department of Fish, Wildlife, and Parks (FWP)

HB 2 Budget

Modified Budget

Program Transfers

FWP transferred $85,000 in federal special revenue from the Administration Division to the Wildlife Division.

Operating Plan Changes

FWP moved $50,000 in federal special revenue from operating expenses to capital expenditures in the Fisheries Program.

HB 2 Expenditures

FWP has only expended 41.6% of their one-time-only general fund appropriation for aquatic invasive species. This work is seasonal and FWP states the spending should increase.

Budget Amendments

Information regarding FWP budget amendments can be found in Appendix C. The largest approved budget amendment was $1.0 million in federal Pittman-Robertson funds to purchase inholdings within the Fish Creek Wildlife Management Area.

Department of Environmental Quality (DEQ)

HB 2 Budget

Allocated Budget

Contingency Base Funding

DEQ received $30,000 in contingency base funding to cover declining revenues in the natural resource operations account.

Personal Services Contingency Funding

DEQ received $64,626 in personal services contingency funding to cover declining revenues in the natural resource operations account.

Modified Budget

Program Transfers

DEQ transferred:

- 0.62 FTE from Air, Energy, and Mining Division to Water Quality Division due to agency-wide reorganization
- $75,000 in general fund from the Water Quality Division to the Air, Energy, and Mining Division to cover shortfalls in the natural resource operations account

Operating Plan Changes

DEQ moved:

- $22,249 in general fund from operating expenses to equipment in order to purchase equipment for the Hard Rock Mining Bureau
- $8,824 in general fund and $11,037 state special revenue from operating expenses to equipment in the Water Quality Division
- $2.5 million in federal special revenue from operating expenses to transfers to comply with accounting rules
- $30,500 in state special revenue from personal services and operating expenses to equipment in the Waste Management & Remediation Division

Reorganizations

DEQ reorganized moving from a process-based departmental structure to a topical-based structure. As part of the reorganization DEQ made multiple functional moves across the department, including transferred the:

- Waste and Underground Tank Management Bureau from Air, Energy, and Mining Division to Waste Management & Remediation Division
- Energy Bureau from Water Quality Division to Air, Energy, and Mining Division
- Public Water Supply Bureau from Air, Energy, and Mining Division to Water Quality Division

This reorganization resulted across all fund types a net transfer of ($0.4) million in Water Quality Division, $5.0 million in Waste Management & Remediation Division and a ($4.6) million in Air, Energy & Mining Division.

HB 2 Expenditures

A major funding source for DEQ is the natural resource operations fund. This fund receives revenues from oil and gas taxes and interest from the resource indemnity trust, both of which have been lower than anticipated. The current executive projection places the short fall in this fund at $1.7 million across all of state government, with $1.2 million in DEQ alone at the end of FY 2017. DEQ has responded by minimizing use of the natural resource operations, reducing expenditures and using other state special revenue sources and the general fund where possible.

Budget Amendments

Information regarding DEQ budget amendments can be found in Appendix C. The largest approved budget amendment was $1.4 million in federal funds to develop a web-based electronic coal permitting application system.

Department of Transportation (MDT)

HB 2 Budget

Allocated Budget

Trigger Language

The legislature included language in HB 2 to increase federal budget authority of the Rail, Transit, and Planning Program by up to $1.4 million each year if MDT receives funding of more than $11,187,000 in each year of the biennium for the purposes of transit grants to local governments. In March, MDT provided documentation of the receipt of $13.0 million in federal transit funding and increased the budget by the allowed amount of $1.4 million.

Modified Budget

Program Transfers

MDT transferred $228,485 of personal services authority from the Construction Program to the General Operations Program. This transaction moved human resource (HR) safety specialists previously assigned to district offices to the HR Division in General Operations Program.

Operating Plan Changes

Since the March report, MDT completed four operating plan changes that moved authority between expenditure categories in FY 2016. Cumulatively, the changes moved $131,746 of authority between expenditure accounts. The total changes included the following:

- $70,000 from equipment and intangible assets
- $8,254 into operating expenses

- $7,000 into capital outlays
- $54,746 into transfers out

HB 2 Expenditures

Total expenditures for the MDT through May were $577.2 million, which is 70.9% of the total authority, and HB 2 expenditures were $491.2 million or 72.4% of the HB 2 authority. While this level of expenditure is low when compared to the 91.7% of anticipated expenditures for this time of the fiscal year, the expenditures are consistent with the normal MDT spending patterns. Areas where spending is lower than expected include the following:

- The Aeronautics Program has expended just 4.6% of the $6.4 million West Yellowstone airport taxiway project appropriation
- Through May, the Rail, Transit, and Planning Program has expended 46.8% of its grant budget, which is historically consistent

As of May 31, MDT expended 83.7% of their HB 2 personal services budget and the agency had 162.33 FTE vacancies or 7.9% of budgeted FTE. The agency has expended 69.7% of the operating expenses budget. This is notable due to the agency's efforts to reduce spending in the highway state special revenue account (HSRA), where appropriations exceeded the working capital fund balance and anticipated revenues. To date, MDT had expended $211.9 million or 78.0% of the total authority in the account. If the agency expenditures follow a historic course, MDT could realize budget savings of $24 million from the FY 2016 HSRA appropriations.

Budget Amendments

MDT has completed one budget amendment since the last report. The amendment was a correction to the accounting journals and did not increase federal authority. As of April 30, MDT has recorded a total of $19.7 million in federal authority through the budget amendment process, an increase to the MDT FY 2016 HB 2 federal budget of 4.8%. To date, MDT has expended $393,534 of the budget amendment authority. Further details are available in Appendix C.

Department of Livestock

HB 2 Budget

Modified Budget

Program Transfers

The Department of Livestock transferred 0.25 FTE from Animal Health Division and 0.25 FTE from Milk and Egg Program to the Diagnostic Laboratory Division to meet staffing needs.

Operating Plan Changes

The Department of Livestock moved:

- Federal special revenue totaling $74,019 in personal services and $3,600 in equipment to operating expenses and transfers.
- $37,595 in general fund and $37,595 in federal special revenue from personal services to operating expenses in the Meat and Poultry Division

HB 2 Expenditures

The Department of Livestock is experiencing a lack of cash in the milk and egg inspection account putting pressure on the Diagnostic Lab Division and the Milk and Egg Program.

Budget Amendments

One budget amendment for $149,000 in federal funds for animal disease traceability through the United States Department of Livestock was processed since March.

Department of Natural Resources and Conservation (DNRC)

HB 2 Budget

Allocated Budget

Contingency Base Funding

DNRC moved $20,000 in federal special revenue contingency base funding from the Director's Office to Water Resources Division.

Modified Budget

Program Transfers

DNRC moved $14,000 in state special revenue authority from the Conservation and Resource Development Division to the Director's Office for a Geographic Information System analyst position and added 0.33 modified FTE.

DNRC transferred contingency base funding of $20,000 from the Director's Office to the Water Resources Division for operating expenses. DNRC also transferred SITSD authority from all programs back to Central Services Division based on projections of actual costs to the divisions in FY 2017. The total amount transferred was $226,728 in general fund.

HB 2 Expenditures

Expenditures from both general fund and state special revenue accounts lagged behind fiscal year expenditure percentages due to seasonal work, grant timing and vacant positions. Additionally, expenditures from state special revenue funds such as the natural resource operations and the coal shared accounts lagged due to DNRC managing cash flow.

Statutory Appropriations

The fire suppression fund is statutorily appropriated to allow access for imminent needs during fire season. The fire suppression fund currently has a balance of $78.2 million. After settling outstanding obligations, the department anticipates a year end fund balance of $70.0 million.

Budget Amendments

The DNRC added $7,500 in authority through budget amendments. Further details can be found in Appendix C.

Department of Agriculture

HB 2 Budget

Modified Budget

Operating Plan Changes

The department had one operating plan change that moved $4,525 in state special revenue from grants to transfers.

SECTION D – JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE

Judicial Branch

HB 2 Budget

Modified Budget (Appendix A)

Program Transfers

The branch transferred one FTE and the associated $61,700 in general fund from the District Court Operations Program to the Supreme Court Operations Program to administer drug courts operations.

Operating Plan Changes

The Supreme Court Operations Program transferred $50,000 general fund from benefits and claims to operating expenses to fund contracts to evaluate prevention incentive funds.

HB 2 Expenditure

There is a lower number of placements of juveniles in the Supreme Court Operations Program resulting in lower than anticipated spending.

Budget Amendments

The Supreme Court Operations Program completed two budget amendments for a total of $199,734 in federal funding from the U.S Department of Health and Human Services, Administration for Children and Families. The funding will be used to provide training for the courts on the provision of services for families and children at risk and for data collection, analysis, and sharing between courts and welfare agencies.

The District Court Operations Program completed one new budget amendment for federal funding for personal services to fund a modified 0.13 FTE position. The position is for a drug court coordinator in a DUI accountability court in the 5th Judicial District. Additionally, the funding will support court operating costs and participant benefits. An operating plan change for the previously approved budget amendment moves funds from benefits and claims to personal services, operating expenses, and equipment to fund a modified 0.50 FTE licensed addiction counselor and court coordinator, purchase equipment to enhance web-based and video treatment, and fund court operating costs.

Crime Control Division

Budget Amendments

The Crime Control Division received three budget amendments that added $5.5 million in federal funds to enhance funding for assistance to victims of crime. Of this funding $350,000 is for crime victims' legal assistance, nearly $4.7 million is to provide direct services to crime victims, and $425,000 is for development and implementation of a system of care to address all crime victim children and their families through a long-term system of care.

Department of Justice (DOJ)

HB 2 Budget

Modified Budget (Appendix A)

Operating Plan Changes

DOJ reallocated $90,000 of general fund from operating expenses to grants in the Division of Criminal Investigations to address accounting policy issues with the funding for the Montana Child Sexual Assault Response Team. This operating plan change triggers the statutory requirements for the Legislative Finance Committee review. Staff has reviewed the transactions and has not raised any concerns.

The Forensic Science Division was approved for an operating plan change that had no budgetary impact but added 0.25 modified FTE to pay employees when subpoenaed on items in connection with their official duties. The division will absorb the costs or can bill the requesting person or organization for cost recovery.

Supplemental Appropriation Transfer

The Forensic Science Division in the Department of Justice is facing a budget shortfall that will necessitate a fiscal year supplemental appropriation transfer that statute requires be reviewed by the Legislative Finance Committee. The LFD staff reviewed the required plan for reducing FY 2017 expenditures to maintain 2017 biennium expenditures within appropriations. The agency's plan to hold positions open and reduce FTE in the Legal Services Division and crime laboratory would necessitate a vacancy rate of 11.1% in FY 2017. In FY 2016, these programs have achieved 3.0% vacancy savings through May, so the plan that would require 11.1% will be challenging and may have significant operational impacts. The primary reason for the budget shortfall is turnover in the state medical examiner's office resulting in expenditures higher than budgeted costs to cover the function during the vacancies and to recruit replacement staff to fill the vacant positions. The long-term impacts of higher that budgeted costs for the medical examiner function is an additional anticipated shortfall of $470,000 general fund in FY 2017, for a biennial total of $1.04 million. The report titled Report on the State Medical Examiner's Office 2015, available on the committee Internet page for this meeting, highlights the history and plan for addressing the operation of the medical examiner's office. Since the majority of the increase in personal services cost are on-going in nature, it is unlikely the division will be able to reduce FY 2017 expenditures and it is highly likely the legislature could anticipate a supplemental request for this funding during the 2017 Legislature. See Appendix E for the request from the Budget Director.

Budget Amendments

The Forensic Science Division had an operational plan change of a previously approved federal funded budget amendment to reduce backlogs of forensic deoxyribonucleic acid (DNA) testing. The operational plan change move combined funding of $66,212 from operating expenses and equipment to personal services to fund 0.33 modified FTE in FY 2016 and 0.67 modified FTE in FY 2017 for a serologist to increase capacity in of the serology section.

The Montana Highway Patrol received a budget amendment of $56,865 in federal special revenue to fund officer overtime and other incidental operating costs to support drug trafficking taskforce activities.

The Legal Services Division had an operational plan change of a previously approved state special revenue budget amendment that reallocated $100,000 from operating expenses to personal services to fund 0.17 modified FTE foreclosure specialist to manage the foreclosure settlement funds in the Office of Consumer Protection.

The Division of Criminal Investigations received six budget amendments totaling roughly $63,000 in federal funds to fund overtime and associated operating costs for support of various drug taskforces and investigations supporting the Adam Walsh Act.

DOJ has two budget amendments that trigger LFC review. Neither of these amendments were received prior to June 1 and therefore are not contained in Appendix A. The first amendment is a program transfer that was approved as a time sensitive document. Staff reviewed the documentation and had no concerns as the transaction was for fixed cost adjustments made to the budget that were applied to one program with the expectation that they would be subsequently allocated to other programs as appropriate.

The other is an operating plan change referred to staff for review. This budget transaction transfers $135,340 general fund from operating expenses to equipment to augment funding for the purchase of equipment that meets the accounting cost threshold requiring it be categorized as equipment. The department states that the funding was anticipated in the budget but was appropriated in the operating expenses category. Based on this affirmation, staff raises no concerns with this transaction meeting legislative intent.

Public Service Regulation

Budget Amendments

The agency received additional $140,230 in federal funds to provide additional pipeline safety program inspections.

Office of State Public Defender (OPD)

HB 2 Budget

Modified Budget (Appendix A)

Program Transfers

In two separate transactions, OPD transferred $2.0 million general fund from the Office of Public Defender Program to the Conflict Coordinator Program to address shortfalls in operating expenses in the Conflict Coordinator Program. The primary factor for the shortfall in the Conflict Coordinator Program is the higher than anticipated growth in dependent neglect cases served by the program. These program transfers have been processed as time sensitive and trigger the statutory requirements for presenting to the committee. Staff has reviewed the transactions and has not raised any concerns.

The office transferred $44,835 of the general fund appropriated to the Public Defender Commission to allocate to areas of the office experiencing budget pressures. The funding was transferred from the new Administration program to the Office of Appellate Defender to fund 1.00 FTE to address caseload pressures in the program.

Operating Plan Changes

The executive authorized an additional 2.00 modified FTE, raising the total to 8.00 modified FTE in FY 2017 with funding from existing appropriations to address the impacts of higher than anticipated caseload growth in the Office of Public Defender program.

Reorganizations

The department created a new program, Administration Program, and moved the administrative functions from the Office of Public Defender Program to the new Administration Program. This reorganization moved 19.75 FTE, $4.9 million general fund, and $0.5 million state special revenue to the new program.

HB 2 Expenditure

The Office of State Public Defender continues to experience higher than anticipated caseload growth, with an excess of 20% growth of dependent and neglect cases over the previous fiscal year. This caseload growth has resulted in budget pressures and an anticipated $500,000 general fund shortfall for FY 2016 compounded to an estimated $3.5 million shortfall for the 2017 biennium. The office will utilize biennial funding to transfer FY 2017 budget authority to cover the FY 2016 deficit.

Department of Corrections

HB 2 Budget

Modified Budget (Appendix A)

Program Transfers

Corrections moved 2.00 FTE and about $129,000 of general fund from the Youth Services Division to the Clinical Services Division after a review of the positions' duties found they were better aligned with the new division's primary functions.

Corrections also moved 1.00 FTE and $81,700 of general fund from the Youth Services Division to the Director's Office program. The position moved was a long-term vacant position the department deemed better utilized in the Director's Office Program.

Operating Plan Changes

General fund for the Montana Women's Prison was reallocated from operating expenses to equipment to allow for the purchase of two mobile food carts that are used to transport food to housing units. The change augmented the current equipment budget by $2,300 for these purchases. Likewise $10,000 was moved from operating expenses to equipment in the Clinical Services Division to augment current equipment funding for the purchase of a pantographic dental x-ray machine for the Montana State Prison. The cost of the equipment requires that the expenditures be recorded in the equipment category.

Reorganizations

Corrections added a seventh program and moved the Board of Pardons and Parole from the Director's Office Program to the new Board of Pardons and Parole Program. This reorganization and program transfer moved 11.00 FTE and $1.0 million general fund to the new program.

HB 2 Expenditure

Corrections is experiencing budget pressures estimated around $4.1 million in general fund due to higher than budgeted expenditures to house an increase of 125 average daily population of offenders over the 250 budgeted number of offenders in county jails.

At the end of May $3.3 million or 35.2% of the $9.3 million in restricted funding for outside medical costs remain. This estimate may not hold due to the delays inherent in medical billing.

SECTION E – EDUCATION

OFFICE OF PUBLIC INSTRUCTION (OPI)

HB 2 Expenditures

The Office of Public Instruction, State Level Activities Program has expended $10.4 million or 87.1% of its general fund appropriation of $11.9 million and 83.0% of all appropriations. Appropriations for BASE Aid are anticipated to exceed forecasted payments in FY 2016 by $1.0 million. Additionally LFD estimates for FY 2017 that the guarantee account revenues will be approximately $7.4 million less than those anticipated in HJ2, resulting in a possible supplemental need for $6.5 million in general fund for BASE Aid. School facilities debt reimbursement final payments were prorated at 39.6% as compared to 85.8% budgeted. This reduction is due to lower than budgeted revenues in the school facilities technology fund.

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION (OCHE)

HB 2 Budget

Allocated Budget

Personal Services Contingency Funding

OCHE received $77,110 in general fund to the Administration Program for a key employee retirement payout in FY 2016.

Modified Budget

Fiscal Year Transfers

OCHE moved $0.1 million general fund appropriation authority from FY 2017 into FY 2016 in the Student Assistance Program. The authority was moved to fund the Governor's Scholarships. OCHE stated the program eliminated scholarships for returning need and 2-year merit at large students in FY 2017. In FY 2017, the agency will only be funding returning merit, 4-year merit at large, and new merits. There is sufficient appropriation authority in FY2017 to cover this population.

HB 2 Expenditures

Spending for the OCHE is slightly below anticipated spending at this time due to vacancy savings across the agency and federal spending in the Guaranteed Student Loan Program. Less than half of appropriated benefits and claims are expended in the federally funded Guaranteed Student Loan Program to date. OCHE stated that as the program is winding down and expenditure remains below the allowable budget to build a reserve for expenditure in the program's remaining years.

Montana State Library (MSL)

HB 2 Budget

Modified Budget

Operating Plan Changes

MSL transferred:

- $100,000 of federal funds from grants to operations for approved projects

- $500 of federal funds from personal service to operations to close out a project

HB 2 Expenditures

The MSL receives support from the coal shared revenue account in the state special revenue fund. This account supports activities in MSL, DNRC and the Department of Agriculture. As coal revenues slow, funded entities needed to account for the reduced level of revenues. For MSL this resulted in the need to eliminate $212,000 for the biennium. This was mitigated by the cancellation of statewide digital library service contracts beginning in August 2016.

Section F - Long-Range Planning

The Long-Range Planning (LRP) programs consist of statewide infrastructure programs and various local government (infrastructure and natural resource improvements) grants programs. Two things these programs have in common include:

- The programs are funded through dedicated revenue sources, which limits the number of projects or grants that can be appropriated or authorized (without consideration of OTO transfers)
- The programs have either statutory or temporary statute continuing authority, as opposed to only biennial authority, because projects most often take more than the two years of a biennium to complete

Spending in the various programs has consisted of expenditures from past/continuing appropriations and spending from the 2017 biennium budgets. To date in the 2017 biennium, no unusual project issues have occurred. With many of the programs relying on dedicated revenue streams from resource extraction taxes, particularly coal severance taxes and oil and natural gas taxes, these programs are experiencing shortfalls in their dedicated revenue stream. In such cases, the programs will need to manage projects within the available funding. Yet, given that in many cases the projects will be continued into the 2019 biennium, future revenues will continue to flow into the program accounts and could be used to mitigate most if not all of the shortfall effects. For further information on the program see Appendix F.