

EXHIBIT 2
DATE 2/18/11
NO. Wrap Up



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

TO: Joint Subcommittee on General Government
FR: Quinn Holzer, Fiscal Analyst
RE: Employment Security Account funding switch in Department of Labor
DATE: February 17, 2011

Attached please find an overview of the Employment Security Account. In this analysis, I have looked at the expected fund balance as a result of all appropriation authority in the coming biennium, as well as estimating it for the following biennium. This is meant as a tool for your use in evaluating the status of the fund, and a review of the additional authority provided in HB 10 beyond what you have provided in HB 2.

As you can see, the account is currently over appropriated in the 2013 biennium. This is a result of not only effecting a funding switch during executive action, but also reinstating the part of the 5% Plan that was specific to the Employment Security Account.

The amounts increased by each are as follows:

	FY2012	FY2013
Funding Switch:	\$2,157,706	\$2,168,654
5% Restoration:	1,094,968	1,0694,968

The current status of the General Fund authority provided in Section A is:

80,259,940	80,303,137
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Without counting the funding switch, the General Fund appropriation would be:

82,492,486	82,456,631
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If you have any questions, or need any clarification, please contact me at 444-5834 or in my office at 110 N in the offices of the Legislative Fiscal Division.

Pursuant to Executive Action on the Department of Labor & Industry, the table below summarizes the cumulative impact of appropriated authority on the State Special Revenue Employment Security Account (ESA), including the funding switch from General Fund, as well as ongoing authority in HB 10. HB 10 authority is not limited to the biennium in which it was authorized, and since they have not yet spent that money, the authority still exists. As seen at the bottom of the table below, when we factor in the additional authority provided outside HB 2, the account is over appropriated in this biennium.

Department of Labor & Industry						
02258 Employment Security Account Projected Fund Balance						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 [^]	FY 2015 [^]
Beginning Balance	\$5,028,274	\$6,336,669	\$4,755,385	\$1,302,359	(\$2,063,575)	(\$5,637,514)
Expenditures						
Actual Expenses	12,346,659					
Carryforward authority		1,465,656				
HB 2 Appropriation		13,792,940	15,224,742	15,265,997	\$15,571,317	\$15,882,743
Funding Switch (ongoing)			2,157,706	2,168,654	\$2,212,027	\$2,256,268
HB 10 Parking Lot*	17,504	114,196				
Revenues**	<u>13,654,958</u>	<u>13,791,508</u>	<u>13,929,423</u>	<u>14,068,717</u>	<u>14,209,404</u>	<u>14,351,498</u>
Ending Fund Balance (Projected)	<u>\$6,336,669</u>	<u>\$4,755,385</u>	<u>\$1,302,359</u>	<u>(\$2,063,575)</u>	<u>(\$5,637,514)</u>	<u>(\$9,425,027)</u>
Inclusion of HB 10 Authority for Unemployment Insurance Tax System Modernization						
HB 10 Tax System Upgrade***				1,735,567		
HB 10 Tax Upgrade Bond Payments					1,575,566	1,575,566
Revised Ending Fund Balance				<u>(\$3,799,142)</u>	<u>(\$8,948,647)</u>	<u>(\$14,311,726)</u>
*Parking Lot authority expended						
**Actual FY2010 revenues, with 1% growth as projected by the Agency						
***Computer system upgrade delayed as part of the Governor's austerity measures to save the state money. Now projected by the Agency to actually be undertaken in FY2013.						
[^] FY 2014-15 biennia appropriation estimated with a 2% inflation factor, including an ongoing funding switch						

The table below indicates that even if the funding switch is reversed in full, this account still appears to over appropriated by the end of the 2015 biennium.

Elimination of Funding Switch					
Still over appropriated by Fiscal Year End 2015					
		FY 2012	FY 2013	FY 2014	FY 2015
Full Funding switch Reversal		<u>2,157,706</u>	<u>2,168,654</u>	<u>2,212,027</u>	<u>2,256,268</u>
NET FUND BALANCE		3,460,065	527,218	(2,410,260)	(5,517,071)

A number of options exist to help bring this account into balance in this biennium, including the full reversal of the funding switch as presented on the front of this handout. The committee needs to consider how far out they are comfortable with providing this authority before the account would be depleted.

The following list of options is presented for your information and review. Other options may exist that you would like to consider, and the impacts can be calculated in a similar manner.

Reverse portions of the funding switch. The Human Rights Bureau has been identified by the Department as having the most potential for being viewed by businesses as inappropriate.						
			FY 2012	FY 2013	FY 2014	FY 2015
			<u>1,026,446</u>	<u>1,026,650</u>	<u>1,047,183</u>	<u>1,068,127</u>
NET FUND BALANCE			2,328,805	(1,746,046)	(5,848,368)	(10,143,320)
Request the authority for the Tax System Upgrade be removed from HB 10.						
				<u>1,735,567</u>	<u>1,575,566</u>	<u>1,575,566</u>
NET FUND BALANCE			1,302,359	(2,063,575)	(5,637,514)	(9,425,027)
Remove the Human Rights Bureau from the funding switch, but create an alternate funding switch within the Department of Commerce for the Primary Business Sector Training program.						
			<u>276,446</u>	<u>276,650</u>	<u>297,183</u>	<u>318,127</u>
NET FUND BALANCE			1,578,805	(3,246,046)	(8,098,368)	(13,143,320)
Combinations of the above types of actions, or identifying specific components of the funding switch for reversal.						
Examples:						
Remove HB 10 authority, remove Human Rights switch, add Business Sector Training						
			<u>276,446</u>	<u>2,012,217</u>	<u>1,872,749</u>	<u>1,893,693</u>
NET FUND BALANCE			1,578,805	225,088	(1,476,102)	(3,369,922)
Remove HB 10, remove Human Rights & 21st Century Workforce from switch, add Business Sector Training						
			<u>1,118,747</u>	<u>2,858,601</u>	<u>2,751,061</u>	<u>2,804,571</u>
NET FUND BALANCE			2,421,106	1,913,773	1,090,894	107,952
Remove HB 10, remove Human Rights & 21stCW from switch, add Business Sector Training, reinstate DP 95101 and assume Carryforward will not be spent in FY11						
			<u>1,465,656</u>	<u>1,371,414</u>	<u>3,107,185</u>	<u>2,967,717</u>
			6,221,041	4,139,429	3,880,680	2,475,606

One other option not specifically quantified here would be to amend the total authority for the Department by removing appropriation authority for specific programs, and reducing the overall expense, regardless of the source of the funds. All of the above options will result in increased liability to the General Fund. Reducing specific authority would not. Individual programs and Decision Packages may provide opportunity for reduction. Examples of reductions taken or considered in Executive Action include:

- \$41,624 unallocated General Fund reduction to the Work Force Services Division in DP 101
- A 50% decrease to the Incumbent Worker Training program was initially discussed, before approving the full request in DP 102, with funding coming from the ESA

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