EXHIBIT 1
DATE 01/21/13
HB 2

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	151.63	151.63	149.13	149.13	151.63	149.13	(2.50)	(1.65%)
Personal Services	9,462,117	9,956,483	10,172,697	10,178,582	19,418,600	20,351,279	932,679	4.80%
Operating Expenses	9,343,096	9,109,048	10,146,647	9,921,337	18,452,144	20,067,984	1,615,840	8.76%
Equipment & Intangible Assets	19,500	42,077	19,500	19,500	61,577	39,000	(22,577)	(36.66%)
Local Assistance	32,228	42,206	32,228	32,228	74,434	64,456	(9,978)	(13.41%)
Grants	0	0	0	0	0	0	0	n/a
Transfers	761,110	1,160,559	0	0	1,921,669	0	(1,921,669)	(100.00%)
Debt Service	122,027	85,827	89,977	89,977	207,854	179,954	(27,900)	(13.42%)
Total Costs	**$19,740,078**	**$20,396,200**	**$20,461,049**	**$20,241,624**	**$40,136,278**	**$40,702,673**	**$566,395**	**1.41%**
General Fund	5,776,947	6,132,662	6,353,651	6,246,461	11,909,609	12,600,112	690,503	5.80%
State Special	6,430,943	6,883,075	6,072,276	6,070,416	13,314,018	12,142,692	(1,171,326)	(8.80%)
Federal Special	17,530	42,043	17,530	17,500	59,573	35,030	(24,543)	(41.20%)
Other	0	0	0	0	0	0	0	n/a
Other	7,514,658	7,338,420	8,017,592	7,907,247	14,853,078	15,924,839	1,071,761	7.22%
Total Funds	**$19,740,078**	**$20,396,200**	**$20,461,049**	**$20,241,624**	**$40,136,278**	**$40,702,673**	**$566,395**	**1.41%**

Agency Mission - The Department of Administration's (DOA) mission is to serve, satisfy, and support our customers.

For additional information please refer to the agency profile.

Agency Highlights

Department of Administration
Major Budget Highlights

- About 4% of the agency's budget is appropriated in HB 2
- State special revenue declines due to a proposal to transfer responsibilities for the Montana Land Information Act to the Montana State Library

Legislative Action Issues

- General fund for the common areas with state agency buildings partially funded a rent holiday for state agencies
- Statute requires that the costs of administering the state employee group health care plan be included in HB 2
- Montana State Lottery requests supplemental appropriations for lottery vendor fees
- State special revenue supporting the Banking and Financial Division has a fund balance that is 269% above a 60 day working capital need
- Fees for local government services are not commensurate with the cost of providing services
- Proposals for the State Human Resource Division include a policy choice for the legislature continuing the current tuition fee structure or establishing training as a fixed costs for state agencies

Agency Discussion

In FY 2012 the Department of Administration expended $478.5 million, of which $19.7 million or 4.1% was included as part of HB 2 appropriations as shown in the agency budget comparison on the previous page. Figure 1 shows the expenditures and funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2012 for the agency.

Figure 1

Department of Administration FY 2012		
Budget Item	FY 2012	% of Total
Expenditures		
Personal Services	$35,218,743	7.36%
Operating Expenses	111,765,287	23.36%
Equipment	(5,292,733)	-1.11%
Capital Outlay	1,577,806	0.33%
Local Assistance	67,199,555	14.04%
Grants	198,545	0.04%
Benefits and Claims	191,271,385	39.98%
Transfers Out	55,589,123	11.62%
Debt Service	19,775,519	4.13%
Other Post Employment Benefits	1,160,919	0.24%
Total Expenditures	$478,464,150	100.00%
Funding		
General Fund	$57,211,875	11.96%
State Special Revenue	35,266,688	7.37%
Federal Special Revenue	22,577,378	4.72%
Long Range Building	27,328,401	5.71%
Proprietary		
Internal Services Funds	268,996,923	56.22%
Enterprise Funds	61,247,496	12.80%
Private Funds	4,121,018	0.86%
Trust Funds	1,714,371	0.36%
Total Funding	$478,464,149	100.00%

Almost 24% of the funding supports operating expenses. DOA provides for a number of centralized functions for state agencies. Operating expenses includes:

- Insurance and bond payments made by the state's self-insurance program
- Legal costs for defending tort claims
- IT consulting services associated with maintaining the state's computer systems
- Data circuits and other communication costs for the states' telephone and computer networks
- Payments to lottery vendors, commissions to lottery retailers, and lottery prize awards

Local assistance includes payments to counties for statutorily appropriate funds, including payments for:

- Local government employee pensions
- School district employee pensions
- Teacher retirement
- Supplemental contributions to teachers retirement
- Mineral fees distributed to counties form which the minerals were produced
- Taylor Grazing Act Funds
- Forest reserve funds

Benefit and claims payment include three categories:

- Payments from state sources of $150.3 million for medical, dental, and other costs associated with the Employee Group Health Plan
- Insurance payments made by the Risk Management and Tort Defense Division of $35.1 million including $26.8 million for Montana asbestos victims
- Payments of $5.9 million refunded to the bond escrow agent that are non-budgeted

Transfers out include $10.0 million in general fund transferred to the Montana State Fund for Old Fund claims costs and $13.1 million in transfers to the general fund from the Montana State Lottery. Both transfers are considered non-budgeted. Other transfers of appropriated funds include $15.8 million in general fund for bond debt services and $3.4 million in insurance proceeds on insurance claims for state buildings.

Debt service is provided for principle payments of $13.5 million and interest of $5.7 million associated with Long-Range Building Program and Trust Lands bonds.

Agency Personal Services

The personal services budget for the 2015 biennium increases due to:

- An overall vacancy savings rate of 11.3% compared to a budgeted 4% vacancy rate in its HB 2 funded positions and 8.2% vacancy savings rate compared to 4% for proprietarily funded positions

- Annualization of broadband pay increases that were granted throughout FY 2012. The total annual cost of salaries from all funding sources, both HB 2 and non-budgeted proprietary funds, is about $0.7 million. The agency reviewed existing pay ranges and made adjustments to a limited number of positions. To be eligible for an adjustment, the agency indicated that a clear inequity needed to exist in the employee's base rate when compared to other employees in similar positions
- As of December 8, 2012 there were 32 positions that have been vacant for longer than six months, the majority in either General Services Division or the State Information Technology Services Division.

LFD COMMENT Both of these divisions are supported by non-budgeted proprietary funds that are financed through legislatively approved rates. The rates are based in part on personal service costs that include the costs of the vacant positions. This can generate income beyond what is needed to fund personal service costs, allowing the division to either use the additional funding for unanticipated costs or to increase the fund balance. Further discussion can be found in the narrative section for each division.

Department of Administration indicates that about 9.4% of the employees are currently eligible for either early or full retirement. In FY 2012 the agency paid $0.2 million in retirement and sick leave payouts that are not included as part of the 2015 biennium personal services funding.

Agency Wide Decision Package

The following proposal has a common decision packages in several programs across the agency.

- DP 102 Allocate Department Indirect/Administrative Cost. The Department of Administration's Director's Office uses a proprietary rate to allocate the costs of the Offices of Legal Services, Finance and Budget, and Human Resources. Additionally, the Director's Office provides IT management and project management services. Figure 2 shows the agency-wide impact of the common decision packages

Figure 2

Department of Administration
Allocate Department Indirect/Adminsitrative Costs

	FY 2014				FY 2015				2015
Divison	General Fund	State Special	Proprietary	Total	General Fund	State Special	Proprietary	Total	Biennium Total
Director's Office	$0	$0	$10,795	$10,795	$0	$0	$10,693	$10,693	$21,488
State Accounting Division	3,366	0	2,801	6,167	3,142	0	2,140	5,282	11,449
Architecture and Engineering Division	0	10,219	0	10,219	0	9,921	0	9,921	20,140
General Services Division	2,973	(57)	19,056	21,972	2,842	(66)	19,583	22,359	44,331
State Information Techology Division	4,592	3,990	85,855	94,437	4,538	3,943	80,141	88,622	183,059
Banking and Finance Division	0	6,431	0	6,431	0	5,874	0	5,874	12,305
Montana State Lottery	0	0	(2,552)	(2,552)	0	0	0	(3,130)	(5,682)
Health Care and Benefits Division	0	0	56,867	56,867	0		56,339	56,339	113,206
State Human Resources Division	5,993	0	55,767	61,760	5,703	0	55,192	60,895	122,655
Risk Management & Tort Claims Division	0	0	20,714	20,714	0	0	19,144	19,144	39,858
State Tax Appeal Board	3,299	0	0	3,299	3,205	0	0	3,205	6,504
Total	$20,223	$20,583	$249,303	$290,109	$19,430	$19,672	$243,232	$282,334	$572,443

As shown above, the proposal provides for increased costs in the Director's Office by increases to general fund, state special, and proprietary funds in the other divisions within the agency. Three proprietarily funded programs, State Information Technology Division, Health Care and Benefits Division, and State Human Resources Division provide over 73% of the support for the increases proposed in the Director's Office. The increases included for these divisions will be passed on to other state agencies through increased proprietary rates.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

For this agency the general fund impact of the 5% is $262,562 and the state special revenue impact is $189,567.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- New
- Emerging
- Mature
- Declining
- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

The following table shows agency funding by source of authority, as proposed by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Department Of Administration Funding by Source of Authority
2015 Biennium Budget

Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	$12,600,112	$0	$75,058,880	$87,658,992	10.8%
State Special Total	12,142,692	-	50,329,752	62,472,444	7.7%
Federal Special Total	35,030	-	41,214,186	41,249,216	5.1%
Proprietary Total	15,924,839	537,880,538	63,522,458	617,327,835	76.3%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	779,052	779,052	0.1%
Total All Funds	$40,702,673	$537,880,538	$230,904,328	$809,487,539	
Percent - Total All Sources	5.0%	66.4%	28.5%		

95% of the overall funding for the Department of Administration is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation.

Within HB 2 general fund supports the Board of County Printing and the Burial Preservation Board, and provides partial support for the State Accounting Division, General Services Division including facilities maintenance functions for common areas, and State Human Resources Division.

State special revenues include:

- Assessments, application fees, and examination fees paid by the regulated financial institutions
- Fees imposed on a per month per access line basis for each telephone subscriber in the state using either land lines or wireless services that support 911 services throughout Montana
- Funds transferred from the long-range building capital projects fund for administrative expenses in support of the state Long-Range Building Program

Proprietary funds in HB 2 are appropriated to the Montana State Lottery Division (lottery). Profits from the lottery are deposited into the state's general fund. As such, the legislature had made a policy decision to appropriate the funds for the lottery so that it can more closely examine the costs of its operations. The increased legislative oversight helps ensure the lottery continues to maximize general fund transfers.

The remaining proprietary funds, over half a billion, are proposed as non-budgeted. The legislature examines proposed rates for internal service funds in this agency as part of its consideration of HB 2. The internal service funds make up the majority of the proprietary funds in this agency. Proprietary funds are discussed in detail in the narrative sections of each program.

Statutory appropriations approved for the agency are discussed in detail in the narrative sections of each program. Included in the program funding tables are the applicable statutes and whether the appropriations have a direct bearing on the agency operations or are passed-thru to another entity such as federal forest reserve funds that are passed through to counties throughout Montana.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	5,776,947	5,776,947	11,553,894	91.70%	19,740,078	19,740,078	39,480,156	97.00%
Statewide PL Adjustments	602,216	495,833	1,098,049	8.71%	1,132,809	915,434	2,048,243	5.03%
Other PL Adjustments	(4,827)	(5,620)	(10,447)	(0.08%)	461,204	458,922	920,126	2.26%
New Proposals	(20,685)	(20,699)	(41,384)	(0.33%)	(873,042)	(872,810)	(1,745,852)	(4.29%)
Total Budget	**$6,353,651**	**$6,246,461**	**$12,600,112**		**$20,461,049**	**$20,241,624**	**$40,702,673**	

Statewide present law adjustments provide for the majority of the increases for the Department of Administration. About $1.9 million of the increase is related to personal service adjustments and the remainder includes adjustments for fixed costs and inflation/deflation included in the operating expenses. Other present law adjustments proposed by the agency include:

- Burial Board funding
- Increases for the Director's Office which is assessed to the other divisions as department indirect costs
- One-time-only request for lottery terminals

Under new proposals the executive requests to transfer the responsibilities for the Montana Land Information Act to the Montana State Library. Currently state statute makes the department responsible for the administration of the act.