

FY 2015 FYE REPORT

A Report Prepared for the
Legislative Finance Committee and
Revenue and Transportation Interim Committee

By
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INTRODUCTION

This report provides an overview of the preliminary FY 2015 ending balance of the general fund and detailed revenue collection information. Although the revenue and disbursement data for the general fund have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the Generally Accepted Accounting Principles (GAAP) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as presented during the 63rd and 64th Legislatures and actual data from SABHRS for FY 2015. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2017 Biennium.

The outline of this report is as follows:

- The unaudited, preliminary general fund balance for the end of FY 2015 and start of FY 2016
- Detailed FY 2015 actual vs. estimated general fund revenue collections
- FY 2015 budgeted and actual expenditures for all funds

Definitions of terms used in this report:

State resources – as defined by [17-7-150](#), MCA, which uses all sources of authority in 17-7-150, but does not remove double accounting of transfers.

HB 2 – understood to mean: the general appropriations bill, employee pay plan, employee pensions, and any house or senate bill that impacts an agency's base budget (example: HB 33, 2015 session). Note: statutory expenses will be treated separately throughout the report.

GENERAL FUND OVERVIEW

GENERAL FUND ENDING BALANCE

The preliminary, unaudited FY 2015 ending fund balance data for the general fund as reported by the state accountant is \$455.1 million. The 2015 Legislative session estimated general fund balance at the end of FY 2015 was \$364.9 million. This estimate was based on House Joint Resolution 2 (HJ 2) revenue estimates of the 64th Legislature, disbursement budgets adopted during the 63rd and 64th legislative sessions, and reversion estimates. As shown in the first table, the preliminary general fund unassigned balance for FY 2015 was \$455.1 million, or \$90.2 million above the level anticipated by the 64th Legislature. The table at the bottom of page four shows a comparison between estimates and actuals, it highlights the additional revenue of \$45.7 million, lower spending by \$35.6 million, and additional saving in prior year and other adjustments of \$8.9 million for a total increase of \$90.2 million. This provides a higher ending fund balance of \$455.1 million.

While the FY 2015 ending fund balance is \$90.2 million higher than anticipated, over half of this amount is statutorily transferred to wildfire suppression fund and the resulting 2017 ending fund balance is only \$43.1 million higher than anticipated during session. This is slightly higher than the \$39.9 estimated with the majority of the difference in lower estimated statutory appropriations including bond refinancing costs. The table on page 6 illustrates the transfers to the wildfire suppression fund in more detail.

General Fund September 2015				
(\$ Millions)				
	Actual FY 2014	Actual FY 2015	Budget FY 2016	Budget FY 2017
Beginning Fund Balance	\$537.600	\$424.451	\$455.108	\$361.447
Revenue	2,077.044	2,199.653	2,262.932	2,355.360
Total Funds Available	2,614.644	2,624.104	2,718.040	2,716.807
Disbursements				
Ongoing				
HB 2, pay plan, pension bills, lang. approps, bills with base funding lang.	1,763.500	1,822.770	1,938.287	1,985.308
HB 2 supplemental		21.168		
Statutory	254.621	261.240	276.987	293.498
Transfers	14.761	26.527	15.250	16.412
Other appropriation bills (includes 2015 bi remaining HB1 authority)	1.518	8.401	5.586	5.377
Assumed FY 2017 Appropriations (HB 1 & SB 260)				7.600
Reversions			(7.100)	(7.300)
OTO				
HB 2	20.600	21.923	65.969	58.422
Transfers - fire transfers	135.500	13.308	50.314	
Transfers - other (HB 10, HB 403)			11.300	
Other (includes: carry forward)		2.564		
Total Disbursements	2,190.500	2,177.901	2,356.594	2,359.316
Adjustments	0.307	8.905		
Ending Fund Balance (Unassigned)	\$424.451	\$455.108	\$361.447	\$357.491

REASONS FOR HIGHER FY 2015 ENDING FUND BALANCE

General Fund FY 2015 Estimated vs. Actual			
(\$ Millions)			
	Estimated FY 2015	Actual FY 2015	Difference
Beginning Fund Balance	\$424.451	\$424.451	\$0.000
Revenue	2,153.993	2,199.653	45.660
Total Funds Available	2,578.444	2,624.104	45.660
Disbursements			
Ongoing	2,165.452	2,140.106	-25.347
HB 2 includes supplemental	1,866.594	1,843.938	-22.656
Statutory	278.224	261.240	-16.984
Transfers	14.408	26.527	12.119
Other (includes HB 1)	6.227	8.401	2.174
OTO	48.058	37.795	-10.263
Total Disbursements	2,213.510	2,177.901	-35.610
Adjustments		8.905	8.905
Ending Fund Balance (Unassigned)	\$364.934	\$455.108	\$90.174

The largest component of this increase is \$45.7 million in higher than anticipated revenues. The two largest differences in revenue are: \$33.3 million higher individual income tax receipts; and \$18.5 million in increased corporation tax revenues. The differences in revenues are described more fully in the revenue section of this report. Also increasing ending fund balance are \$35.6 million in lower spending and additional savings of \$8.9 million in prior year and other adjustments.

Of the \$35.6 million in lower spending, general fund statutory appropriations were \$17.0 million lower than estimated. This is primarily the result of the estimated FY 2015 emergency and disaster appropriations of \$13.5 million that were transferred to the fire fund in FY 2016. Please refer to the fire suppression fund update table on the next page. Non-budgeted transfers, both ongoing and one-time were \$3.5 million less than expected.

Actual general fund expenditures for HB 2 were \$22.7 million lower than estimated during the 2015 legislative session. The differences are described more fully in the expenditure section of this report however the primary differences were in the following agencies:

- o Department of Health and Human Services (DPHHS) \$13.8 million;
- o Legislative Branch \$2.5 million;
- o Office of Public Instruction (OPI) \$1.8 million;
- o State Auditor \$1.5 million; and
- o Judicial Branch \$1.2 million

During FY 2015 there were prior year and other adjustments that increased the general fund ending fund balance by \$8.9 million. The majority or \$6.6 million occurred in the Department of Health and Human Services (DPHHS). Of that adjustment, \$5.5 million was in the four health care services divisions. The adjustments were primarily for actual expenditures lower than accrued expenses in the benefits category for Medicaid hospital services, Medicaid community based services for senior and long term care, the Healthy Montana Kids program, Medicaid nursing homes, and the Mental Health Services Program. The Human and Community Services division accounted for a further \$0.7 million of the adjustment, primarily in grants for TANF training and employment programs and benefits for child care. The remaining \$0.4 million is spread throughout the remainder of DPHHS.

The remaining prior period adjustments in other agencies were mainly expenditures that were lower than accruals for transfers, Insure Montana one-time-only appropriations, consulting services, and salaries. A small amount of prior year revenue adjustments were made for a lottery transfer, short term interest program earnings and a Department of Justice Montana Enhanced Registration and Licensing Information Network (MERLIN) accounting error.

Implications for the 2017 Biennium Ending Fund Balance

Although the ending fund balance for FY 2015 is \$90.2 million higher than anticipated, transfers required by statute to the wildfire suppression account reduced the impact to the anticipated 2017 biennial ending fund balance by \$50.3 million.

Transfers to Wildfire Suppression Fund

According to statute created by HB 354 (2013 session) in early FY 2016, the executive transferred \$50.3 million from the general fund to the wildfire suppression fund. The transfers were due to the following statutory provisions:

- 1) HB 354 had a three year provision to transfer corporation tax revenue in excess of the thresholds set in the bill. FY 2015 was the last year of this three year provision and the \$15.2 million in excess of the threshold will be the last transfer due to corporation tax revenues.
- 2) The Governor has a biennial \$16.0 million general fund statutory appropriation authority for declared emergencies. Any remaining authority at the end of the biennium is transferred to

the wildfire suppression fund. In the 2015 biennium, \$13.5 million of authority remained and thus a like amount was transferred to the wildfire fund.

- 3) The final transfer is the result of other general fund reversions in excess of the 0.5%. In FY 2015, reversions in excess of the threshold were \$21.6 million and a like amount was transferred to the wildfire fund.

Fire Suppression Fund Update September 2015			
	FY 2014	FY 2015	FY 2016
Beginning Fund Balance	\$115,155	\$42,502,103	\$38,719,044
Revenue			
Corporation Tax Transfer*	25,497,421	-	15,229,061
General Fund Reversion Transfer	13,338,027	3,653,421	21,596,093
Governor's Emergency Fund Transfer	943,867	-	13,484,448
Supplemental (HB3) Excess Transfer	11,912,088	-	-
Other Income	84,206	147,516	17,859
Total Revenue	51,775,610	3,800,937	50,327,461
Disbursements			
Personal Services	4,209,267	1,884,252	1,717,319
Operating Expenses	5,179,395	2,563,871	817,476
Equipment	-	340,000	-
Grants	-	2,795,873	-
Total Disbursements	9,388,662	7,583,996	2,534,795
Ending Fund Balance (Unaudited)	\$42,502,103	\$38,719,044	\$86,511,709
*Corporation Tax Transfer ends after 2016			

Carry forward authority not yet established

Statute allows the reestablishment of 30% of certain reverted appropriations. Future reports will identify the established carry forward authority which will slightly reduce the 2017 anticipated ending fund balance.

FY 2015 GENERAL FUND REVENUE COLLECTIONS

Actual FY 2015 general fund revenues were \$45.7 million or 2.1% above the HJ 2 estimate. The difference can be attributed to strong growth in individual and corporation income taxes, somewhat offset by below-expected growth in oil & natural gas taxes.

Summary of FY 2015 Changes from HJ 2				
(\$ Millions)				
	Estimate	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,142.5	\$1,175.7	\$33.3	2.9%
Corporation Tax	154.3	172.7	18.5	12.0%
Oil & Natural Gas Taxes	78.8	73.2	(5.6)	-7.1%
Remaining Sources	778.4	778.0	(0.4)	-0.1%
General Fund Total	\$2,154.0	\$2,199.7	\$45.7	2.1%

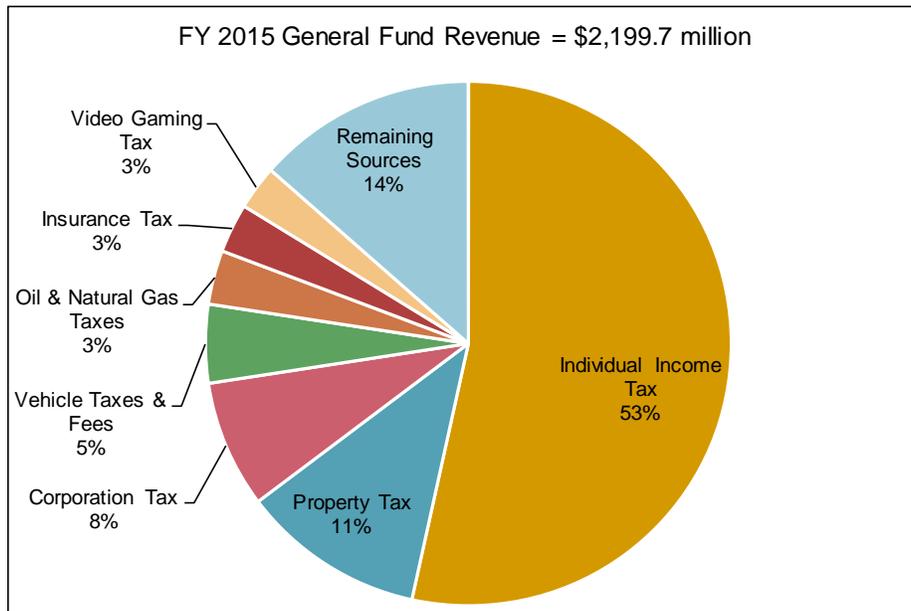
The table on the following page shows actual FY 2014 revenues in the first numerical column, followed by estimated and actual FY 2015 revenues. The next two columns show the estimated and actual growth in FY 2015 from FY 2014. The last two columns compare the actual FY 2015 revenue to the estimate, showing the difference as an amount and as a percentage. Summaries of each of the revenue sources and differences from the estimate are organized in the order of the revenue list on the table.

General Fund Revenue--FY 2015 Actuals Compared to HJ 2 Estimate (\$ Millions)							
Revenue Source	Actual FY 2014	HJ 2* FY 2015	Actual FY 2015	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.
Largest Seven Sources							
Individual Income Tax	\$1,047.790	\$1,142.481	\$1,175.745	9.0%	12.2%	\$33.264	2.9%
Property Tax	244.607	250.239	247.881	2.3%	1.3%	(2.358)	-0.9%
Corporation Tax	177.497	154.272	172.729	-13.1%	-2.7%	18.457	12.0%
Vehicle Taxes & Fees	99.352	103.500	106.382	4.2%	7.1%	2.882	2.8%
Oil & Natural Gas Taxes	98.683	78.811	73.184	-20.1%	-25.8%	(5.627)	-7.1%
Insurance Tax	61.678	67.744	66.582	9.8%	8.0%	(1.162)	-1.7%
Video Gaming Tax	57.261	60.029	59.799	4.8%	4.4%	(0.230)	-0.4%
Other Business Taxes							
Drivers License Fee	4.527	4.395	4.811	-2.9%	6.3%	0.415	9.5%
Investment Licenses	6.951	7.257	6.773	4.4%	-2.6%	(0.484)	-6.7%
Lodging Facilities Sales Tax	16.720	20.079	19.697	20.1%	17.8%	(0.382)	-1.9%
Public Contractor's Tax	(0.138)	2.817	3.257	-2147.4%	-2467.0%	0.440	15.6%
Railroad Car Tax	2.179	3.641	3.706	67.1%	70.1%	0.066	1.8%
Rental Car Sales Tax	3.523	3.714	3.907	5.4%	10.9%	0.193	5.2%
Retail Telecom Excise Tax	20.652	19.239	18.257	-6.8%	-11.6%	(0.982)	-5.1%
Other Natural Resource Taxes							
Coal Severance Tax	13.265	15.629	16.063	17.8%	21.1%	0.434	2.8%
Electrical Energy Tax	5.067	4.738	5.133	-6.5%	1.3%	0.395	8.3%
Metal Mines Tax	10.049	8.238	8.320	-18.0%	-17.2%	0.083	1.0%
U.S. Mineral Royalties	29.205	26.109	26.960	-10.6%	-7.7%	0.852	3.3%
Wholesale Energy Trans Tax	3.558	3.623	3.795	1.8%	6.7%	0.172	4.8%
Other Interest Earnings							
Coal Trust Interest Earnings	24.153	20.470	21.168	-15.2%	-12.4%	0.699	3.4%
TCA Interest Earnings	2.465	1.605	2.164	-34.9%	-12.2%	0.559	34.9%
Other Consumption Taxes							
Beer Tax	3.033	3.095	3.034	2.1%	0.1%	(0.061)	-2.0%
Cigarette Tax	31.011	30.713	29.604	-1.0%	-4.5%	(1.109)	-3.6%
Liquor Excise Tax	17.724	18.950	19.257	6.9%	8.7%	0.307	1.6%
Liquor Profits	10.500	10.663	11.000	1.6%	4.8%	0.337	3.2%
Lottery Profits	13.084	12.177	12.363	-6.9%	-5.5%	0.186	1.5%
Tobacco Tax	5.853	6.233	6.056	6.5%	3.5%	(0.178)	-2.9%
Wine Tax	2.195	2.298	2.307	4.7%	5.1%	0.010	0.4%
Other Sources							
All Other Revenue	36.578	42.346	40.822	15.8%	11.6%	(1.524)	-3.6%
Highway Patrol Fines	4.140	4.224	4.042	2.0%	-2.4%	(0.182)	-4.3%
Nursing Facilities Fee	4.928	4.859	4.810	-1.4%	-2.4%	(0.049)	-1.0%
Public Institution Reimb.	16.212	16.630	16.819	2.6%	3.7%	0.189	1.1%
Tobacco Settlement	3.321	3.176	3.225	-4.4%	-2.9%	0.049	1.5%
Largest Seven Subtotal	1,786.868	1,857.075	1,902.301	3.9%	6.5%	45.226	2.4%
Remaining Sources Subtotal	290.754	296.918	297.352	2.1%	2.3%	0.434	0.1%
Grand Total	\$2,077.622	\$2,153.993	\$2,199.653	3.7%	5.9%	\$45.660	2.1%

*HJ 2, Adjusted for Legislative Impacts

Large Revenue Sources

In FY 2015, the largest seven revenue sources accounted for 86% of total general fund revenue. This section will highlight the differences between actual and anticipated revenue collections for each source and go into further detail if applicable.



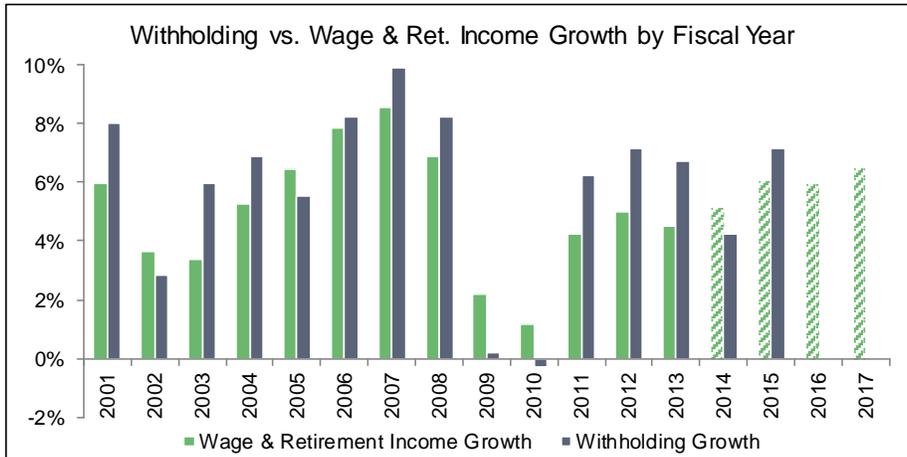
Individual Income Tax: \$33.3 million

Individual income tax collections were \$33.3 million or 2.9% above the estimate contained in HJ 2. The difference was primarily driven by high withholding growth—a proxy for wage and retirement income—coupled with strong estimated and current year payments—a proxy for all other non-wage income. These two areas, as well as audits/interest, are discussed in more detail in the sections following the fiscal-year accounting level detail shown below.

Individual Income Tax (\$ Millions)				
	FYE 2015	FYE 2014	\$ Difference	% Difference
Withholding	\$875.3	\$816.7	\$58.6	7.2%
Estimated Payments	271.2	242.7	28.5	11.7%
Current Year Payments	208.6	177.9	30.7	17.2%
Audit, P&I, Amended	43.5	41.0	2.5	6.0%
Refunds	(263.6)	(253.5)	(10.1)	4.0%
Refund Accrual Reversal	132.6	129.1	3.5	2.7%
Partnership Income Tax	23.0	17.0	6.0	35.4%
Mineral Royalties	17.9	21.5	(3.6)	-16.9%
Total	\$1,175.7	\$1,063.3	\$112.5	10.6%

Wage Income

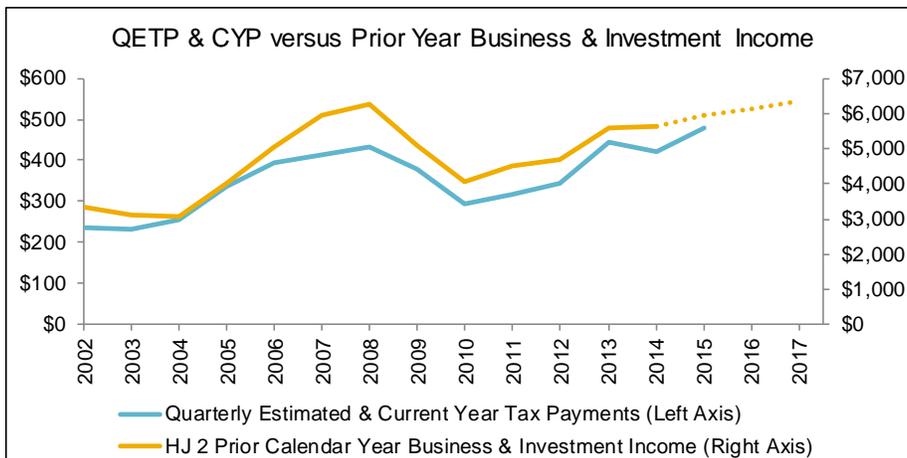
There is a correlation between withholding growth and wage and retirement income growth; however, the correlation is not particularly strong, as shown in the graph on the following page:



Preliminary wage data from the quarterly census of employment and wages (QCEW) for CY 2014 is now available; it suggests that CY 2014 wage growth was 4.2%, which is below the 6.2% estimate in HJ 2. These results imply that the above-estimate increase is due to something other than wage growth. Actual income data for CY 2014 won't be available until early November, at which point this will be explored further.

Non-Wage Income

Estimated and current year payments are a proxy for non-wage income. Combined FY 2015 quarterly estimated and current year payments grew 14.0% over FY 2014, higher than the combined CY 2014 business and investment income growth of 5.5% contained in HJ 2. The figure below shows the correlation between estimated and current year tax payments with the prior calendar year's business and investment income.



The discrepancy between the FY 2015 combined payments growth rate and the prior year's business and investment income is likely due to an incorrect modeling assumption used in the rent, royalties and partnership income sub-model. As mentioned in previous reports, the rent, royalties and partnership income sub-estimate was modeled too heavily on oil prices. The drop in oil prices caused an unnecessarily dampening effect on this sub-model. With recently available data, it has become clear that the financial activities sector plays a much larger role in the rent, royalties, and partnership income than previously assumed. During past years this incorrect assumption was not discovered due to the tracking of oil prices with the stock market. Montana was not alone in underestimating non-wage income. Many states underestimated non-wage income as taxpayers underreported this income in FY 2014, an impact of the 2013 federal fiscal cliff, as outlined in "[The Rockefeller Institute of Government: Windfall April Surprises](#)". While it is currently unknown if this played a role in Montana's

tax environment, it will be explored as data becomes available. Efforts to try and mitigate these types of situations and improve income estimating can be found in "[A Study on Improving Montana's Personal Income Tax Revenue Projections](#)".

Audit, Penalty & Interest, and Amended: \$1.7 million

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2; combined collections in FY 2015 were higher than expected by \$1.7 million.

Property Tax: (\$2.4 million)

General fund property tax revenue was 0.9% or \$2.4 million below the HJ 2 estimate. After session, it was expected that actual collections would come in slightly above estimate due to the increased federal forest payments of \$3.1 million. After the reauthorization of the secure rural schools act in mid-April actuals came in slightly under estimate. Unfortunately, there is not yet an accurate way to determine if the federal forest non-levy revenue has all been accounted for in the state system. The findings of a recent audit showed that there was some inconsistency among the counties in reporting this non-levy revenue as it is applied to the 55 school county equalization mills. The Department of Revenue (DOR) is fixing this reporting and categorization issue, and this detail should be available starting in FY 2016.

Corporation Tax: \$18.5 million

Corporation income tax collections were \$18.5 million or 12.0% above HJ 2. Under [HB 354 \(2013 Session\)](#), all corporation tax collections in excess of \$157.5 million in FY 2015 were to be transferred to the fire suppression account; this statute resulted in a transfer of \$15.2 million in early FY 2016.

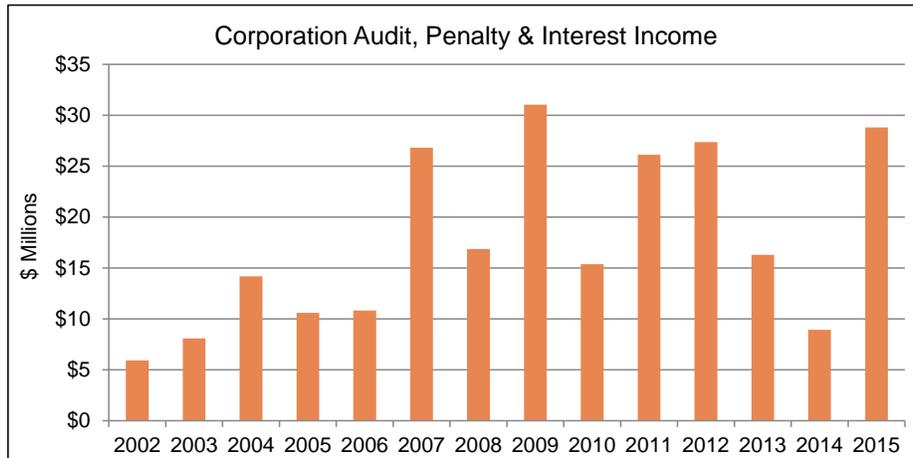
The table below shows the accounting level detail for FY 2015 compared to FY 2014. Compared to FY 2014, FY 2015 collections increased by \$25.2 million or 17.1% even though estimated payments decreased by 0.3%. The year-over-year increase was primarily due to increased audit collections, which was driven by a large one-time audit. Estimated payments account for about 80% of corporation income tax collections on average.

Corporation Income Tax (\$ Millions)				
Account	YTD 2015	YTD 2014	\$ Difference	% Difference
Corporation Tax	\$32.0	\$28.1	\$3.9	13.7%
Estimated Payments	129.9	130.4	(0.4)	-0.3%
Refunds	(18.0)	(21.7)	3.7	-17.2%
Audit, P&I, Amended	28.8	10.8	18.0	167.3%
Total	\$172.7	\$147.5	\$25.2	17.1%

The HJ 2 estimate contained an alternative assumption based on the recommendation of the Joint Tax Subcommittee, a \$25 million shift from FY 2015 to FY 2016 due to taxpayer behavior. Actual collections suggest that the shift did not occur. The following table shows actual collections compared to the HJ 2 estimate:

Corporation Income Tax--FY 2015 Actuals versus HJ 2 (\$ Millions)			
	HJ 2	Actual	Difference
Tax Liability & Adjustments	\$142.4	\$161.9	\$19.5
Refunds	-23.8	-18.0	5.8
Audit, Penalty & Interest	35.6	28.8	-6.8
Total	\$154.3	\$172.7	\$18.4

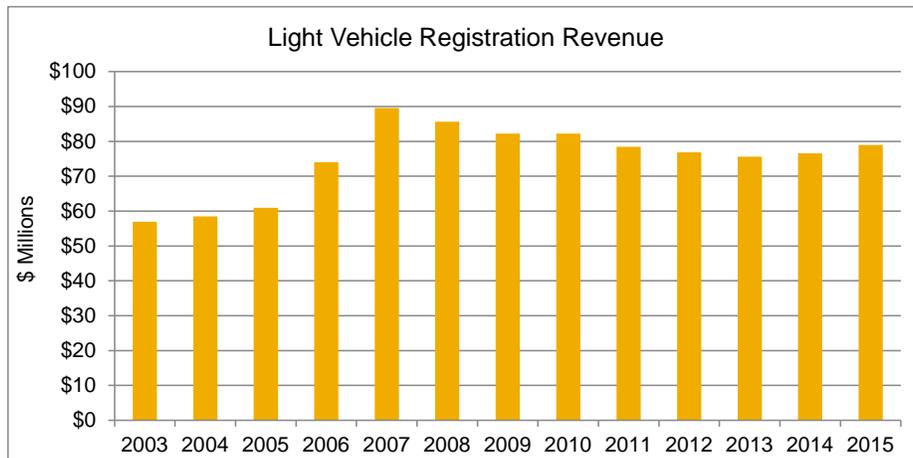
The following graph illustrates the variable nature of audit, penalty & interest collections over the past years:



After discussion with the Department of Revenue, they indicated that they are once again anticipating some large one-time audits for FY 2016.

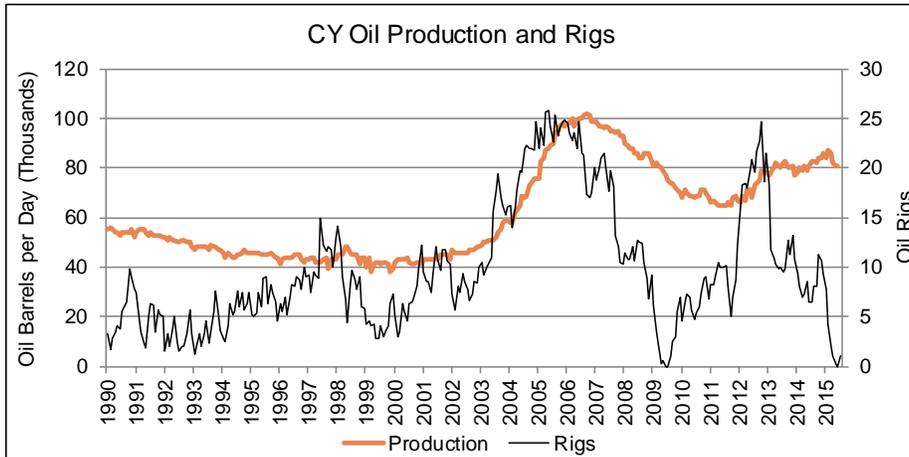
Vehicle Taxes & Fees: \$2.9 million

Combined revenue collections from vehicle taxes and fees were 2.7% or \$2.9 million more than anticipated in HJ 2. The year-over-year increase was driven by strong light vehicle growth in the month of February.

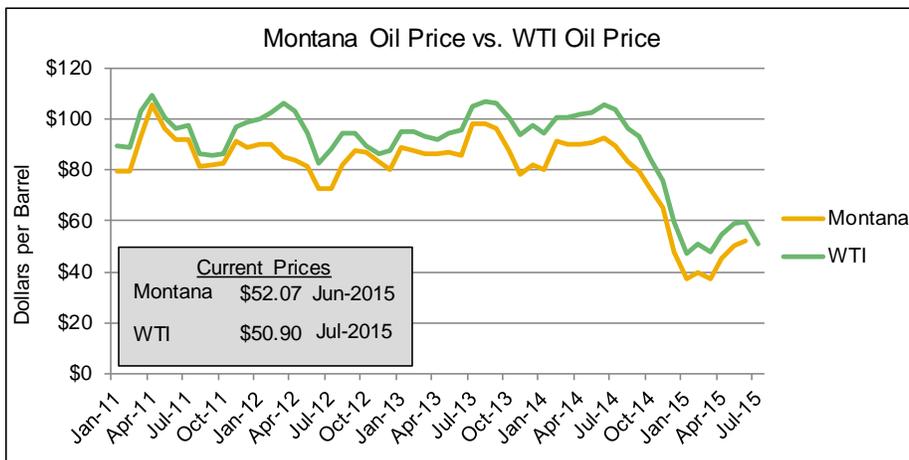


Oil & Natural Gas Taxes: (\$5.6 million)

Oil and natural gas collections fell off precipitously since the first quarter collections in FY 2015. While the majority of the decline from the fairly consistent collections of FY 2009 - FY 2014 was accounted for in HJ 2, the final collections were \$5.6 million below HJ 2. Both the total decline and the overestimate of revenue are almost entirely due to price. Oil production has stayed fairly consistent throughout the price declines, as shown in the following chart.



While the final month of FY 2015 oil prices from DOR is not available, Montana prices from the beginning of FY 2015 fell from \$90 a barrel to \$50 a barrel, as shown in the figure below. The final average price is likely going to be \$58 per barrel for Montana, which is somewhat lower than the HJ 2, assumption of \$62 per barrel. This price discrepancy is the main reason for collections being 7.1% below HJ 2. While continued volatility in oil price may continue through the next few years, the oil revenue estimating model will be updated to respond more quickly to changes in price.

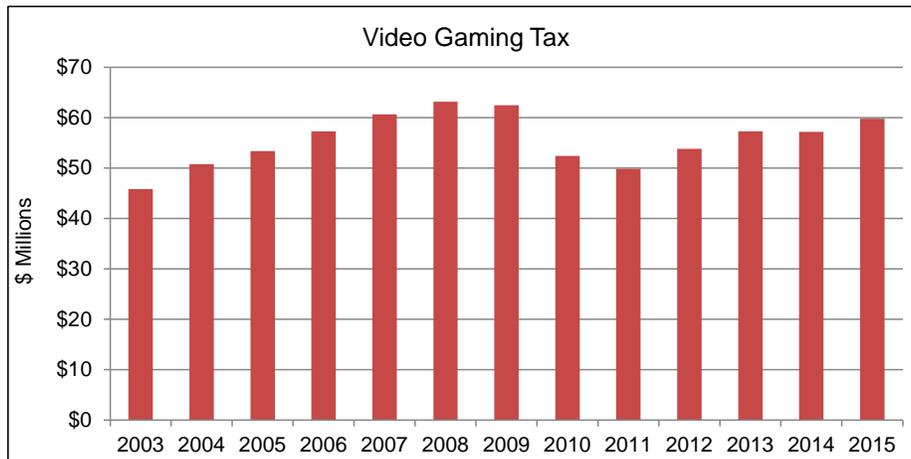


Insurance Tax: (\$1.2 million)

FY 2015 insurance tax came in \$1.2 million or 1.7% below the final HJ 2 revenue estimate. At the time of the estimate, there were a couple of factors regarding the policy purchases on the 2015 exchange that were still unclear: how many of the policies purchased on the exchange were new vs. renewed, and what was the average cost of purchased policies from taxable companies. As new data from the exchanges becomes available from the State Auditor's Office, modeling for this source will be revised to account for the changes.

Video Gaming Tax: (\$0.2 million)

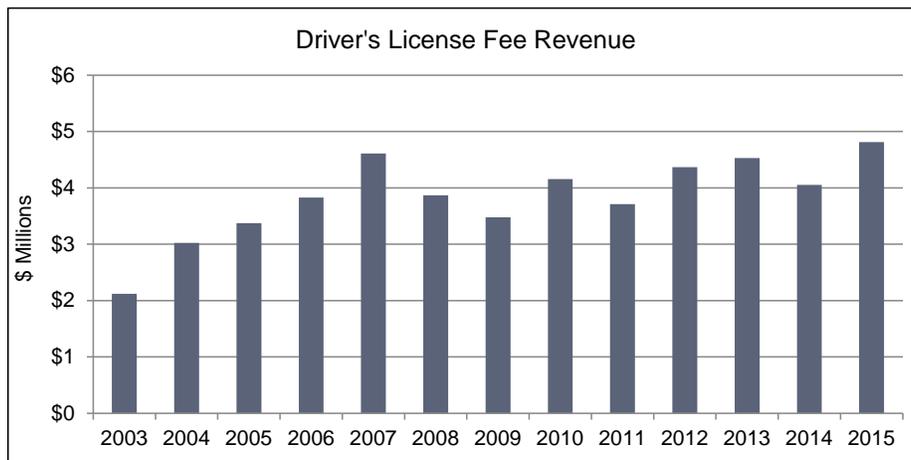
Video gaming revenue in FY 2015 was \$0.2 million or 0.4% less than what was anticipated in HJ 2. This model appears to be working well, and is driven entirely by Montana personal income.



Other Business Taxes

Driver's License Fee: \$0.4 million

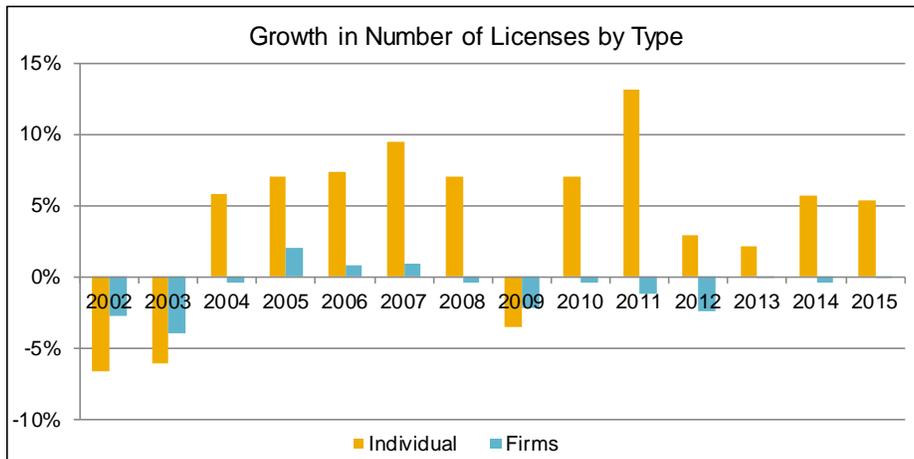
Total driver's license revenue was \$0.4 million or 8.6% more than anticipated in HJ 2. Since fees are fixed, this increase in revenue was driven by larger-than-expected Class D (standard) driver's license purchases. The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations. Actual ratios from the most recent fiscal years are applied accordingly to forecast years.



Investment License Fee: (\$0.5 million)

Investment license fee collections were \$0.5 million, or 6.7% below the estimate contained in HJ 2. This source is modeled on the number of individual, firm and dual registrations.

The decline in collections from FY 2014 appears inconsistent with the growth in individual licenses and the moderated decline in firms' licenses, as shown in the following chart. An issue of inconsistency in the accounting data is currently being researched.



The HJ 2 estimate values were equal to the values generated by the model. A better approach, and one that would have been more accurate in FY 2015, may be to apply the model-generated growth rates to the last known actual collections.

Lodging Facilities Sales Tax: (\$0.4 million)

Lodging facilities sales tax collections were \$0.4 million or 1.9% below the estimate contained in HJ 2. The HJ 2 estimate contained an alternative assumption based on the recommendation of the Joint Tax Subcommittee that added \$0.3 million to the estimated FY 2015 collections.

This revenue source was forecast in HJ 2 based on U.S. Consumer Spending on Accommodations. The IHS outlook for U.S. consumer spending on accommodations in FY 2015 declined slightly since the March forecast that was used as the basis for the HJ 2. This suggests that the variable works as a predictor for the source.

Public Contractors' Gross Receipts Tax: \$0.4 million

Public contractors' gross receipts tax collections were \$0.4 million or 15.6% above the estimate contained in HJ 2. Higher levels of credits & refunds due to the increased number of public projects funded through the American Recovery & Reinvestment Act (ARRA) in 2009 and 2010, coupled with the subsequent decrease in publicly funded projects resulted in reduced net taxes for several years; this fluctuation seems to finally be complete. According to the Department of Revenue, filing for this tax source will be available on the online Taxpayer Access Point (eTAP) within a year, which should allow for timelier processing. In addition, the department is starting to implement penalty provisions for late filers, encouraging timely compliance from taxpayers.

Railroad Car Tax: \$0.1 million

Railroad car tax revenue was \$0.1 million, or 1.8% above the HJ 2 estimate. Tax bills were calculated for the first year prior to the HJ 2 estimate, which explains why this source was close to the estimate.

Rental Car Sales Tax: \$0.2 million

Rental car sales tax collections were \$0.2 million or 5.2% above the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on Montana retail sales. The analysts at IHS have cautioned that the retail sales forecast is based on lagged data; research over the interim will investigate other options, including variables from the state-specific personal consumption series.

Retail Telecommunications Excise Tax: (\$1.0 million)

Retail telecommunications excise tax collections were \$1.0 million or 5.1% below the estimate contained in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS forecast of Montana population growth. An increased rate of transition to pre-paid smartphones, which are non-taxable, may be the reason for the stronger-than-expected decline in collections.

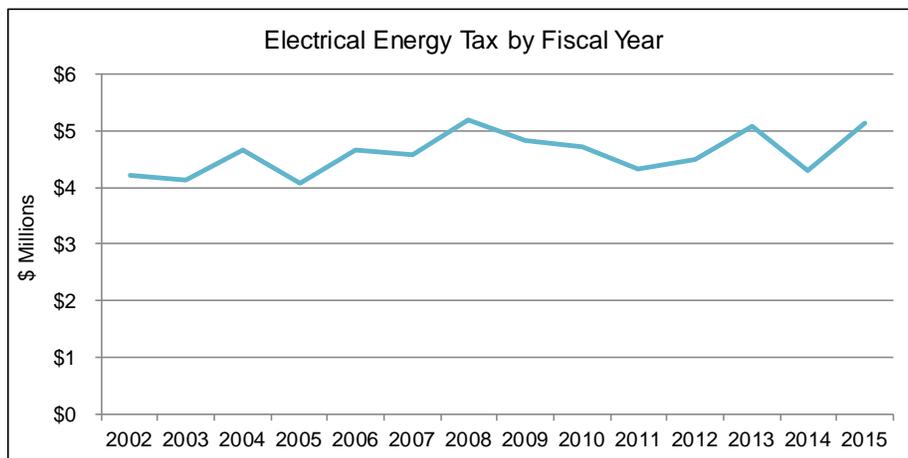
Other Natural Resource Taxes

Coal Severance Tax: \$0.4 million

Coal severance tax collections were above the HJ 2 estimate by \$0.4 million or 2.8%. The price forecast for coal was almost exactly the actual FY 2015 price of \$12.4 per ton. Production was higher than HJ 2 by 0.9 million tons at 39.1 million tons. Production forecasts are based on coal company surveys, and the increase was due to several companies with higher production than they estimated.

Electrical Energy Tax: \$0.4 million

Taxable energy production was below the forecast by \$0.4 million, or 8.3%. Tax collections are a flat rate imposed against production, which has been inconsistent lately, as shown in the adjacent chart. A shutdown in early FY 2014 at Colstrip caused a dip in FY 2014; HJ 2 assumed an increase to recent average collections, but actuals exceeded the anticipated increase.



Metalliferous Mines Tax: \$0.1 million

Metal mines tax collections were \$0.1 million or 1.0% above the estimate contained in HJ 2. The increase appears to due to a higher-than-anticipated price for molybdenum in CY 2014, which more than offset the lower-than-anticipated silver production. Metal prices for CY 2015 are currently lower than the estimates contained in HJ 2.

U.S. Mineral Royalties: \$0.9 million

Revenue from U.S. mineral leases in the state was \$0.9 million or 3.3% above the HJ 2 estimate. It was estimated in HJ 2 that U.S. mineral royalties would decline from \$29.2 million in FY 2014 to \$26.1 million in FY 2015 primarily due to decreases in oil royalties. Royalty payments did fall from FY 2014, but not as much as expected, to \$27.0 million. Detailed federal FY 2015 information is not yet available but it is likely that increased coal royalties stymied some of the expected fall from oil royalties.

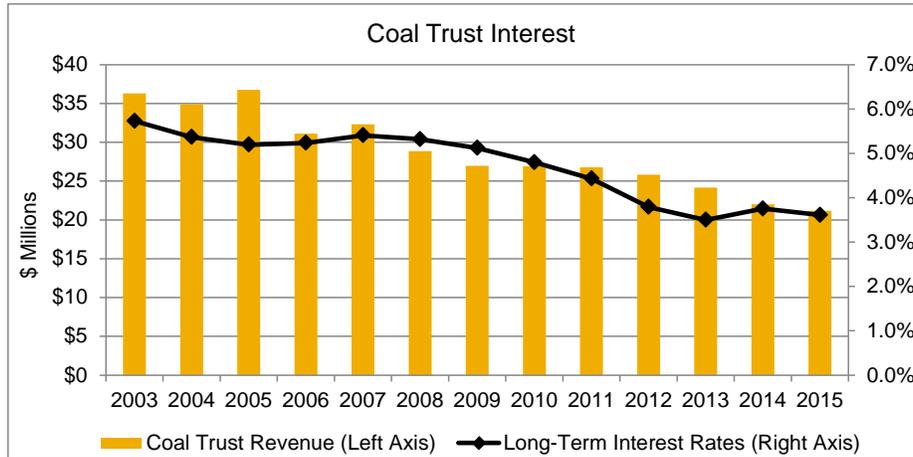
Wholesale Energy Transaction Tax: \$0.2 million

Wholesale energy transaction tax was up \$0.2 million or 4.8% from HJ 2 to \$3.8 million. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on that average of about \$3.6 million; however, actual collections exceeded the average.

Other Interest Earnings

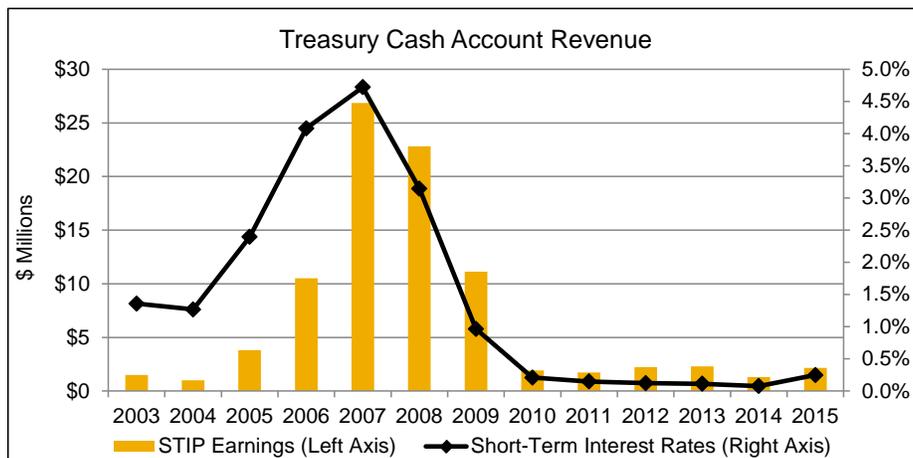
Coal Trust Interest Earnings: \$0.7 million

Coal trust interest earnings fell below the revenue estimate in HJ 2 by 3.3% or \$0.7 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, as well as in-state investments. Annual return rates are expected to remain fairly constant throughout the remainder of the biennium. Since the trust does not grow, the lower-than-expected collections are a result of slightly lower than anticipated interest rates.



Treasury Cash Account Interest Earnings: \$0.6 million

Based on year-end data for FY 2015, the TCA interest earnings were 25.8% or \$0.6 million above the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. The majority of this revenue is produced from earnings in the Short-Term Investment Pool (STIP). The increased collections are primarily due to a larger-than-expected average daily balance.



Other Consumption Taxes

Beer Tax: (\$0.1 million)

Beer tax revenue was very close to the HJ 2 estimate, coming in at 2.0% or \$0.1 million below the official projection. The HJ 2 estimate was based on several Montana-specific indicators from IHS: retail sales, population over age 21, and per capita income. While final collections were quite close to the estimate, research over the interim will reexamine these inputs and in particular look to replace the retail sales indicator with variables from the state-specific personal consumption series.

Cigarette Tax: (\$1.1 million)

Cigarette tax collections came in below the HJ 2 revenue estimates by 3.6% or \$1.1 million. HJ 2 did project a drop in revenue, but anticipated a smaller decline than was actually observed. The continual decline is due to the decrease in cigarette sales associated with lower smoking rates.

Liquor Excise & License Tax: \$0.3 million

Liquor excise tax actuals were very close to the HJ 2 estimate, coming in 1.6% or \$0.3 million above the official projection. The IHS forecast for the growth of CPI was used as an input for this source; HJ 2 assumed the CPI growth for FY 2015 was 0.4%; actual CPI growth was a bit higher at 0.7%.

Liquor Profits: \$0.3 million

The HJ 2 revenue projection for liquor profits was \$10.7 million and FY 2015 actuals came in very close at \$11.0 million or 3.2% over estimate. Important to note is that the transfer of liquor profits to the general fund is always a round number rather than equal to total collections, so this revenue source will always be off by at least rounding error.

Lottery Profits: \$0.2 million

Lottery profits for FY 2015 came in very close to the projection at 1.5%, or \$0.2 million, over the HJ 2 revenue estimate. The IHS forecast short-term interest rates and Montana retail sales were used as inputs for this source. HJ 2 assumed a short-term interest rate for FY 2015 of 0.15%; the actual rate was a bit higher at 0.25%. While final collections were close to the estimate, research over the interim will reexamine these inputs and in particular look to replace the retail sales indicator with variables from the state-specific personal consumption series.

Tobacco Tax: (\$0.2 million)

Tobacco tax revenue came in slightly under the HJ 2 estimate at 2.9% or \$0.2 million below the official projection. The HJ 2 estimate was based on IHS forecasts of Montana retail sales and Montana population over age 18. While final collections were quite close to the estimate, research over the interim will reexamine these inputs and in particular look to replace the retail sales indicator with variables from the state-specific personal consumption series.

Wine Tax: \$0.0 million

Wine tax revenue was very close to the HJ 2 estimate at 0.4% or \$0.0 million above the official projection. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21.

Other Sources

All Other Revenue: \$0.7 million

Considering it is a fairly volatile source, the combined revenue from all other general fund sources was extremely close to HJ 2. Collections were only 1.8% or \$0.7 million above the estimate contained in HJ 2.

Highway Patrol Fines: (\$0.2 million)

Total revenue generated from highway patrol fines in FY 2015 was 4.5% or \$0.2 million less than the HJ 2 estimate. This revenue source is modeled on an average time series, which tends to capture the underlying trend, but is not exact.

Nursing Facilities Fees: (\$0.0 million)

Nursing facilities fees came in 1.0% or \$0.0 million under the HJ 2 revenue estimate, after last year's anomalous increase in revenue this represents a return to the recent declining trend at 2.4% below FY 2014.

Public Institution Reimbursements: \$0.2 million

Public institution reimbursements were 1.1% or \$0.2 million more than HJ 2 revenue estimate. Note that this source has a history of fluctuating collections primarily due to timing.

Tobacco Settlement: \$0.0 million

Tobacco settlement revenue was above the HJ 2 estimate by 1.5% or \$0.0 million. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement. These changes cannot be captured in the revenue model and continue to contribute to discrepancies between estimates and actuals.

FY 2015 APPROPRIATIONS AND EXPENDITURES

State resources include funding that was appropriated through:

- Permanent appropriations contained in law – statutory appropriations
- Rates approved in the general appropriations act (HB 2) for internal service funds – non-budgeted appropriations
- Temporary appropriations approved each biennium, generally HB 2
- Funding provided in other bills – cat and dog appropriations

The following section discusses statutory appropriations and other bills that were passed and approved by the 2013 Legislature that are supported by general fund.

STATUTORY APPROPRIATIONS – GENERAL FUND

Statute provides for a number of general fund appropriations including:

- Transfers to various pension systems
- Local government entitlements
- Business research and development
- Emergency or disaster costs
- Growth through agriculture
- County attorney salaries

Governor's Emergency Fund

The following table describes expenditures from the Governor's emergency fund (total \$16.0 million) as of the end of the fiscal year. Allocations made in the 2015 biennium to the Department of Military Affairs were \$2,515,552, leaving an unobligated balance of \$13,484,448.

Incident	Amount allocated 2015 biennium
2010 Flooding	\$36,889
2011 Flooding	718,223
2013 Flooding	524,882
Rainbow Family Gathering	212,755
Gallatin Storm	282,395
2014 STORM	334,548
2015 Yellowstone oil spill	200,000
Powder River flood EO 07-2015	205,860
BCD APPROPRIATIONS FOR 2015 BIENNIUM	\$2,515,552
Remaining balance to transfer to the fire fund (02847)	\$13,484,448

As discussed in the overview, at the end of each biennium any remaining funding in the Governor's emergency fund is transferred to the fire fund.

Additional Pension Funding Provided in the 2015 Biennium

The 2013 Legislature revised statutes for the Teachers' and the Public Employee Retirement Systems, increasing general fund transfers to the retirement system by about \$41.1 million in FY 2015. The legislature provided the Teachers' Retirement System an additional \$25.0 million of general fund each year beginning in FY 2014. The Public Employees Retirement System receives funding from two sources:

- Coal severance taxes deposited into the general fund - \$16.1 million in FY 2015
- Interest generated on the coal severance tax permanent fund – \$18.1 million in FY 2015 (that is also deposited into the general fund)

Expenditures for other pension payments from the general fund included:

- \$29.4 million for municipal police officers and municipal and volunteer firefighters transferred by the State Auditor's Office
- \$18.4 million to the Teachers' Retirement System transferred by the Department of Administration
- \$1.8 million for the employer share of the optional retirement system transferred by the Montana University System

OTHER BILLS

The legislature also provided general fund appropriations within three additional bills:

- Supplemental appropriations (provided in HB 2 as enacted by the 2015 Legislature) - \$26.2 million in both general fund and state special revenue
- HB 13, the pay plan bill provided \$1.0 million in general fund for a personal services contingency that might arise in the 2015 biennium
- SB 410 transferred \$13.5 million of general fund into state special revenue accounts over the 2015 biennium for various operational costs of state agencies that were not addressed in either HB 2 or other appropriation bills

Each is discussed further in the following sections.

HB 13 - Personal Services Contingency

The following figure shows distributions of the personal services contingency fund transferred by the Governor's Office. In addition to general fund HB 13 also provided appropriations from the state special revenue, federal revenue, and proprietary fund. Distributions from all fund types and for both fiscal years of the biennium are reflected in the figure.

Governor's Office Personal Services Contingency				
	General Fund	State Special	Federal Special	Proprietary
HB 13 Appropriations				
Governor's Office	\$1,000,000	\$600,000	\$125,000	\$25,000
FY 2014 Disbursements				
Montana Arts Council	(1,500)	0	0	0
Department of Agriculture	(28,000)	0	0	0
Department of Commerce	(75,379)	0	0	0
Department of Justice	(54,874)	0	0	0
Department of Livestock	(10,651)	(26,095)	0	0
Department of Administration	0	0	0	(25,000)
Office of the Public Defender	146,000	(194,000)	0	0
Commissioner of Higher Education	(88,385)	0	0	0
Total FY 2014 Disbursements	(112,789)	(220,095)	0	(25,000)
Remaining Appropriations	<u>\$887,211</u>	<u>\$379,905</u>	<u>\$125,000</u>	<u>\$0</u>
FY 2015 Disbursements				
Montana University System	(116,184)	0	0	0
Governor's Office	(87,000)	0	0	0
Montana School for the Deaf and Blind	0	(67,000)	0	0
Montana Arts Council	(13,737)	0	0	0
Office of the Public Defender	(27,000)	0	0	0
Department of Agriculture	(21,000)	0	0	0
Department of Public Health and Human Services	(300,000)	0	0	0
Department of Livestock	(10,597)	(47,845)	0	0
	(575,518)	(114,845)	0	0
Remaining Appropriations	<u>\$311,693</u>	<u>\$265,060</u>	<u>\$125,000</u>	<u>\$0</u>

SB 410

In SB 410 the following state agencies received statutory appropriations of state special revenues created from a general fund transfer for operational costs in the 2015 biennium:

- Department of Labor and Industry - \$2.0 million
- Department of Public Health and Human Services - \$2.0 million
- Department of Corrections - \$2.0 million
- Governor's Office - \$7.5 million

Each department included the statutory appropriations in its budget at the beginning of the biennium. The following table shows the programs budgeted appropriations, allocations to other agencies, and expenditures for the state special revenue funds supported by the general fund transfers provided in SB 410.

Senate Bill 410 Uses of Funds in 2015 Biennium						
State Agency	Funding FY 2014		FY 2015		Remaining Budget	
	Appropriated	Expended	Appropriated	Expended	Authority	Uses
Public Health and Human Services	2,000,000	0	2,000,000	2,000,000	0	
Health Resources Division	0	0	1,100,000	1,100,000		Benefits and claims costs for Medicaid
Disability Services Division	0	0	900,000	900,000		Personal services for the Montana Developmental Center
Department of Labor and Industry	1,000,000	938,270	1,061,730	1,056,398	5,331	
Workforce Services Division	825,000	763,271	859,161	854,399		Jobs for Montana Graduates and analysis
Employment Relations Division	125,000	124,999	152,000	152,000		Human rights bureau
Office of Community Services	50,000	50,000	50,000	50,000		Community services
Department of Corrections	2,000,000	328,985	1,671,015	1,671,015	0	
Administration and Financial Services	2,000,000	328,985	1,671,015	1,671,015		Maintain incremental competency pay adjustments
Governor's Office	7,500,000	1,218,212	6,281,788	6,048,538	233,250	Allocated to various agencies
Allocations To Agencies						
Department of Administration						
General Services Division	0	0	25,000	25,000	0	Capitol shuttle during the 2015 Legislative Session
Health Care and Benefits Division	0	0	65,458	65,458	0	State health insurance plan data warehouse and data analytics costs
Governor's Office						
Air Transportation Program	0	0	85,000	85,000	0	Air transportation maintenance
Department of Corrections						
Administration and Financial Services	692,000	21,339	670,661	489,037	181,625	Safety equipment and installation of fiber optic facilities
Department of Public Health and Human Services						
Child and Family Services Division	0	0	251,552	251,552	0	Protect children at substantial risk of abuse, neglect, or abandonment
Office of the Public Defender						
Office of the Public Defender	625,000	625,000	2,108,400	2,108,400	0	Statewide caseload growth, mitigate need for supplemental
Office of the Appellate Defender	0	0	287,850	287,850	0	Statewide caseload growth, mitigate need for supplemental
Conflict Coordinator	0	0	2,103,750	2,103,750	0	Statewide caseload growth, mitigate need for supplemental
Department of Livestock						
Animal Health Division	0	0	250,000	250,000	0	Brucellosis Testing
Department of Commerce						
Business Resources Division	215,000	75,576	139,424	123,803	15,621	Main Street Montana Project
Department of Justice						
Division of Criminal Investigations	415,338	166,565	248,773	212,769	36,004	Criminal investigation agents in eastern Montana
Office of Public Instruction						
State Level Activities	50,652	4,733	45,919	45,919	0	Early childhood education program development
Office of the Commissioner of Higher Education						
Great Falls College	325,000	325,000	0	0	0	ADF International development in Great Falls

It is anticipated that the remaining authority for the Department of Corrections will be used for the purposes shown above, the remaining authority of \$50,625 reverted at the end of FY 2015.

Supplemental Appropriations

The 2015 Legislature approved supplemental appropriations for several state agencies including:

- Department of Administration (DOA) - \$6.0 million general fund to establish reserves related to automobile, property and general liability risks self-insured by the state
- Commissioner of Political Practices – \$0.1 million general fund for legal costs and forensic accounting
- DPHHS - \$5.0 million state special revenue, with \$1.0 million restricted to the implementation of SB 411 (2015 session) and the remainder for benefits and claims
- Department of Corrections (DOC) - \$5.5 million for costs related to holding offenders in county jails
- Office of Public Defender (OPD) - \$1.7 million general fund, primarily for the Conflict Coordinator Program
- Office of Public Instruction (OPI) - \$7.9 million in general fund, \$7.5 million for BASE Aid and \$0.4 million for block grants

HB 2 EXPENDITURE TABLES

The following tables illustrate the budgeted and actual expenditures of general fund and state resources for HB 2. Staff reviewed the expenditures for all agencies and investigated any significant differences between what the legislature provided and what the agencies spent. Budgetary changes such as agency transfers of authority, movement between expenditure categories, and supplemental

appropriations were included in the analysis. A summary of the budgetary changes by section, agency, and program can be found in Appendix A. Emphasis was placed on HB 2 supported by general fund, with additional examination of major state and federal special revenue funds, general fund statutory appropriations, and major non-budgeted proprietary funds.

Note that statute allows state agencies to “carry forward” up to 30% of unexpended appropriation authority provided in the general appropriations act (HB 2) for personal services, operating expenses, and equipment. A portion of reverted appropriations may be re-established in the 2017 biennium as carry forward appropriations spent for any purpose that is consistent with the goals and objectives of the agency. In most cases, the remaining unexpended appropriations are reverted to the account from which they were budgeted. Carry forward authority is not reflected in the following tables.

HB 2 - General Fund Only				
		FY 2015	FY 2015	%
		Budgeted	Actuals	Expended
General Government				
1104	Legislative Branch	14,330,567	11,870,723	82.8%
3101	Governor's Office	6,301,779	6,234,212	98.9%
3202	Commissioner of Political Practices	589,798	579,626	98.3%
3401	State Auditor	6,763,375	5,299,664	78.4%
5801	Department of Revenue	52,642,957	52,321,541	99.4%
6101	Department of Administration	6,524,638	6,185,101	94.8%
6501	Department of Commerce	6,727,727	6,005,188	89.3%
6602	Department of Labor & Industry	1,466,088	1,415,475	96.5%
6701	Department of Military Affairs	6,275,197	5,994,093	95.5%
	Subtotal Section A	101,622,126	95,905,623	94.4%
Public Health and Human Services				
6902	Economic Security Services Branch	78,521,081	78,153,776	99.5%
6904	Director's Office	3,016,310	3,014,309	99.9%
6906	Operations Services Branch	18,820,933	18,811,651	100.0%
6907	Public Health and Safety	4,090,764	3,852,838	94.2%
6911	Medicaid and Health Services Branch	365,725,072	352,556,645	96.4%
	Subtotal Section B	470,174,160	456,389,219	97.1%
Natural Resources and Transportation				
5201	Department of Fish, Wildlife and Parks	308,963	308,749	99.9%
5301	Department of Environmental Quality	5,508,028	5,381,309	97.7%
5603	Department of Livestock	1,570,152	1,559,876	99.3%
5706	Dept Nat Resource/Conservation	24,972,524	24,039,665	96.3%
6201	Department of Agriculture	1,023,742	927,245	90.6%
	Subtotal Section C	33,383,409	32,216,844	96.5%
Judicial Branch, Law Enforcement and Justice				
2110	Judicial Branch	39,930,198	38,707,904	96.9%
4107	Crime Control Division	2,410,461	2,273,908	94.3%
4110	Department of Justice	31,534,361	30,508,009	96.7%
6108	Office of the Public Defender	25,559,503	25,559,503	100.0%
6401	Department of Corrections	185,894,835	185,794,314	99.9%
	Subtotal Section D	285,329,358	282,843,638	99.1%
Education				
3501	Office of Public Instruction	745,389,485	743,594,351	99.8%
5101	Board of Public Education	217,467	148,470	68.3%
5102	Commissioner of Higher Education	220,919,017	220,174,310	99.7%
5113	School for the Deaf & Blind	6,756,911	6,652,274	98.5%
5114	Montana Arts Council	570,267	552,767	96.9%
5115	Montana Library Commission	3,325,640	3,312,598	99.6%
5117	Montana Historical Society	3,201,210	3,198,540	99.9%
	Subtotal Section E	980,379,997	977,633,310	99.7%
Grand Total		\$1,870,889,050	\$1,844,988,634	98.6%

HB 2 - State Resources				
		FY 2015 Budgeted	FY 2015 Actuals	% Expended
General Government				
1104	Legislative Branch	16,833,300	14,040,974	83.4%
1112	Consumer Counsel	1,703,104	1,212,586	71.2%
3101	Governor's Office	6,395,125	6,327,462	98.9%
3201	Secretary of State	129,811	106,895	82.3%
3202	Commissioner of Political Practices	589,798	579,626	98.3%
3401	State Auditor	19,941,323	15,594,716	78.2%
5801	Department of Revenue	187,059,911	168,440,442	90.0%
6101	Department of Administration	20,170,349	17,562,723	87.1%
6501	Department of Commerce	33,669,676	20,347,367	60.4%
6602	Department of Labor & Industry	82,814,909	73,670,524	89.0%
6701	Department of Military Affairs	43,536,110	36,885,685	84.7%
	Subtotal Section A	412,843,416	354,769,000	85.9%
Public Health and Human Services				
6902	Economic Security Services Branch	432,561,394	416,960,391	96.4%
6904	Director's Office	6,787,573	6,675,650	98.4%
6906	Operations Services Branch	61,118,307	60,241,361	98.6%
6907	Public Health and Safety	65,759,933	61,447,739	93.4%
6911	Medicaid and Health Services Branch	1,448,672,184	1,388,559,293	95.9%
	Subtotal Section B	2,014,899,391	1,933,884,434	96.0%
Natural Resources and Transportation				
5201	Department of Fish, Wildlife and Parks	79,138,832	72,479,439	91.6%
5301	Department of Environmental Quality	62,251,456	45,516,784	73.1%
5401	Department of Transportation	742,258,076	599,366,116	80.7%
5603	Department of Livestock	11,053,878	10,375,957	93.9%
5706	Dept Nat Resource/Conservation	62,782,431	54,026,229	86.1%
6201	Department of Agriculture	18,026,896	15,371,734	85.3%
	Subtotal Section C	975,511,569	797,136,259	81.7%
Judicial Branch, Law Enforcement and Justice				
2110	Judicial Branch	42,703,479	41,377,400	96.9%
4107	Crime Control Division	12,857,960	7,471,448	58.1%
4110	Department of Justice	88,578,005	85,690,750	96.7%
4201	Public Service Commission	3,969,595	3,785,269	95.4%
6108	Office of the Public Defender	30,333,403	30,333,403	100.0%
6401	Department of Corrections	194,898,922	193,844,964	99.5%
	Subtotal Section D	373,341,364	362,503,234	97.1%
Education				
3501	Office of Public Instruction	956,798,879	929,703,885	97.2%
5101	Board of Public Education	394,535	295,923	75.0%
5102	Commissioner of Higher Education	308,101,862	284,017,682	92.2%
5113	School for the Deaf & Blind	7,158,891	7,035,807	98.3%
5114	Montana Arts Council	1,975,000	1,758,082	89.0%
5115	Montana Library Commission	6,366,357	6,137,050	96.4%
5117	Montana Historical Society	5,333,924	5,267,259	98.8%
	Subtotal Section E	1,286,129,448	1,234,215,688	96.0%
Grand Total		\$5,062,725,188	\$4,682,508,615	92.5%

SECTION A – GENERAL GOVERNMENT

Legislative Branch

Budget

The Legislative Branch budget is mainly funded with HB 2 authority of which \$14.3 million or 85.1% is general fund. The branch also receives statutory appropriations and carry forward funding.

Expenditures

The Legislative Branch had \$2.5 million in unexpended general fund authority at the end of FY 2015. Legislative Services Division closed out the year with \$1.1 million less in expenditures than anticipated including \$0.5 million in personal services and \$0.6 million in operating costs. The division had a large number of retirements of staff occurring in FY 2013 and FY 2014 resulting in lower personal services costs than anticipated in the budget.

The Legislative Audit Division ended the year with \$1.4 million in unspent personal services, approximating \$696,387 and \$663,098 in fiscal years 2015 and 2014, respectively. The division has eliminated a chief deputy position saving close to \$120,000 per year and continues to actively manage and recruit to address the 26% auditor turnover experienced during the biennium. The salary differential and timing between termination and re-hire generate unspent personal services.

Office of the State Auditor (SAO)

Budget

Just over half of the Office of the State Auditor funding comes from statutory appropriations with the remainder from state special revenue and general fund in HB 2. No material adjustments occurred in the SAO budget.

Expenditures

The legislature provided a one-time-only appropriation of \$6.7 million in general fund in FY 2015 for “bridge” funding for the Insure Montana program. Of that amount, \$5.3 million was expended. The one-time funding available to close out the Insure Montana program was not fully expended.

As the requirements for insurance coverage begin in January of each year, the agency believes that some employers providing coverage under Insure Montana used other options for employee coverage beginning January of FY 2015. As a result the remaining \$1.4 million in general fund was unexpended in FY 2015.

Department of Administration

Non-budgeted Proprietary Funds

About 53.7% of DOA total appropriation authority is provided through proprietary funds. DOA has two non-budgeted proprietary funds that have been of concern to the legislature due to their current financial condition:

- State employee group benefits plan (SEGBP) fund
- Self-insurance fund for automobiles, aviation, property, and general liability insurance risk

State Employee Group Benefits Plan

The Health Care and Benefits Division makes up the largest portion of the non-budgeted proprietary funds for DOA as it includes the state employee group benefits plan. SEGBP operates on a calendar year basis running from January 1 to December 31. In CY 2014, the financial health of the plan, as measured by the level of reserves, declined. The actuary for the plan recommends a reserve level of \$78.9 million for plan year 2014. The ending reserve level in CY 2014 is below the level recommended by the plan actuary by \$16.9 million due to a significant increase in medical claims.

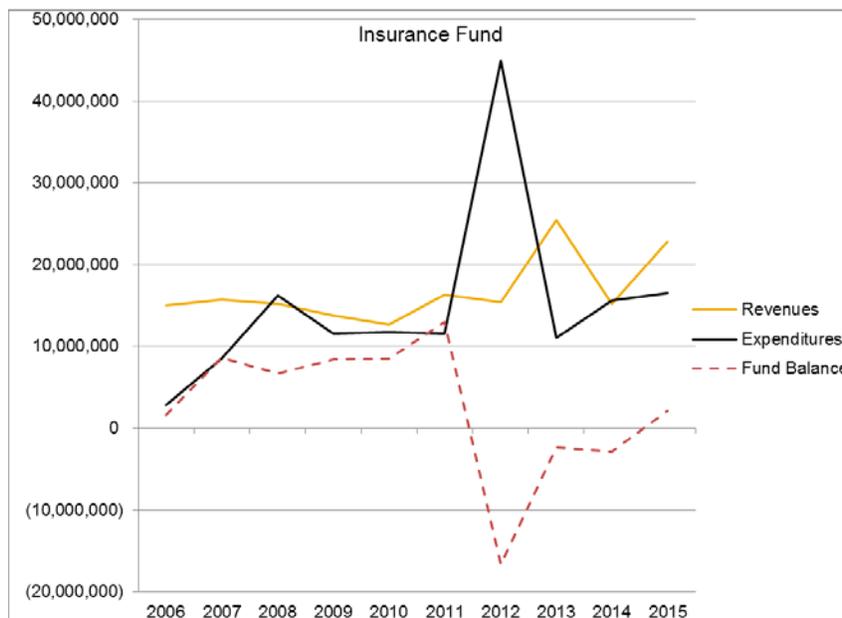
Plan Year 2015

For the first two quarters of plan year 2015:

- o Revenues for the plan increased by 14.1% or \$10.5 million when compared to the same period in plan year 2014. A portion of the increase is due to higher contributions for coverage partially supported by an increase in the employer share of the contributions made by the state of Montana. For plan year 2015 the state share of the contributions was increased by 10% from \$806 per month per employee in plan year 2014 to \$887 per month per employee in plan year 2015
- o Expenditures for the plan decreased 9.0% or \$8.1 million when compared to the same period in plan year 2014. \$3.5 million of the reduction is due a change in the estimate of incurred but not reported claims. Even with the reduction, expenditures are projected to continue to outpace revenues resulting in a further decline in reserves
- o Plan reserves are projected to be \$51.7 million at the end of the plan year, or \$23.6 million below the actuarially recommended level of reserves. This represents an additional decline in plan reserves of \$6.7 million since December 2014. The plan had projected plan reserves would increase by \$1.0 million in plan year 2015

Self - Insurance Fund

The second proprietary fund of concern is the insurance fund used by the Risk Management and Tort Defense Division. The following figure shows the revenues, expenditures, and fund balance between FY 2006 and FY 2015.



Increased claims for automobiles, general liability, and property in FY 2012 drained the reserves of the fund. The 2013 Legislature provided an infusion of \$13.4 million of general fund to stabilize the fund and provide for reserves and increased insurance rates. In FY 2014 continued claims for automobiles and property damage as well as an increase in the deductible on catastrophic property

insurance, from \$1.0 million to \$2.0 million, kept the fund from accumulating reserves. To ensure adequate funding for the program the 2015 Legislature provided \$6.0 million in general fund in FY 2015 to establish reserves for the fund and increased insurance rates to state agencies. Currently, as shown in the figure, the fund has a balance of \$2.2 million at the end of FY 2015.

Department of Commerce

Budget

The FY 2015 HB 2 authority for the Department of Commerce included:

- o \$30.6 million in legislative appropriations of which \$6.7 million was general fund
- o \$4.0 million in total funds with \$2.1 million in general fund authority that continued from FY 2014 with total funds of \$3.0 million in the Business Resources Division.
- o \$180,212 in general fund transferred from the Governor's Office to the Business Resources Division to support 2.00 FTE for energy promotion activities

Expenditures

The primary business sector training program received \$2.6 million in authority that was available in FY 2015. Of this \$1.6 million was provided from the employment security account. The 2013 Legislature did not pass the companion bill to HB 2 that changed the uses of the fund and allowed the Department of Commerce to be eligible for the funding. The remaining funding for the program was provided from the general fund. At the end of FY 2015 \$0.6 million in general fund remained unexpended. According to the Department of Commerce the \$0.6 million reverted in primary business sector training was transferred to the new primary sector training state special revenue account as allowed by SB 163 enacted by the 2015 Legislature.

SECTION B - DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

Budget

With appropriation authority of over \$2.06 billion in total funds and \$470.2 million in general fund for FY 2015, the Department of Public Health and Human Services (DPHHS) is a significant portion of the overall state budget. The largest portion (97.8%) of the funding is in HB 2 authority, which is comprised of:

- o \$2.0 billion in legislative appropriations - \$470.2 million in general fund
- o \$1.3 million in authority that continues from FY 2014 - \$85,700 in general fund
- o \$2.3 million in SB 410 funds, \$0.9 million to support the Montana Developmental Center, \$1.1 million for the Montana State Hospital, and \$0.3 million for the Child and Families Services Division

Summary of Changes in Authority for FY 2015 by Division and Fund Type				
Program/Division	Fund Type			Total
	General	State Special	Federal	
Disability Employment and Transitions	(\$275,237)	\$9,165	(\$1,073,089)	(\$1,339,161)
Human and Community Services	(4,202,124)	(17,021)	(16,446,302)	(20,665,447)
Child and Family Services	2,218,396	101,450	(354,265)	1,965,581
Director's Office	1,252,245	267,952	1,239,991	2,760,188
Child Support Enforcement	397,594	(337,054)	68,561	129,101
Business and Financial Services	114,272	(140,856)	213,898	187,314
Public Health and Safety	(62,532)	(32,070)	(546,838)	(641,440)
Quality Assurance	(195,050)	(148,856)	131,800	(212,106)
Technology Services	469,663	724,761	3,024,718	4,219,142
Developmental Services	(1,754,642)	1,900,000	(7,343,194)	(7,197,836)
Health Resources	17,997,542	5,071,413	8,379,538	31,448,493
Medicaid and Health Services	(1,393,879)	27,786	470,172	(895,921)
Management and Fair Hearings	74,800	16,524	(16,404)	74,920
Senior and Long-term Care	(4,449,604)	(105,185)	(4,866,818)	(9,421,607)
Addictive and Mental Disorders	(10,198,383)	(75,102)	18,234,541	7,961,056
Total	(\$6,939)	\$7,262,907	\$1,116,308	\$8,372,277

1. Changes in appropriation authority include: reorganizations, transfers of authority among Medicaid programs, transfers of authority to other DPHHS programs, reallocations of authority between program functions within a division and additions due to budget amendments. SSR includes \$4.0 million for HRD and \$1.0 million for DSD from the supplemental in HB2 during the 2015 session.

The total appropriation for DPHHS was increased by about \$8.4 million from the original HB 2 legislative appropriation, as can be seen in the table. The majority of this increase can be attributed to the \$5.0 million supplemental in state special revenue that was allocated to the Developmental Services Division and the Health Resources Division. Additionally, the department was appropriated and allocated a total of about \$2.3 million from SB 410 in the 2013 session and had about \$1.3 million in continuing authority from FY 2014.

Most of the changes to authority were between divisions within DPHHS. The Addictive and Mental Disorders, Senior and Long-Term Care, and Human and Community Services divisions had excess general fund authority that was mostly transferred to the Health Resources Division. Federal fund transfers were primarily from the Human and Community Services, Developmental Services, and Senior and Long-Term Care Divisions and into the Addictive and Mental Disorders and Health Resources Divisions.

Benefits and Claims

The majority of authority transferred within DPHHS was in the benefits category. As the figure shows, about \$10.7 million in general fund was added to the benefits category while about \$15.6 million in federal authority was moved to other, non-benefits, categories. The authority moved out of benefits and claims was intended primarily to cover technology and information systems costs in the Technology Services and Medicaid and Health Services Divisions.

Programs that had excess benefit authority were Human and Community Services, Developmental Services, and Senior and Long-term Care. Human and Community Services had excess authority in its Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and child care programs due to lower than anticipated caseloads for FY 2015. Developmental Services had excess federal authority for school and community

Summary of Program Transfers of Benefits and Claims Authority within DPHHS			
Program/Division	Fund Type		
	General	Federal	Total
Human and Community Services	(\$2,890,000)	(\$15,619,287)	(\$18,509,287)
Child and Family Services	1,004,000	-	1,004,000
Developmental Services	(1,164,123)	(7,100,000)	(8,264,123)
Health Resources	17,830,000	8,000,000	25,830,000
Senior and Long-term Care	(4,189,000)	(5,750,000)	(9,939,000)
Addictive and Mental Disorders	129,123	4,850,000	4,979,123
Total	\$10,720,000	(\$15,619,287)	(\$4,899,287)

treatment programs. Senior and Long-Term Care had decreased caseloads in nursing homes, and also delayed implementation of some community-based services waiver programs.

Appropriation authority was shifted into Child and Family Services, Health Resources, and Addictive and Mental Disorders. The Health Resources Division was the primary recipient of transfers to cover Medicaid expenses for acute services and pharmacy costs as well as hospital benefits. These transfers were not fully expended. Transfers to Child and Family Services Division were for increased foster care caseloads and associated administrative costs. Addictive and Mental Disorders Division received transfers primarily for expansion of the Health, Insurance, Flexibility, and Accountability (HIFA) waiver that began prior to the end of the fiscal year, and for some expenses at the Montana State Hospital.

Expenditures

The Department of Public Health and Human Services expended \$456.4 million of the total \$470.2 million in general fund appropriations provided in FY 2015 through HB 2 and SB 410. DPHHS reverted about \$14.0 million to the general fund in FY 2015 or about 2.9% of the overall general fund budget.

As illustrated in the following table, Health Resources Division, Developmental Services Division, and Senior and Long-Term Care Division had the largest amounts of unused appropriations, accounting for 57.9%, 20.3%, and 10.9% of the total respectively. As previously discussed, expenditures for school and community treatment programs were below estimates in the Developmental Services Division while the Senior and Long-Term Care Division had authority remaining due to decreased caseloads in nursing homes and delays in the start-up of community-based waiver programs.

FYE15 General Fund Remaining Balance by Program						
Fund	Legislative Appropriation	Fiscal Year Ending Budget	Expenditures and Accruals	Budget Balance	Balance as % of Total Approp	% of Total Unused Approp
Disability Employment	\$5,767,310	\$5,492,073	\$5,461,402	\$30,671	0.6%	0.2%
Human & Community Services	34,475,785	30,273,661	30,247,107	26,554	0.1%	0.2%
Child & Family Services	37,077,589	39,295,985	38,986,595	309,390	0.8%	2.2%
Director's Office	1,764,065	3,016,310	3,014,309	2,001	0.1%	0.0%
Child Support Enforcement	3,061,768	3,459,362	3,458,673	689	0.0%	0.0%
Business & Financial Services	3,540,308	3,654,580	3,654,434	146	0.0%	0.0%
Public Health & Safety	4,153,296	4,090,764	3,852,838	237,926	5.8%	1.7%
Quality Assurance	2,724,281	2,529,231	2,527,714	1,517	0.1%	0.0%
Technology Services	11,663,025	12,132,688	12,126,131	6,557	0.1%	0.0%
Developmental Services	86,412,925	84,658,283	81,860,861	2,797,422	3.3%	20.3%
Health Resources	137,311,959	155,309,501	147,330,597	7,978,904	5.1%	57.9%
Medicaid & Health Services Mngmt	2,837,618	1,443,739	1,437,481	6,258	0.4%	0.0%
Management & Fair Hearings	429,634	504,434	503,372	1,062	0.2%	0.0%
Senior & Long-Term Care	70,796,633	66,347,029	64,839,461	1,507,568	2.3%	10.9%
Addictive & Mental Disorders	68,164,903	57,966,520	57,088,245	878,275	1.5%	6.4%
Grand Total	\$470,181,099	\$470,174,160	\$456,389,220	\$13,784,940	2.9%	100.0%

Health Resources Division did not use almost \$8.0 million of the general fund appropriation. However, as is also reflected in the earlier table regarding "Program Transfers of Benefits and Claims Authority," \$18.0 million general fund authority was transferred into this division from other divisions within DPHHS, indicating the original appropriation specific to this division was short by approximately \$10.0 million. Addictive and Mental Disorders transferred out \$10.2 million general fund authority, but most of this was a result of the use of CHIPRA bonus funds. Senior and Long-Term Care transferred out \$4.4 million general fund authority and Human and Community Services transferred out \$4.2 million general fund authority. Funding was used for higher costs in acute services and pharmacy, and in hospital benefits. For more complete detail on program transfers, see the appendix.

Federal Funds

65.5% of DPHHS HB 2 appropriations are provided through federal special revenues. The following section discusses the uses of two of these federal funding sources: the Children's Health Insurance Program Reauthorization Act (CHIPRA) bonus and the Temporary Assistance for Needy Families (TANF) block grant in FY 2015.

CHIPRA Bonus

CHIPRA bonus funds were federal payments for increasing Medicaid enrollment of children above the baseline level of enrollment. The last year these monies were awarded was 2013 but a balance remained throughout much of FY 2015. These were federal funds that could essentially be used as general fund with the single caveat that they could not be used as Medicaid matching funds.

In June, the Legislative Fiscal Division (LFD) noted one program transfer utilizing \$7.8 million of the CHIPRA bonus in its Medicaid monitoring report. Near the end of FY 2015, DPHHS submitted a second budget change document utilizing funds from the CHIPRA bonus at the Montana State Hospital. This transfer used primarily excess federal authority in the SNAP program and liquidated the remaining \$5.5 million in CHIPRA funds.

TANF Block Grant

At FYE 2015, the balance of Montana’s TANF block grant was about \$39.0 million for the third year in a row. Expenditures from the grant have decreased from the 2013 biennium as both the eligibility threshold and benefit amount remained tied to the federal poverty level of 2011. In the 2015 session the legislature chose to increase the benefit amount to align with the current poverty level which will increase per case expenditures. However, the eligibility threshold was not changed and so the number of cases will likely continue to decrease as inflation pushes incomes above the limit.

As the table below shows, expenditures for the 2017 biennium are projected to be large enough to begin to utilize the ending fund balance. This was also anticipated to occur during the 2015 biennium but actual expenditures from the block grant came in lower than those budgeted by about \$8.5 million in each year.

TANF Block Grant by Fiscal Year (\$ Millions)						
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016*	FY 2017*
Carryover from Prior Year	\$45.0	\$42.3	\$39.3	\$39.0	\$39.2	\$33.1
Current Grant Amount	38.0	38.0	37.8	38.0	38.0	38.0
Total Funds Available	83.0	80.3	77.1	77.1	77.2	71.1
Expenditures	29.5	29.7	26.8	26.6	32.9	34.3
Transfers	11.2	11.4	11.3	11.3	11.3	11.3
Total Funds Expended	40.7	41.1	38.1	37.9	44.1	45.5
Carryover to Next Year	\$42.3	\$39.3	\$39.0	\$39.2	\$33.1	\$25.6

* SFY 2016 and 2017 are budgeted amounts for the 2017 biennium.

SECTION C – NATURAL RESOURCES AND TRANSPORTATION

Department of Environmental Quality

Budget

The largest portion of the Department of Environmental Quality budget is funded in HB 2 including \$2.5 million of FY 2014 funding that continues into FY 2015. In addition to HB 2 authority, the department is funded with non-budgeted proprietary funds, statutory appropriations, budget amendment authority, and funding carried forward for prior year reversions. A large portion of statutory appropriation authority is for petroleum tank clean-up activities.

Expenditures

DEQ only expended 73.1% of their total authority for HB 2 during FY 2015. Two large divisions shaped this spending pattern. First, the Permitting and Compliance Division did not spend \$4.2 million in state special revenue due to fewer projects under both hard rock reclamation and the Major Facilities Siting Act. Second, the Remediation Division did not spend 29.3% of their appropriations. Most notably, the division did not use any part of an orphan share feasibility study – a restricted, OTO appropriation. While the DEQ oversaw eligible cleanup projects, the liable parties did not submit claims to be paid out through this appropriation.

Department of Transportation (MDT)

In addition to a significant portion of funding from federal revenues the Montana Department of Transportation is funded from the Highway State Special Revenue Account (HSRA). HSRA provided 32.6% of the overall funding for HB 2 appropriations in FY 2015.

HSRA Fund Balance and Working Capital Balance

The HSRA is used to collect and distribute fuel taxes, which are constitutionally limited in use. The HSRA began FY 2017 biennium with working capital balance of \$41.9 million and is projected to finish the 2017 biennium with a balance of negative \$20.7 million if all appropriations are fully expended. The outlook for the account is substantively improved from what the legislature worked with during the 2015 Session due to revenue improvements of \$14.5 million in FY 2015. The following figure provides the HSRA working capital balance as adjusted for the 2015 actual revenues and expenditures and includes the costs of pay plan as passed in the 2015 session.

Working Capital Balance:

- This analysis shifts from a fund balance, as used in the 2015 fiscal report to a working capital balance
- Fund balance includes approximately \$22.0 million in inventories and non-current assets, which cannot be used for current expenses
- The working capital balance provides a more accurate view of funding available for state expenditures
- If all appropriations are fully expended, working capital balance after the expenditures of FY 2015 is projected to be negative \$20.7 million
- Expenditures have exceeded revenues for four years

Estimated Working Capital Balance Highway State Special Account (HSRA)				
	FY2014 ACTUAL	FY 2015 ACTUAL	FY 2016	FY 2017
HSRA Restricted Account - 02422 (\$ Millions)				
Beginning Fund Balance	\$69.6	\$55.2	\$41.9	\$2.1
Total Revenues	277.8	296.3	284.4	289.2
Distributors Fee	(2.0)	(2.0)	(2.0)	(2.0)
Total Net Revenues-Actual and Projected	275.8	294.2	282.4	287.2
Expenditures				
Montana Department of Transportation (MDT)				
MDT SA	22.1	22.3	22.2	22.2
MDT HB 2 & Pay Plan	230.9	242.1	242.6	247.3
Other HSRA Appropriations				
Department of Justice (DOJ) HB 2 & Pay Plan	35.9	35.6	38.8	40.6
MDT (HB 10)	0.0	0.0	5.7	0.0
FWP (HB 5 and 403)	0.7	2.3	2.3	0.0
MDT (HB 5 and 403)	0.9	4.5	10.6	0.0
Total Expenditures	290.5	306.8	322.2	310.0
Net Revenues Less Expenditures	(14.7)	(12.6)	(39.8)	(22.8)
Calculated Ending Fund Balance	54.9	42.7	2.1	(20.7)
Adjustments to Balance (Prior Year)	0.3	(0.7)	0.0	0.0
Calculated Ending Working Capital Balance	\$55.2	\$41.9	\$2.1	(\$20.7)

The Revenue and Transportation interim committee has requested an analysis of the HSRA fund. LFD staff will present that report at the September Revenue and Transportation Interim Committee meeting.

Department of Livestock

Budget

The largest portion of the department's authority comes from HB2 – a total of 84.8% of budget. Included in the HB 2 authority is \$4,312 of FY 2014 funding that continued into FY 2015 and an allocation of \$58,442 from the Governor's personal services contingency funds. The department is also funded with \$1.5 million of authority from: statutory appropriations, budget amendment, and funds carried forward from prior fiscal year reversions.

Expenditures

In FY 2015, the Department of Livestock expended 94.1% of its HB 2 appropriations. The department is appropriated state special revenue primarily from three funds: per capita fees, animal health, and brands inspection. The department has had financial difficulty in each of these funds. At fiscal year end, the department made a number of transfers between programs in order to cover operating expenses. Among this activity was \$51,170 transferred from the one-time-only appropriation for the brucellosis designated surveillance area to cover ongoing operating expenses in the Diagnostic Laboratory Division and personal services in the Meat and Poultry Inspection Division.

Department of Natural Resources and Conservation

Budget

HB 2 authority makes up the majority of the Department of Natural Resources and Conservation FY 2015 budget including \$24.97 million in general fund. Included in this funding is \$1.1 million of FY 2014 funding that continues into FY 2015. In addition the department is funded with authority from: non-budget proprietary funds, statutory appropriations, budget amendment authority, and funds carried forward from prior fiscal year reversions.

Expenditures

DNRC underspent their general fund appropriation by \$904,420 in FY 2015, with personal services and operating expenses making up most of this amount. In terms of personal services, the Centralized Services and Forestry and Trust Lands Divisions together made up \$312,545 of the under expenditure. In operating expenses, the Centralized Services and Water Resources Divisions combined to create \$408,753 of under expenditure. A majority of this is in contracted services.

SECTION D JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE

Note: The budget discussions for Section D are more detailed than the discussions in all other sections. The purpose is to provide an example of what the committee could receive in subsequent quarterly reports to describe the entirety of the agency's budgets and significant changes to the budget throughout the fiscal year. For purposes of the budget discussion funds carried from other fiscal years are included.

Judicial Branch

Budget

The operations of the Judicial Branch were funded with a total of \$88.6 million in FY 2015 with the following sources of authority: 1) HB 2 authority; 2) non-budgeted proprietary funds; 3) statutory appropriation; 4) budget amendment; and 5) funds carried forward from fiscal years 2013 and 2014. The remaining appropriation authority at the end of FY 2015 for HB 2 includes \$207,000 in unexpended authority that continued from FY 2014.

Besides HB 2 authority, the branch is funded with non-budget proprietary funds (\$197,700 budget and \$197,400 expended) that support the Law Library. Statutory authority (\$5.9 million budget and \$3.2 million expended) supports evaluations of out-of-home youth placements, programs, and services; and youth court intervention and placement activities including alternatives to out-of-home placements, judicial district's annual allocation, and cost containment pool allocations. Budget amendment authority (\$2.6 million budget and \$818,000 expended) provided funding for a net of 0.23 FTE and provided for services such as:

- A probation workload study
- Enhanced drug court services
- Tools and training to improve services in cases associated with families and children at risk
- Implement a veteran's treatment court within the 8th Judicial District's drug court

Funds carried forward from years 2013 and 2014 were used to augment primarily personal services and operating expenses in the Supreme Court Operations and District Court Operations programs.

Since the 2015 Legislature, significant operating plan changes were to:

- Re-categorize operating expenses to personal services, and benefits and claims. These changes were made to add a net 0.7 modified FTE to address workload in youth probation and address an audit finding where expenditures for rehabilitation of youth and drug court participants are more appropriately categorized as benefits and claims
- Re-categorize operating expenses to equipment to properly account for capitalization of equipment costs

Expenditures

The Judicial Branch expended 96.9% of the funding for HB 2 in both general fund and all funds. Personal services had a 97.2% expenditure rate. The largest area of reversion was in district court fixed and variable costs. These two areas account for three-quarter of the \$1.2 million general fund reversions. District court fixed costs reverted only 3.9% of the appropriated funds, but district court variable costs reverted 12% of the \$2.0 million general fund budget due to case related costs not coming in as anticipated.

MONTANA BOARD OF CRIME CONTROL

Budget

The operations of the Montana Board of Crime Control are funded with the following sources of authority: 1) HB 2; 2) budget amendment; and 3) funds carried forward from FY 2013.

Besides HB 2 authority, the board is funded with budget amendment authority (\$1.0 million budget and \$176,000 expended) that provided for services such as:

- Support the development of models for coordinated responses to effectively identify and assess child victims and provide comprehensive services including funding for 1.00 FTE program manager to plan and implement the project
- Access to technology to increase access for victims to state victim resources and increase accuracy of administrative reporting
- Support the development of networks that collaboratively provide free legal assistance to victims to address the range of legal needs that may arise in the wake of victimization

Funds carried forward from FY 2013 reversions were used to augment personal services.

The only significant changes to the HB 2 budget was that \$1.8 million in grant funds were re-categorized to fund personal services and operating expenses to administer federal grants and \$1.6

million was re-categorized to transfers in support of a grant to the Judicial Branch to assist the Montana Supreme Court implement a web-based court management system with secure access by all trial courts throughout Montana.

Expenditures

The division completed the fiscal year with a budget balance of \$5.4 million or 41.9% of the \$12.9 million available HB 2 budget authority. Less than anticipated federal funds for grant related activities were the primary factors for the budget surplus. Grant activity typically spans a number of fiscal years. HB 2 includes language that authorizes the reversions of these funds to continue into the 2017 biennium and these reverted funds remain available in FY 2016.

Department of Justice

Budget

The operations of the Department of Justice are funded with the following sources of authority: 1) HB 2; 2) non-budgeted proprietary funds; 3) statutory appropriation; 4) budget amendment; and 5) funds carried forward from fiscal years 2013 and 2014. The agency ended FY 2015 with remaining appropriation authority for HB 2 including \$93,125 in unexpended authority that continued from FY 2014.

Besides HB 2 authority, the department is funded with non-budgeted proprietary funds (\$1.8 million budget - \$1.4 million expended) that support: 1) the operations of the Agency Legal Services Division in its entirety; and 2) the Motor Vehicle Division information portal. Statutory authority (\$8.2 million budget and \$6.8 million expended) supports: 1) state and federal drug forfeiture allocations and uses; 2) gambling tax and fee distributions; 3) highway patrol retirement system transfers; and 4) benefit payments for crime victims compensation. Budget amendment authority (\$7.0 million budget and \$2.5 million expended) provided funding for:

- Consumer protection settlement activities such as settlements with pharmaceutical companies and the mortgage settlement
- Activities to strengthen legal advocacy service programs for victims of domestic violence, dating violence, sexual assault, and stalking
- Reimbursement of overtime and operating costs of investigators in support of various drug taskforces in Montana
- Funding to purchase equipment and other items that support drug investigations
- Reduction of a backlog of DNA collected from offenders that needs to be processed
- Funding for 1.00 FTE to process increased criminal history information requests

Since the 2015 Legislature budget development, other than those for year-end operating plan changes and program transfers to cover shortfalls in various expenditure categories, were for:

- Re-categorization of expenditures from operating to personal services and the establishment of 1.0 FTE modified position to develop, implement, support, and maintain the department's enterprise content management system
- Re-categorization of expenditures from operating to personal services and the establishment of 1.0 FTE modified position to write administrative rules and develop guidelines, policies, and an application process for the Chrome for Kids project that would provide grants to Montana kids who are chronically or critically ill
- Re-categorization of expenditures from operating to capital outlay for reimbursement of cost of a waterline for the emergency operations center in the Butte Justice Center
- Re-categorization of expenditures from operating to equipment and intangible assets, grants, or transfers to properly account for expenditures under state accounting policies

Expenditures

The department completed the fiscal year with a budget balance of \$2.8 million or 3.1% of the \$90.4 million available HB 2 budget authority. Only \$355,000 of the \$1.0 million general fund restricted for major litigation was expended. This is the major factor for the unexpended general fund appropriation authority within this agency.

The Legal Services Division, Motor Vehicle Division, POST Council, and Information Technology Services Division showed signs of stresses on their personal services budgets having ended the year with negative personal services balances. Although the POST Council ended the year in a personal services deficit, equal amounts of operating costs were reverted in the restricted appropriation budget to allow the council to contract with the Agency Legal Services Division for staff resources.

Office of State Public Defender

Budget

The operations of the Office of State Public Defender are funded with HB 2, which includes \$20,189 unexpended authority that continued from FY 2014. As the following table shows, authority for HB 2 includes: 1) transfers of funds from the Governor's Office SB 410 allocation (\$4.5 million); 2) transfers of funds from the Governor's Office HB 13 personal services contingency (\$27,000); and 3) supplemental appropriations authorized by the 2015 Legislature (\$1.7 million). The above mentioned funds that augmented HB 2 and HB 13 offset funds transferred from FY 2015 to cover shortfalls in FY 2014 (\$1.85 million). Typically, general fund provides the majority of the funding for the office. In FY 2015, state special from SB 410 allocations brought the general fund to 85.1% of total funds.

Office of State Public Defender Total Funds HB 2 Budget	
FY 2015	
<i>Legislative Appropriations</i>	
FY 2015 Legislative Appropriations	\$27,639,513
Authority Continuing From FY 2014	20,189
<i>Additional Legislative Funding</i>	
SB 410 Direct or Allocated	4,500,000
Personal Services Contingency	27,000
Other House or Senate Bills	-
Supplemental (HB 2 of 2015 Legislature)	1,700,000
<i>Executive Approved Budget Changes</i>	
Transfers Between Agencies	-
Supplementals and Fiscal Year Transfers (2015 Biennium)	(1,850,000)
Other	(3,299)
Fiscal Year Ending Budget	\$32,033,403

Since the 2015 Legislature budget development, other than those for year-end operating plan changes and program transfers to cover shortfalls in various expenditure categories was a transfer of personal services in the Office of Public Defender program to the Appellate Defender program to cover the FY 2015 career ladder increment and workload issues in the Appellate Defender program.

Expenditures

The office completed the fiscal year expending all available HB 2 budget authority. Expenditures addressed a caseload of 33,601 new cases in FY 2015, which is up from the 31,705 new cases

opened in FY 2014 for a 6% growth over FY 2014. Between FY 2014 and FY 2015, the office saw a growth of 29.5% in new dependent and neglect cases. Dependent and neglect case comprised 11.7% of all new cases. Lower court cases, which accounted for nearly 62% of the FY 2015 new cases, grew 4.9% from FY 2014 to FY 2015. In addition, the Appellate Defense program saw a growth of new appeal cases of 7%, from 275 in FY 2014 to 293 in FY 2015.

Department of Corrections

Budget

The operations of the Department of Corrections are funded with total HB 2 appropriations of \$200.4 million, which includes \$4.7 million unexpended authority that continued from FY 2014. As the following table shows, authority for HB 2 includes: 1) direct allocations of SB 410 funds to the Department of Corrections (\$1.6 million); 2) transfers of funds from the Governor's Office SB 410 allocation (\$671,000); and 3) supplemental appropriations authorized by the 2015 Legislature (\$5.5 million). The above mentioned funds that augmented HB 2 and HB 13 offset funds transferred from FY 2015 to cover shortfalls in FY 2014 (\$4.1 million). Nearly 95.5% of the department's HB 2 budget is funded with general fund.

Department of Corrections Total Funds HB 2 Budget	
FY 2015	
<i>Legislative Appropriations</i>	
FY 2015 Legislative Appropriations	\$192,247,626
Authority Continuing From FY 2014	4,696,445
<i>Additional Legislative Funding</i>	
SB 410 Direct or Allocated	2,341,676
Personal Services Contingency	-
Other House or Senate Bills	-
Supplemental (HB 2 of 2015 Legislature)	5,500,000
<i>Executive Approved Budget Changes</i>	
Transfers Between Agencies	(137,386)
Supplementals and Fiscal Year Transfers (2015 Biennium)	(4,135,000)
Other	(114,439)
Fiscal Year Ending Budget	\$200,398,922

Besides HB 2 authority, the department is funded with budget amendment authority, statutory appropriations, non-budgeted proprietary funds, and carry forward authority from FY 2013. Budget amendment authority provided for services such as:

- Rural Education Achievement Program funding from the U.S. Department of Education to be used for school supplies and contracted services in youth correctional facilities
- Funding from the U.S. Department of Justice to purchase bullet proof vests for probation and parole officers
- Funding from the U.S. Department of Justice for efforts associated with the Prison Rape Elimination Act, including funding for 0.25 FTE
- Funding from the U.S. Department of Justice to offset the costs to house criminal alien offenders at Montana State Prison

The statutory appropriation is established to distribute inmate welfare funds. Non-budgeted proprietary funds are for Montana Correctional Enterprises proprietary programs. Funds carried

forward from FY 2013 were used to augment per diem payments made for holding offenders in county jails.

Since the 2015 Legislature budget development changes, other than those for year-end operating plan changes and program transfers to cover shortfalls in various expenditure categories, included:

- A re-categorization of expenditures from operating expenses to transfers out to address accounting policies for a transfer of inmate welfare funds
- A transfer of operating expenses to personal services in the Clinical Services Division to address personal services shortfalls due to: overtime costs, pay raises, and costs for 2.50 FTE who were not funded and provided medical services at the Montana Woman's Prison
- Two transfers were made from the agency to other state agencies for: 1) Architectural and Engineering to upgrade or replace the heating ventilation and air conditioning system at the Montana Woman's Prison (\$100,000); and 2) 33.99% of the costs for a developmentally disabled offender to be placed by the Department of Public Health and Human Services with Opportunity Resources Inc. (\$37,386)

Expenditures

The department completed the fiscal year with a budget balance of \$0.1 million or 0.001% of the \$191.4 million available general fund HB 2 budget authority. The main budget pressures faced by the department in FY 2015 were:

- Costs of medical services for offenders assigned to the department
- Costs of holding offenders in county jails

In FY 2015, the department expended \$11.8 million on inmate medical costs, compared to \$9.6 million expended in FY 2014, for a 23.3% growth. In FY 2015, the department expended \$8.6 million for holding offenders in county jails, compared to \$7.8 million in FY 2014, for a 9.5% growth.

SECTION E – EDUCATION

Office of Public Instruction

Budget

OPI received \$753.3 million (including supplemental) in general fund HB 2 appropriations. The agency moved \$25.0 million in FY 2015 general fund authority to FY 2014 in anticipation of a shortfall in the guarantee account that did not materialize. The unused portion of this transfer appears as continuing authority in FY 2015 totaling \$24.8 million, a difference of \$0.2 million.

Other funding was provided in SB 175, the education fund bill (enacted by the 2013 Legislature) and included:

- \$12.9 million general fund
- \$10.2 million oil and gas state special revenue

Expenditures

The Office of Public Instruction's Local Education Activities Program, which distributes funds to local schools, ended the year with a general fund appropriation balance of \$1.8 million out of the \$741.6 million provided as shown in the following figure.

Office of Public Education Local Level Activities General Fund Appropriation Balance FY 2015				
	Budget	Supplemental	Expenditures	Budget Balance
BASE Aid	\$593,101,442	\$7,500,000	\$600,052,764	\$548,678
Transportation Costs	12,665,680	0	12,033,662	632,018
Tuition Payments	1,032,924	0	469,455	563,469
Block Grants	74,512,446	400,000	74,886,561	25,885
Other Payments	52,348,282	0	52,331,269	17,013
Total General Fund	\$733,660,774	\$7,900,000	\$739,773,711	\$1,787,063

Of this balance, \$550,000 is in BASE Aid and is the unexpended portion of a \$7.5 million supplemental appropriation approved by the 2015 legislature.

During the 2015 session, total BASE Aid appropriations including state and federal special revenue for FY 2015 were \$7.5 million less than anticipated expenditures due to:

- o Repayment of a loan to cover a FY 2013 shortfall, \$3.0 million
- o Higher than expected average number belonging (ANB) count for FY 2015, \$1.2 million
- o Guarantee account and block grants, \$3.7 million

The remainder of the balance includes savings in transportation cost of \$630,000, in tuition payments of \$560,000 and the unused portion of the supplemental for block grants of \$26,000. State Level Activities Program had a general fund balance of \$34,000.

Board of Public Education

Budget

The Board of Public Education (BPE) budget is exclusively funded with HB 2 authority. This authority included \$10,965 in unexpended FY 2014 funding that continues into FY 2015.

Expenditures

The Board of Public Education ended FY 2015 with a general fund appropriation balance of \$69,000 or 32% of its general fund budget. Over 90% of the general fund balance is due to vacancy savings.

Office of the Commissioner of Higher Education (OCHE)

Budget

The budget for the Office of Commissioner of Higher Education (OCHE) includes HB 2 authority of \$308.1 million with \$220.9 million in general fund. OCHE is also supported by non-budgeted proprietary funds, statutory appropriations, and budget amendment authority. The HB 2 authority includes \$9.3 million total funds and \$1.1 million general fund of FY 2014 authority that continues into FY 2015. The office also received an allocation of \$116,184 general fund from the Governor's personal services contingency funds; a majority of these funds were transferred to the University of Montana for use in an upcoming retirement payout in the Administration program of the Commissioner's Office in FY 2016. This is allowable through Section 17-7-304(2), MCA, stating the Board of Regents may approve modifications to a long-term plan to address changing needs and priorities.

Expenditures

The Office of the Commissioner of Higher Education ended FY 2015 with \$0.7 million in available general fund appropriation authority for HB 2 out of \$220.9 million.

OCHE general fund remaining appropriations of approximately \$0.7 million occurred for two reasons. The first is due to the lack of anticipated enrollment of non-beneficiary resident student FTE's at Montana's tribal colleges; the second is due to the delayed start date of the veterinary medicine program at Montana State University.

APPENDIX A

The appendix section provides more details on the budget changes made from the legislative appropriations to the current budget. It also details how the various allocations for funding appropriated centrally were allocated by the executive and all subsequent budget changes were made. The appendix provides details by agency, program, first level of expenditures, and fund type. The first table is a summary of budgeted state resources at agency level, including actual spending for HB 2. Please note that this table includes statutory, supplemental and carry forward appropriations unlike the tables found in Appendix B.

Summary of FY 2015 Budgeted Authority and Actual Expenditures General Fund Only										
	HB 2 FY 2015 Budgeted	Additional Budgeted Authority					Total All Sources			
		Non-Budgeted Proprietary	Statutory	Budget Amendments	Other Bills	FY 2015 Supplemental	Carryforward	Budgeted	Expended	
General Government										
1104	Legislative Branch						546,592	14,877,159	12,417,292	
3101	Governor's Office						72,459	6,374,238	6,278,562	
3202	Commissioner of Political Practices					94,000	26,629	710,427	692,014	
3401	State Auditor		30,288,851					37,052,226	34,752,397	
5801	Department of Revenue		126,731,263					179,374,220	178,815,908	
6101	Department of Administration		99,664,923			6,000,000	109,967	112,299,528	107,617,871	
6501	Department of Commerce		6,727,727	2,375,374				9,103,101	8,365,455	
6602	Department of Labor & Industry		1,466,088					1,466,088	1,415,475	
6701	Department of Military Affairs		6,275,197	4,833,459			70,381	11,179,037	6,643,888	
	Subtotal Section A	101,622,126	263,893,870			6,094,000	826,028	372,436,024	356,998,862	
Public Health and Human Services										
6902	Economic Security Services Branch							78,521,081	78,153,776	
6904	Director's Office							3,016,310	3,014,309	
6906	Operations Services Branch							18,820,933	18,811,651	
6907	Public Health and Safety							4,090,764	3,852,838	
6911	Medicaid and Health Services Branch							365,725,072	352,556,645	
	Subtotal Section B	470,174,160						470,174,160	456,389,219	
Natural Resources and Transportation										
5201	Department of Fish, Wildlife and Parks							308,963	308,749	
5301	Department of Environmental Quality						83,933	5,591,961	5,448,651	
5603	Department of Livestock						72,114	1,642,266	1,625,427	
5706	Dept Nat Resource/Conservation						170,305	25,142,829	24,117,883	
6201	Department of Agriculture			690,000			4,928	1,718,670	1,615,084	
	Subtotal Section C	33,383,409		690,000			331,280	34,404,689	33,115,794	
Judicial Branch, Law Enforcement and Justice										
2110	Judicial Branch						622,636	40,552,834	38,971,026	
4107	Crime Control Division						62,125	2,472,586	2,336,033	
4110	Department of Justice		4,698,641				74,078	36,307,080	35,193,678	
6108	Office of the Public Defender					1,700,000		27,259,503	27,259,503	
6401	Department of Corrections					5,500,000	171,710	191,566,545	191,466,024	
	Subtotal Section D	285,329,358		4,698,641		7,200,000	930,549	298,158,548	295,226,264	
Education										
3501	Office of Public Instruction					7,900,000	1,131	753,290,616	751,468,465	
5101	Board of Public Education							217,467	148,470	
5102	Commissioner of Higher Education		1,825,541					222,744,558	221,808,542	
5113	School for the Deaf & Blind						30,852	6,787,763	6,683,126	
5114	Montana Arts Council							570,267	552,767	
5115	Montana Library Commission							3,325,640	3,312,598	
5117	Montana Historical Society						10,954	3,212,164	3,209,494	
	Subtotal Section E	980,379,997		1,825,541		7,900,000	42,937	990,148,475	987,183,462	
Grand Total		\$1,870,889,050		\$271,108,052			\$21,194,000	\$2,130,794	\$2,165,321,896	\$2,128,913,601

Summary of FY 2015 Budgeted Authority and Actual Expenditures
State Resources Only

	HB 2 FY 2015 Budgeted	Additional Budgeted Authority					Total All Sources		
		Non-Budgeted Proprietary	Statutory	Budget Amendments	FY 2015 Supplemental	Carryforward	Budgeted	Expended	
General Government									
1104	Legislative Branch	16,833,300		363,631			546,592	17,743,523	14,677,624
1112	Consumer Counsel	1,703,104					189,407	1,892,511	1,212,586
3101	Governor's Office	6,395,125			8,920,619		78,313	15,394,057	6,371,812
3201	Secretary of State	129,811	6,054,125		590,604			6,774,540	6,012,903
3202	Commissioner of Political Practices	589,798				94,000	26,629	710,427	692,013
3401	State Auditor	19,941,323		30,575,101			517,913	51,034,337	45,234,291
5801	Department of Revenue	187,059,911	198,436	241,129,516	95,701		4,731	428,488,295	371,734,864
6101	Department of Administration	20,170,349	296,344,030	187,422,075	2,640,937	6,000,000	353,463	512,930,854	484,238,128
6501	Department of Commerce	33,669,676	56,807,855	43,918,220	2,642,535			137,038,286	108,723,224
6602	Department of Labor & Industry	82,814,909	157,524,019	1,114,627	8,150,387		2,398,885	252,002,827	198,608,790
6701	Department of Military Affairs	43,536,110		15,390,018	14,458,978		467,683	73,852,789	49,456,270
	Subtotal Section A	412,843,416	516,928,465	519,913,188	37,499,761	6,094,000	4,583,616	1,497,862,446	1,286,962,506
Public Health and Human Services									
6902	Economic Security Services Branch	432,561,394		91,231	4,814,108			437,466,733	418,277,057
6904	Director's Office	6,787,573						6,787,573	6,675,650
6906	Operations Services Branch	61,118,307			77,925			61,196,232	60,304,421
6907	Public Health and Safety	65,759,933			15,945,713			81,705,646	65,434,070
6911	Medicaid and Health Services Branch	1,448,672,184		6,728,330	18,398,497	5,000,000		1,478,799,011	1,399,410,541
	Subtotal Section B	2,014,899,391		6,819,561	39,236,242	5,000,000		2,065,955,194	1,950,101,738
Natural Resources and Transportation									
5201	Department of Fish, Wildlife and Parks	79,138,832	4,315,900	2,064,531	12,939,550		3,810,750	102,269,563	82,660,467
5301	Department of Environmental Quality	62,251,456	7,740,643	6,000,000	27,863,212		5,140,783	108,996,094	69,023,464
5401	Department of Transportation	742,258,076	34,836,486	37,815,648	47,962,857		36,118,218	898,991,285	744,101,526
5603	Department of Livestock	11,053,878		550,000	813,786		177,093	12,594,757	11,514,684
5706	Dept Nat Resource/Conservation	62,782,431	3,183,842	11,857,722	20,501,014		1,738,175	100,063,184	77,756,980
6201	Department of Agriculture	18,026,896	58,200	12,185,939	1,392,640		525,801	32,189,476	24,560,243
	Subtotal Section C	975,511,569	50,135,071	70,473,840	111,473,059		47,510,820	1,255,104,359	1,009,617,363
Judicial Branch, Law Enforcement and Justice									
2110	Judicial Branch	42,703,479	197,797	5,936,460	2,584,823		723,756	52,146,315	46,011,389
4107	Crime Control Division	12,857,960			1,029,647		62,125	13,949,732	7,709,677
4110	Department of Justice	88,578,005	1,833,840	8,152,781	7,013,578		1,132,426	106,710,630	96,896,411
4201	Public Service Commission	3,969,595			348,095		78,407	4,396,097	3,921,060
6108	Office of the Public Defender	30,333,403				1,700,000		32,033,403	32,033,403
6401	Department of Corrections	194,898,922	17,217,487	613,812	1,201,171	5,500,000	171,710	219,603,102	215,669,354
	Subtotal Section D	373,341,364	19,249,124	14,703,053	12,177,314	7,200,000	2,168,424	428,839,279	402,241,294
Education									
3501	Office of Public Instruction	956,798,879	2,966,049	67,710,922	12,037,818	7,900,000	234,607	1,047,648,275	1,002,644,284
5101	Board of Public Education	394,535						394,535	295,923
5102	Commissioner of Higher Education	308,101,862	116,601,914	2,858,109	1,534,954			429,096,839	396,703,030
5113	School for the Deaf & Blind	7,158,891					30,852	7,189,743	7,066,659
5114	Montana Arts Council	1,975,000			59,643			2,034,643	1,808,049
5115	Montana Library Commission	6,366,357	341,793		25,277			6,733,427	6,482,017
5117	Montana Historical Society	5,333,924		260,797	1,031,322		11,123	6,637,166	6,027,662
	Subtotal Section E	1,286,129,448	119,909,756	70,829,828	14,689,014	7,900,000	276,582	1,499,734,628	1,421,027,624
Grand Total		\$5,062,725,188	\$706,222,416	\$682,739,470	\$215,075,390	\$26,194,000	\$54,539,442	\$6,747,495,906	\$6,069,950,525