

**Program Budget Comparison**

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

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	21.84	21.84	24.34	24.34	21.84	24.34	2.50	11.45 %
Personal Services	1,547,886	1,679,604	1,959,098	1,965,045	3,227,490	3,924,143	696,653	21.58 %
Operating Expenses	2,069,032	4,534,472	4,135,127	4,137,446	6,603,504	8,272,573	1,669,069	25.28 %
Grants	2,318,767	4,688,041	5,496,449	4,928,961	7,006,808	10,425,410	3,418,602	48.79 %
Transfers	0	0	2,375,000	2,375,000	0	4,750,000	4,750,000	0.00 %
<b>Total Costs</b>	<b>\$5,935,685</b>	<b>\$10,902,117</b>	<b>\$13,965,674</b>	<b>\$13,406,452</b>	<b>\$16,837,802</b>	<b>\$27,372,126</b>	<b>\$10,534,324</b>	<b>62.56 %</b>
General Fund	2,735,505	3,738,352	7,726,541	7,355,746	6,473,857	15,082,287	8,608,430	132.97 %
State/Other Special Rev. Funds	651,289	2,989,365	2,236,009	2,235,265	3,640,654	4,471,274	830,620	22.82 %
Federal Spec. Rev. Funds	2,548,891	4,174,400	4,003,124	3,815,441	6,723,291	7,818,565	1,095,274	16.29 %
<b>Total Funds</b>	<b>\$5,935,685</b>	<b>\$10,902,117</b>	<b>\$13,965,674</b>	<b>\$13,406,452</b>	<b>\$16,837,802</b>	<b>\$27,372,126</b>	<b>\$10,534,324</b>	<b>62.56 %</b>

**Program Description**

The Business Resources Division is comprised of programs aimed at improving and diversifying Montana's economy. The division works closely with the private sector, local communities, economic development organizations, and state and federal government agencies to improve the economy of Montana through business creation, expansion, retention, and recruitment efforts.

**Program Highlights**

<p><b>Business Resources Division Major Budget Highlights</b></p>
<ul style="list-style-type: none"> <li>• General fund increases mainly due to:                             <ul style="list-style-type: none"> <li>◦ Enhancement of existing economic development programs - \$5.5 million</li> <li>◦ Continuation of economic development programs that were designated as one-time-only</li> <li>◦ Continuation of Native American language preservation and biomedical research designated as one-time-only</li> </ul> </li> </ul>
<p><b>Major LFD Issues</b></p>
<ul style="list-style-type: none"> <li>• Unused authority for loans generates large amounts of carryforward or authority for other operating costs or personal services</li> <li>• HB 2 does not include designations of \$7.0 million in general fund proposed by the executive as restricted, biennial, and one-time-only</li> </ul>

**Program Discussion -**

*Comparison of the 2015 Legislative Base and the 2015 Appropriation*

The following table highlights the differences between the executive's implementation of FY 2015 appropriations as shown in the program budget comparison table above and the FY 2015 legislative appropriations used for purposes of the budget base.

Business Resources Division FY 2015 Appropriation Transactions			
Category	Legislative Appropriation	Consolidation of Biennial Approp	Total Executive Implementation
Personal Services	\$1,702,694	(\$23,090)	\$1,679,604
Operating Expenses	4,544,472	(10,000)	4,534,472
Grants	5,779,951	(1,091,910)	4,688,041
Total Costs	\$12,027,117	(\$1,125,000)	\$10,902,117

The difference between the FY 2015 legislative appropriation and the total executive implementation is the shifting of biennial budget authority. \$750,000 of authority for the native language preservation project and \$341,910 of matching funds for federal grants for the SBIT/STTR Program was transferred from FY 2015 to FY 2014 to allow the grant programs to fund requests in the first year of the biennium.

#### *Comparison of the FY 2014 Actual Expenditures to FY 2015 Legislative Appropriations*

Actual FY 2014 expenditures are \$6.1 million below the FY 2015 legislative appropriation. Primary reasons for the differences are:

- Vacancy savings of 23.8% within the program resulted in a lower personal services cost in FY 2014
- The majority of the reductions in operating expenses occurred in loans made for the microbusiness loan program, which were \$450,000 while the estimate in the budget was \$2.0 million
- Grants for special projects under the Community Development Block Grant were not requested at the level anticipated in the 2015 biennial budget

#### *Executive Request*

The program budget comparison table shows the impacts on the budget after the transfers of appropriation authority are taken into account. As shown the Business Resources Division personal services increase \$0.4 million each year of the biennium when compared to FY 2014 actual spending. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Employee attainment of longevity milestones in the 2017 biennium
- Reclassification of 2 positions between biennia
- Changes in employer retirement contributions

When compared to FY 2014 actual spending, operating costs increase by \$2.1 million each year of the biennium. The majority of the difference is because approved requests for loans in the Microbusiness Loan Program were \$450,000 in FY 2014 while the anticipated amount included in the 2017 biennium budget is \$2.0 million each year of the biennium. New proposals include additional operating expenses of \$0.3 million each year.

**LFD  
ISSUE**

Unused Authority for Loans Generates Large Amounts of Carryforward

The Microbusiness Loan Program provides loans for Montana-based businesses with fewer than 10 full-time equivalent employees and a gross annual revenue of less than \$1.0 million. The figure on the next page shows the appropriation requests, both base budget and present law adjustments, for loans since FY 2010. Because the Business Resources Division has consistently requested funding above the historic level of funding used, a significant amount of unused appropriation authority is generated. Statute allows state agencies to carry forward and spend up to 30% of any unexpended appropriations for personal services, operating expenses, and equipment. The carry forward appropriations can be used over the next two years for any purpose that is consistent with the goals and objectives of the agency.

Microbusiness Loan Funds					
Carry Forward Authority					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Loans Made Budgeted					
Base Included in Budget	\$0	\$0	\$382,000	\$382,000	\$900,000
Present Law Adjustments	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,154,000</u>	<u>2,493,000</u>	<u>1,634,630</u>
Total Included in Budget	2,000,000	2,000,000	2,536,000	2,875,000	2,534,630
Loans Made Actuals*					
	<u>0</u>	<u>650,000</u>	<u>900,000</u>	<u>(200,000)</u>	<u>450,000</u>
Remaining Authority	<u>\$2,000,000</u>	<u>\$1,350,000</u>	<u>\$1,636,000</u>	<u>\$3,075,000</u>	<u>\$2,084,630</u>
Uses of Authority					
Movement to Personal Services	\$0	\$0	\$0	\$0	\$221,807
Carry Forward Authority	600,000	405,000	490,800	922,500	558,847
* Accrued costs of \$450,000 in FY 2012 were reversed in FY 2013 offsetting \$250,000 in loan activity.					

As shown in figure, the unused appropriation authority has generated significant amounts of carry forward authority for the program, as loans made are included in operating expenses. In addition, the authority can be transferred from operating expenses to other expenditure categories such as personal services, grants, or benefits and claims, or used for other types of operating costs such as professional and consulting services. In FY 2016 and FY 2017 the annual request for loans made is \$2.1 million. As can be determined from the chart above, the highest amount of loans made were in FY 2011 at \$650,000 followed by \$450,000 in FY 2012, which is determined when considering the adjustments for accruals, and \$450,000 in FY 2014.

If the legislature wishes to reduce the flexibility granted to the agency including the amount of carry forward appropriation authority generated in Business Resources Division it could reduce the authority provided through operating expenses. For example, if the authority for loans made was reduced to the highest level of loans made of \$650,000 each year of the biennium it would be a reduction of \$1.45 million in operating expenses. Reducing authority to the highest biennial total of \$700,000 would be a reduction of \$3.5 million over the biennium.

Legislative Option

Reduce authority for loans made to the highest level of spending over either a fiscal year or a biennium.

Grant awards for Community Development Block grants were \$1.2 million in FY 2014 while the amount appropriated for grants in FY 2015 was about \$2.6 million. The executive proposes to establish these funds at the higher level in each year of the 2017 biennium.

General fund for the program increases significantly due to new proposals for:

- Economic development funding for tribal businesses - \$0.6 million annually
- Primary business sector grants for new and existing Montana businesses to train new employees - \$0.8 million annually
- Economic development to enhance current programs within Commerce - \$2.75 million annually
- Native American language preservation - \$0.75 million annually

**Funding**

The following table shows proposed program funding by source from all sources of authority.

Department of Commerce, 51-Business Resources Division Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	15,082,287	0	4,750,000	19,832,287	44.53 %	
02090 Business Asst-Private	190,954	0	0	190,954	1.22 %	
02094 DISTRESSED WOOD MATCH	0	0	0	0	0.00 %	
02100 DISTRESSED WOOD STATE	0	0	896,400	896,400	5.75 %	
02116 Accommodation Tax Account	0	0	300,000	300,000	1.92 %	
02210 Microbusiness Admin Acct	262,320	0	0	262,320	1.68 %	
02212 Microbusiness Loan Acct	4,000,000	0	0	4,000,000	25.65 %	
02249 Governor's Office Operations Fund	0	0	0	0	0.00 %	
02258 Employment Security Account	0	0	0	0	0.00 %	
02271 L&C Bicentennial Plate Fund	0	0	0	0	0.00 %	
02444 BEAR Program	18,000	0	0	18,000	0.12 %	
02557 Research & Commercialization	0	0	2,898,653	2,898,653	18.59 %	
02563 Nat'l Dev. Cncl Training Funds	0	0	0	0	0.00 %	
02671 Trade Growth thru AG	0	0	0	0	0.00 %	
02771 Economic Development Trust Fund	0	0	7,026,807	7,026,807	45.06 %	
02848 SBDC PRIVATE REVENUE NONFED	0	0	0	0	0.00 %	
<b>State Special Total</b>	<b>\$4,471,274</b>	<b>\$0</b>	<b>\$11,121,860</b>	<b>\$15,593,134</b>	<b>35.02 %</b>	
03059 Community Development Block	5,452,393	0	0	5,452,393	59.87 %	
03061 EDA Revolving Loan Fund	252,145	0	0	252,145	2.77 %	
03092 Distressed Woods Federal	0	0	1,288,079	1,288,079	14.14 %	
03180 SBA JOBS Grant	0	0	0	0	0.00 %	
03207 Small Business Dev. Centers	1,465,874	0	0	1,465,874	16.10 %	
03233 INSTEP/EPSCoR Funds	0	0	0	0	0.00 %	
03286 SSBCI Treasury Grant	0	0	0	0	0.00 %	
03331 OIT STEP	0	0	0	0	0.00 %	
03397 STATE BROADBAND DATA & DEV	0	0	0	0	0.00 %	
03405 FY09 NPS Project Grant	0	0	0	0	0.00 %	
03671 SBA FAST Grant	0	0	0	0	0.00 %	
03932 CDBG RLF	648,153	0	0	648,153	7.12 %	
<b>Federal Special Total</b>	<b>\$7,818,565</b>	<b>\$0</b>	<b>\$1,288,079</b>	<b>\$9,106,644</b>	<b>20.45 %</b>	
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
<b>Total All Funds</b>	<b>\$27,372,126</b>	<b>\$0</b>	<b>\$17,159,939</b>	<b>\$44,532,065</b>		

*HB 2 Funding*

General fund supports a number of functions including technology research programs, the Montana Capital Investment Board, the Census and Economic Information Center, tribal economic development, the Made in Montana program, regional development programs, and international relations programs. The general fund increase is primarily due to a proposal to continue funding for economic development programs that had been designated as one-time-only in the previous biennia.

State special revenues include authority for loans made through Small Business Development Centers to micro-business development centers. Refer to the present law section of the narrative for the LFD issue related to this funding.

Federal special revenues are mainly comprised of federal funding for community development block grants and small business development centers.

*Statutory Appropriations*

Over half of the funding in the Business Resource Division is statutorily appropriated. The legislature may effect change in these appropriations through changes to the statutes providing the authority for the program. General fund for the research and commercialization program and business and economic development programs is provided in statute.

State special revenues include funding for the Distressed Wood Products Program, research and development funds that are transferred from the general fund, and the economic development trust fund account that receives interest and income from the coal tax trust.

**LFD  
ISSUE**

Statutory Appropriations for Research and Commercialization Appropriated Twice

15-35-108(9)(b), MCA, appropriates general fund to the research and commercialization state special revenue account. Money in this state special revenue account is itself statutorily appropriated. This means the expenditures of the same money is being recorded twice on the accounting system. Money moved from one account into another account within the state treasury is a transfer and does not require an appropriation.

The 2013 Legislature passed HB 18 at the request of the Legislative Finance Committee, as the committee had determined that the general fund appropriation should be eliminated. To ensure the funding was available to the program, the bill transferred general fund into the state special revenue fund for use by the Research and Commercialization Program and eliminated the general fund appropriation, thus correcting the double appropriation of the funds.

The Governor vetoed the bill. In his veto message the Governor stated he was vetoing the bill due to a concern that it would conflict with HB 454, a bill to increase pension contributions from several sources including the coal severance taxes that also funds the transfer to the research and commercialization state special revenue account.

Legislative Option

If the legislature wished to eliminate the double appropriation of statutory appropriations for research and commercialization it may wish to request a bill similar to that passed by the 2013 Legislature.

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	2,413,352	2,413,352	4,826,704	32.00 %	8,777,117	8,777,117	17,554,234	64.13 %
PL Adjustments	413,189	42,394	455,583	3.02 %	288,557	(270,665)	17,892	0.07 %
New Proposals	4,900,000	4,900,000	9,800,000	64.98 %	4,900,000	4,900,000	9,800,000	35.80 %
<b>Total Budget</b>	<b>\$7,726,541</b>	<b>\$7,355,746</b>	<b>\$15,082,287</b>		<b>\$13,965,674</b>	<b>\$13,406,452</b>	<b>\$27,372,126</b>	

**Present Law Adjustments -**

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating

expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - LEG. Personal Services Present Law	0.00	298,609	33,709	(123,780)	208,538	0.00	(32,827)	(35,542)	277,951	209,582
DP 99 - LEG. Present Law	0.00	114,580	12,935	(47,496)	80,019	0.00	75,221	81,442	(636,910)	(480,247)
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$413,189</b>	<b>\$46,644</b>	<b>(\$171,276)</b>	<b>\$288,557</b>	<b>0.00</b>	<b>\$42,394</b>	<b>\$45,900</b>	<b>(\$358,959)</b>	<b>(\$270,665)</b>

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the table below includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

**LFD COMMENT** The present law adjustments for personal services and other expenditures such as operating expenses were calculated using an algorithm. While the funding changes for the two adjustments taken together are correct, the allocation of the funding between personal services and other expenditures are not always allocated appropriately. As shown in the tables below the funding between the two present law adjustments needs to be refined in this division. The Legislative Fiscal Division staff will work with Commerce staff to adjust the funding appropriately between the two present law adjustments.

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.34	\$4,780	\$1,138	\$4,453	\$10,371
Executive Implementation of 2015 Pay Increase		13,852	3,297	12,905	30,054
Fully Fund 2015 Legislatively Authorized FTE		17,562	14,503	30,883	62,948
Other					
FTE transferred from Governor's Office		130,137	-	-	130,137
Remainder of Other	0.00	132,278	14,771	(172,021)	(24,972)
Total Other	0.00	262,415	14,771	(172,021)	105,165
Personal Services Present Law Adjustments	21.34	\$298,609	\$33,709	(\$123,780)	\$208,538
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	21.34	\$4,780	\$1,138	\$4,453	\$10,371
Executive Implementation of 2015 Pay Increase		13,852	3,297	12,905	30,054
Fully Fund 2015 Legislatively Authorized FTE		17,562	14,503	30,883	62,948
Other					
FTE transferred from Governor's Office		130,137	-	-	130,137
Remainder of Other	0.00	(199,158)	(54,480)	229,709	(23,929)
Total Other	0.00	(69,021)	(54,480)	229,709	106,208
Personal Services Present Law Adjustments	21.34	(\$32,827)	(\$35,542)	\$277,951	\$209,581

The executive proposes to increase support for personal services by 13.7% in FY 2016 and FY 2017 when compared to the FY 2015 legislative budget. As shown in the table over half of the change is due to the transfer of FTE from the Governor's Office. About 20% of the changes are due to costs associated with HB 13 of the 2013 Legislature. Other adjustments include:

- Reclassification of two positions
- Longevity
- Broad band pay increases
- Full funding of positions that were unfilled during a portion of the year

#### DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases in FY 2016 and reductions in FY 2017 in costs and funding when compared to the FY 2015 legislative budget. Decreases in federal grants are offset by a proposed increase in both general fund and state special revenue support.

#### **New Proposals -**

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5105101 - Primary Business Sector Training	2.00	600,000	0	0	600,000	2.00	600,000	0	0	600,000
DP 5105102 - Indian Country Economic Development	1.00	800,000	0	0	800,000	1.00	800,000	0	0	800,000
DP 5105106 - Enhance Economic Development in Montana (RST/BIEN/OTO)	0.00	2,750,000	0	0	2,750,000	0.00	2,750,000	0	0	2,750,000
DP 5105107 - Native Language Preservation (RST/BIEN/OTO)	0.00	750,000	0	0	750,000	0.00	750,000	0	0	750,000
<b>Total</b>	<b>3.00</b>	<b>\$4,900,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,900,000</b>	<b>3.00</b>	<b>\$4,900,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,900,000</b>

DP 5105101 - Primary Business Sector Training -

The executive proposes funding for the Primary Sector Workforce Training Program to provide grant funds to new and existing Montana businesses to train new employees. A seven member grant review committee consisting of both public and private members reviews applications and allocates funding through the Department of Commerce. The legislature has funded this program with one-time-only funds for the last several biennia.

DP 5105107 - Native Language Preservation (RST/BIEN/OTO) -

This executive request includes funding an additional \$1.5 million in one-time-only general fund to continue the Native Language Preservation Program. The program documents and preserves the Native American languages of the various tribes in Montana. Speakers fluent in the Native American languages would be recorded, and written materials would be developed, to allow younger generations of the various tribes, as well as others, to develop language skills for the various Native American languages. The request is contingent on passage and approval of legislation that extends the Native Language Preservation program (LC0632).

<b>LFD COMMENT</b>	The 2013 Legislature approved \$1.0 million in general fund each year of the 2015 biennium for native language preservation. As part of its oversight duties the State Tribal Relations Interim Committee received updates on the project.
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<b>LFD ISSUE</b>	<p><u>Funding Not Designated as Restricted, Biennial, or One-time-only in HB 2 as Proposed</u></p> <p>While the narrative submitted by the agency indicates this proposal is restricted, biennial, and one-time-only HB 2 as proposed by the Governor does not contain these restrictions on the funding.</p> <p>Legislative Option</p> <p>If the legislature decides to approve this proposal it can designate the funding as restricted, biennial, and/or one-time-only.</p>
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DP 5105102 - Indian Country Economic Development -

The executive requests support for the Indian Country Economic Development (ICED) program. The Tribal Economic Development Program: 1) provides technical assistance and financial resources to existing tribal businesses to help them expand operations and facilities and train and employs new workers; 2) assists in the development of start-up tribal businesses; and 3) delivers business skills training to the growing numbers of Indian entrepreneurs and helps Native

American businesses access capital. The legislature has funded this program with one-time-only funds for the last several biennia.

DP 5105106 - Enhance Economic Development in Montana (RST/BIEN/OTO) -

The executive proposes \$5.5 million in general fund one-time-only authority over the biennium to enhance the economic development programs within Commerce. These programs include Montana Board of Research and Commercialization, Small Business Development Centers, Small Business Innovation Research, Montana Manufacturing Extension Center, Export Trade Enhancement, and Certified Regional Development Corporations.

**LFD  
COMMENT**

The information provided by the executive for the uses of \$5.5 million in general fund do not provide sufficient detail for the 2015 Legislature to formulate an appropriations policy for the uses of the funds. While several programs are discussed it is not apparent how the funds will be allocated among the programs. Objectives and proposed measurements for the funds are not included as part of the budget submission. In past biennia agencies have completed an expanded justification for new proposals which outlines the justification for the funds, proposed project outcomes, performance criteria, milestones, FTE, funding, obstacles, and risk if the project is not approved.

The Joint Appropriations Subcommittee on General Government may wish to request that the Business Resources Division provide additional information on its proposal for enhancement of economic development including an expanded justification.

**LFD  
ISSUE**

Funding Not Designated as Restricted, Biennial, or One-time-only in HB 2 as Proposed

While the narrative submitted by the agency indicates this proposal is restricted, biennial, and one-time-only HB 2 as proposed by the Governor does not contain these restrictions on the funding.

Legislative Option

If the legislature decides to approve this proposal it can designate the funding as restricted, biennial, and/or one-time-only.