

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	18.67	18.67	17.67	17.67	18.67	17.67	(1.00)	(5.36)%
Personal Services	1,150,020	1,260,306	1,356,684	1,359,704	2,410,326	2,716,388	306,062	12.70 %
Operating Expenses	253,469	249,733	357,448	356,514	503,202	713,962	210,760	41.88 %
Capital Outlay	0	0	0	0	0	0	0	0.00 %
Total Costs	\$1,403,489	\$1,510,039	\$1,714,132	\$1,716,218	\$2,913,528	\$3,430,350	\$516,822	17.74 %
General Fund	1,346,251	1,453,950	1,656,894	1,658,980	2,800,201	3,315,874	515,673	18.42 %
Federal Spec. Rev. Funds	2,133	1,065	2,133	2,133	3,198	4,266	1,068	33.40 %
Proprietary Funds	55,105	55,024	55,105	55,105	110,129	110,210	81	0.07 %
Total Funds	\$1,403,489	\$1,510,039	\$1,714,132	\$1,716,218	\$2,913,528	\$3,430,350	\$516,822	17.74 %

Program Description

The State Financial Services Division (SFSD) programs supported in HB 2 are made up of the:

- State Accounting Bureau
- Local Government Services Bureau
- Social Security Administrator

The State Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS); establishes state accounting policies and procedures; administers the federal Cash Management Improvement Act; prepares and negotiates the Statewide Cost Allocation Plan; prepares the state Comprehensive Annual Financial Report; and provides accounting assistance and training to state agencies. The Treasury Unit provides the central banking function for state agencies, reconciles state bank accounts, and insures the collateralization of these bank accounts is maintained at the proper level. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel. The bureau maintains and publishes the local government Budgetary, Accounting and Reporting System chart of accounts and the county collection and accounting manuals. The bureau collects and provides local government financial information to the public, legislature, federal government, and other public entities. The State Social Security Administrator manages the Social Security Act Section 218 program for the State of Montana including interpreting its provisions, insuring proper application of Social Security coverage to all state and political subdivision employees, conducting referendums as needed, and reporting local government entity changes (dissolutions and consolidations) to federal partners. The administrator provides extensive education and outreach to local governments to support them in this function.

Program Highlights

State Financial Services Division Major Budget Highlights
<ul style="list-style-type: none"> • The majority of the funding in this program is from non-budgeted proprietary funds that do not show in the HB 2 tables • General fund support changes due to: <ul style="list-style-type: none"> ◦ Increased personal service costs ◦ Higher operating costs for the State Accounting Bureau and the Social Security Administrator
Major LFD Issues
<ul style="list-style-type: none"> • Changes in vacancy savings result in personal services increases included in proprietary rates charged to state agencies • Rate increases for SABHRS Financial Services Technology Bureau could be mitigated by using available fund balance • Revenue projections for the Warrant Writer Program appear high given recent trends

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

The following table highlights the differences between the FY 2015 appropriations implemented by the executive compared to the FY 2015 legislative appropriations used for purposes of the budget base.

Department of Administration State Financial Services Division FY 2015 Appropriation Transactions					
Category	Legislative Appropriation	Category Adjustments	Program Transfers	Reorganization	Total Executive Implementation
Personal Services	\$1,260,306	(\$100)	\$0	\$0	\$1,260,206
Operating Expenses	249,733	100	0	0	249,833
Local Assistance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Costs	<u>\$1,510,039</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,510,039</u>

As shown, the only change made to the 2015 legislative base was a transfer of \$100 from personal services to operating expenses.

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

Actual FY 2014 expenditures are \$106,500 lower than the FY 2015 legislative appropriation. The primary reason for the difference is due to vacancy savings of 6.7% within the program resulting in lower personal services costs in FY 2014.

Executive Request

Comparisons between actual spending in FY 2014 and the 2017 biennial years by functional unit are shown in the figure on the next page.

Department of Administration State Financial Services Division HB 2 Expenditures Per Function					
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change
State Accounting Bureau					
FTE	7.67	7.67	0.00%	7.67	0.00%
Personal Services	\$524,862	\$721,180	37.40%	\$720,985	37.37%
Operating Costs	<u>116,001</u>	<u>216,995</u>	<u>87.06%</u>	<u>216,575</u>	<u>86.70%</u>
Total Expenditures	640,863	938,175	46.39%	937,560	46.30%
Local Government Services					
FTE	5.00	5.00	0.00%	5.00	0.00%
Personal Services	343,816	301,876	-12.20%	304,209	-11.52%
Operating Costs	<u>98,357</u>	<u>95,073</u>	<u>-3.34%</u>	<u>94,728</u>	<u>-3.69%</u>
Total Expenditures	442,173	396,949	-10.23%	398,937	-9.78%
Social Security Administrator					
FTE	1.00	1.00	0.00%	1.00	0.00%
Personal Services	89,193	94,813	6.30%	95,588	7.17%
Operating Costs	<u>6,116</u>	<u>10,932</u>	<u>78.74%</u>	<u>10,876</u>	<u>77.83%</u>
Total Expenditures	95,309	105,745	10.95%	106,464	11.70%
Treasury Unit					
FTE	4.00	4.00	0.00%	4.00	0.00%
Personal Services	192,149	238,721	24.24%	238,825	24.29%
Operating Costs	<u>32,995</u>	<u>34,448</u>	<u>4.40%</u>	<u>34,335</u>	<u>4.06%</u>
Total Expenditures	<u>225,144</u>	<u>273,169</u>	<u>21.33%</u>	<u>273,160</u>	<u>21.33%</u>
Total Expenditures SFSD	<u>\$1,403,489</u>	<u>\$1,714,038</u>	22.13%	<u>\$1,716,121</u>	22.28%

As shown, proposed expenditures in HB 2 are more than 22% higher than those provided in FY 2014. In addition to increases that result from the implementation of pay raises and health insurance contributions included in HB 13, other changes include:

- Market, proficiency agreement progression, training assignment progression, and reclassification increases granted throughout FY 2014 that are annualized for the 2017 biennium
- Vacancy savings that were 6.7% in FY 2014 compared to a budgeted rate of 6.0%; the budget proposes full funding of positions that were unfilled during all or a portion of FY 2014
- Employee attainment of longevity milestones in the 2016 biennium
- Changes in employer retirement
- Reductions in costs related to the implementation of the boilerplate language in HB 2 enacted by the 2013 Legislature

As shown in the figure above, operating cost increases are mainly contained within the State Accounting Bureau and are for the most part due to increased costs for State Information Technology Services Division services. The legislature can impact these costs through changes to the budget of the State Information Technology Services Division.

Funding

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

Department of Administration, 03-State Financial Services Division Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	3,315,874	0	4,320,930	7,636,804	43.03 %
State Special Total	\$0	\$0	\$0	\$0	0.00 %
03320 CMIA Funds	4,266	0	0	4,266	100.00 %
Federal Special Total	\$4,266	\$0	\$0	\$4,266	0.02 %
06042 Single Audit Review - HB328	0	1,076,365	0	1,076,365	10.65 %
06511 SABHRS SERVICES BUREAU	0	7,514,325	0	7,514,325	74.35 %
06527 Investment Division	110,210	0	0	110,210	1.09 %
06564 Warrant Writing	0	1,406,282	0	1,406,282	13.91 %
Proprietary Total	\$110,210	\$9,996,972	\$0	\$10,107,182	56.95 %
Total All Funds	\$3,430,350	\$9,996,972	\$4,320,930	\$17,748,252	

House Bill 2

General fund in the program supports development of statewide accounting standards, treasury functions, and accounting assistance for local governments. Proprietary funding in HB 2 is a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board. Federal support provides for cash management services for federal Cash Management Improvement Act funds that are deposited into the general fund. HB 2 appropriations support about 20% of the costs of the State Financial Services Division.

Proprietary Funding

Over 56% of the office functions are supported with proprietary funds. These funds are considered and approved as rates charged to other divisions in the agency and other state agencies. The rates are discussed in the "Proprietary Rates" section of the narrative.

Statutory Appropriations

About a quarter of the funding in the State Financial Services Division is statutorily appropriated for use by the state treasurer. The state treasurer may contract with a financial institution to provide general depository banking services. The cost of contracting for banking services is statutorily appropriated from the general fund.

Budget Summary by Category

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

Budget Summary by Category								
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	1,453,950	1,453,950	2,907,900	87.70 %	1,510,039	1,510,039	3,020,078	88.04 %
PL Adjustments	202,944	205,030	407,974	12.30 %	204,093	206,179	410,272	11.96 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$1,656,894	\$1,658,980	\$3,315,874		\$1,714,132	\$1,716,218	\$3,430,350	

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	95,950	0	347	96,297	0.00	98,970	0	347	99,317
DP 99 - LEG. Present Law	0.00	106,994	0	721	107,715	0.00	106,060	0	721	106,781
Grand Total All Present Law Adjustments	0.00	\$202,944	\$0	\$1,068	\$204,012	0.00	\$205,030	\$0	\$1,068	\$206,098

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.

Personal Services Present Law Adjustments						
FY 2016						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	17.67	\$8,588	\$0	\$0	\$8,588	
Executive Implementation of 2015 Pay Increase		23,302	-	-	23,302	
Fully Fund 2015 Legislatively Authorized FTE		23,075	-	1	23,076	
Other		40,986	-	346	41,332	
Personal Services Present Law Adjustments	17.67	\$95,950	\$0	\$347	\$96,297	
FY 2017						
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds	
State Share Health Insurance	17.67	\$8,588	\$0	\$0	\$8,588	
Executive Implementation of 2015 Pay Increase		23,302	-	-	23,302	
Fully Fund 2015 Legislatively Authorized FTE		23,075	-	1	23,076	
Other		44,006	-	346	44,352	
Personal Services Present Law Adjustments	17.67	\$98,970	\$0	\$347	\$99,317	

Other increases include market adjustments, proficiency agreement progression, training assignment progression, and reclassification increases provided in FY 2014 that are annualized for the 2017 biennium. These costs are partially offset by the division's implementation of HB 2 boilerplate language.

DP 99 - LEG. Present Law -

As shown in the present law adjustment table on the previous page, overall the executive is proposing increases in the costs and funding when compared to the 2015 legislative appropriation. Funding for the increases is from the state's general fund. The additional funding is proposed for professional and consulting services, SITSD charges, and indirect cost rates supporting the Director's Office.

Other Issues -

Proprietary Rates

The State Financial Services Division provides the following functions with proprietary funds:

- Statewide Accounting, Budgeting, and Human Resource System (SABHRS) Financial Services Technology Bureau (FSTB)
- Warrant Writer
- Local Government Audit and Reporting

The figure on the next page shows the costs, by function, supported through proprietary rates to state agencies.

Department of Administration State Financial Services Division Proprietary Funds Per Function						
Program	Actual FY 2014	Proposed FY 2016	% Change	Proposed FY 2017	% Change	
Local Government Audit and Reporting Program						
FTE	5.00	6.00	20.00%	6.00	20.00%	
Personal Services	\$331,699	\$446,062	34.48%	\$446,785	34.70%	
Operating Costs	<u>89,207</u>	<u>92,167</u>	<u>3.32%</u>	<u>91,274</u>	<u>2.32%</u>	
Total Expenditures	420,906	538,229	27.87%	538,059	27.83%	
Warrant Writer						
FTE	4.33	4.33	0.00%	4.33	0.00%	
Personal Services	194,982	213,434	9.46%	213,963	9.73%	
Operating Costs	491,132	483,111	-1.63%	482,516	-1.75%	
Equipment and Intangible Assets	<u>6,604</u>	<u>6,604</u>	<u>0.00%</u>	<u>6,604</u>	<u>0.00%</u>	
Total Expenditures	692,718	703,149	1.51%	703,083	1.50%	
SABHRS Financial Services Technology Bureau						
FTE	20.00	20.00	0.00%	20.00	0.00%	
Personal Services	1,717,484	1,922,387	11.93%	1,922,851	11.96%	
Operating Costs	<u>1,999,233</u>	<u>1,869,492</u>	<u>-6.49%</u>	<u>1,799,548</u>	<u>-9.99%</u>	
Total Expenditures	3,716,717	3,791,879	2.02%	3,722,399	0.15%	
Total Proprietary Expenditures	<u>\$4,830,341</u>	<u>\$5,033,257</u>	<u>4.20%</u>	<u>\$4,963,541</u>	<u>2.76%</u>	

These programs are described separately with a discussion of program expenses, revenues, and rates being requested to finance each program.

**LFD
ISSUE**
Changes in Vacancy Savings Result in Personal Service Increases

As discussed in the agency summary, proprietary funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result SFSD proprietary program personal service costs increased by \$90,000 each year of the biennium.

SABHRS Financial Services Technology Bureau includes an administrative support position that has been vacant since FY 2012. Local Government Services Audit function proposes to move a vacant accountant position from HB 2 to the proprietary program. Total costs for these two positions are about \$126,900 annually. The program did not provide a justification for the additional FTE within the proprietary program. It should be noted that the legislature does not appropriate the enterprise fund nor approve related rates for services provided by the Local Government Services Audit function, which is funded from charges to local governments. It can however indicate to the program that its intent is to maintain current resources for the 2017 biennium rather than increase staff and related costs to local governments.

Legislative Option

If the legislature wishes to mitigate the impact of higher personal services costs it may:

1. Eliminate funding for the vacant administrative support position and request that the Local Government Audit Program eliminate funding and the related permanent position for the proposed accountant position; or
2. Assess vacancy savings to permanent proprietary funded positions in the SFSD program to reduce total costs of the programs.

SABHRS Financial Services Technology Bureau - 06511*Program Description*

The SABHRS Financial Services Technology Bureau is responsible for the operational support, hosting, and maintenance for the enterprise financial and budget development information systems. FTSB is also responsible for providing hosting services, system architecture, and maintenance for the SABHRS HR information system for the HR Information Systems Bureau.

*Revenues and Expenses*Expenses

During FY 2014 FSTB added 3.00 FTE to its program, increasing personal service costs by \$0.5 million in the 2017 biennium above that contemplated by the 2013 Legislature. One of the positions was transferred from the Warrant Writer function and the other two database positions were brought over from the State Information Technology Services Division (SITSD). The increases in personal services are partially offset by reductions of about \$215,000 annually in services provided by SITSD.

Revenues

All state agencies are required to use the SABHRS program to ensure consistent, accurate, and transparent financial and budgeting information. Revenues are based on:

- Costs to operate the program as shown in the figure on the previous page
- Maintaining a reasonable working capital balance of 60 working days

These components factor into the maximum allocation of costs in a rate that is approved by the legislature. Unrestricted fund balance in the account at fiscal yearend was \$1.6 million and is projected by the agency to increase to \$1.9 million at the end of the 2017 biennium.

The 2017 Biennium Report on Internal Service and Enterprise Funds on the following page shows the actual and projected costs associated with the fund.

**LFD
ISSUE**Rate Increases Could Be Mitigated By Using Available Fund Balance

SABHRS fixed costs charged to state agencies increase by \$0.4 million in FY 2016 and \$0.2 million in FY 2017. Rather than charging the entire increase to state agencies the legislature could lower the rate approved and allow the agency to utilize fund balance to offset a portion of the increase. According to FSTB a 45 day working capital, or \$0.5 million, is needed for the timing differences between services provided and revenue received from billing. As shown in the figure on the next page, the legislature could lower the rate by \$0.5 million each year, allow FSTB to utilize available fund balance, and provide fixed cost reductions to state agencies.

The funding proposed for state agencies using FSTB follows:

- General fund \$1.2 million or 32%
- State special revenue \$0.8 million or 23%
- Federal special revenue \$0.8 million or 23%
- Proprietary \$0.3 million or 8%
- All other funds \$0.5 million or 14%

Allowing the agency to utilize fund balance rather than charge state agencies could generate up to \$0.3 million in general fund savings over the biennium.

Legislative Option

The legislature may lower the SABHRS rate to state agencies by \$0.5 million each year, thus allowing FTSB to use fund balance to offset fixed costs to state agencies that are charged for this service.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
6511	SABHRS	6101	State Financial Services Division

	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues				
Fees and Charges				
SABHRS Services	\$3,821,496	\$3,532,624	\$4,281,676	\$4,092,380
Other Operating Revenues				
Other Revenue	252	0	0	0
Total Operating Revenues	<u>3,821,748</u>	<u>3,532,624</u>	<u>4,281,676</u>	<u>4,092,380</u>
Expenses				
Personal Services	1,523,404	1,899,800	1,929,013	1,929,013
Other Operating Expense				
Operating Expenses	1,859,257	1,814,917	2,352,663	2,163,367
Total Operating Expense	<u>3,382,661</u>	<u>3,714,717</u>	<u>4,281,676</u>	<u>4,092,380</u>
Operating Income (Loss)	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Income (Loss) Before Contributions and Transfers	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Change in Net Position	<u>\$439,087</u>	<u>(\$182,093)</u>	<u>\$0</u>	<u>\$0</u>
Beginning Net Position - July 1	1,306,075	1,745,162	1,563,069	1,563,069
Prior Period Adjustments				
Change in Net Position	439,087	(182,093)	0	0
Ending Net Position - June 30	<u>\$1,745,162</u>	<u>\$1,563,069</u>	<u>\$1,563,069</u>	<u>\$1,563,069</u>

Rate and Rate Explanation:

For the 2017 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
SABHRS Services:	\$3,689,397	\$3,346,369	\$4,281,676	\$4,092,380

As proposed the rates increase 16% in FY 2016 and 11% in FY 2017 when compared to the FY 2014 rate charged to agencies. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Warrant Writer Program - 06564

Program Description

The Warrant Writer Unit (WWU) provides the check writing and direct-deposit services for most state agencies, including the university system. The WWU processes agency approved payments and tracks the payment status on SABHRS. Warrant printing is provided to the WWU by Print and Mail Services within the General Services Division. The WWU generates, tracks, and reconciles each payment. The services include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, vendor file maintenance, and federal 1099-MISC processing.

Revenues and Expenses

The 2017 Biennium Report on Internal Service and Enterprise Funds on the following page shows the actual and projected costs associated with the fund.

2017 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name	
6564	Warrant Writing	61010	Administrative Services	Financial
			Actual	Budgeted
			FY14	FY15
			Budgeted	Budgeted
			FY16	FY17
Operating Revenues				
Fees and Charges				
Warrant Writing Revenue			\$645,007	\$688,072
Total Operating Revenues			\$891,775	\$849,837
Expenses				
Personal Services			194,314	229,143
Other Operating Expense				
Other Services			143,749	136,995
Supplies & Materials			11,241	6,811
Communications			294,394	337,169
Travel			203	0
Rent			16,889	16,811
Repair & Maintenance			12,601	18,071
Other Operating			12,159	17,756
Inventory Adjustment			(39,477)	
Total Operating Expense			646,074	762,756
Operating Income (Loss)			(\$1,067)	(\$74,684)
Total Nonoperating Revenues (Expenses)			0	0
Income (Loss) Before Contributions and Transfers			(\$1,067)	(\$74,684)
Change in Net Position			(\$1,067)	(\$74,684)
Beginning Net Position - July 1			66,601	65,534
Prior Period Adjustments			0	0
Change in Net Position			(1,067)	(74,684)
Ending Net Position - June 30			\$65,534	(\$9,150)
Net Position (Fund Balance) Analysis				
Unrestricted Net Position			\$65,534	(\$9,150)

Expenses

As shown in the Proprietary Funds by Function table, overall expenditures for the WWU increase 1.5% in both years of the biennium when compared to FY 2014 spending. Personal services changes for the program include:

- Annualization of HB 13 increases for state share contributions to employee insurance
- Annualization of HB 13 FY 2015 pay increases
- Restoration of funding related to vacancy savings of 4% imposed by the 2013 Legislature

These increases are partially offset by reductions in operating expenses for indirect costs allocated to the Director’s Office.

Revenues

Revenues are derived from monthly billings based on the actual warrants issued. Budget authority to pay the costs is a fixed cost item in state agency budgets. The statewide fixed cost in the executive proposed budget is \$450,000 higher in the 2017 biennium than the amount paid by agencies in FY 2014. The executive proposes fee increases for mailed and non-mailed warrants, duplicate warrants, and printed advices for direct deposits. Reductions in fees are proposed for mailers, emergency warrants, external payroll and university warrants, and unemployment insurance transactions.

The figure below shows the projected revenues from each fee.

Department of Administration Warrant Writer Projected Revenues				
Type of Revenue	Actual FY 2014	Approved FY 2015	Proposed FY 2016	Proposed FY 2017
Mailer	\$418,759	\$521,013	\$481,776	\$502,519
Non-Mailer	50,259	91,258	65,703	53,046
Emergency	395	466	371	463
Duplicates	2,519	2,667	7,500	9,383
Externals				
Externals - Payroll	5,631	6,161	4,992	4,234
Externals - Universities	13,798	14,158	11,125	9,284
Direct Deposit				
Direct Deposit - Mailer	31,980	40,961	56,338	50,429
Direct Deposit - No Advice Printed	230,920	231,570	235,223	199,832
Unemployment Insurance				
Mailer - Print Only	18,030	18,472	18,057	12,783
Direct Deposit - No Advice Printed	<u>11,653</u>	<u>11,972</u>	<u>10,193</u>	<u>7,038</u>
Total Projected Revenues	<u>\$783,944</u>	<u>\$938,698</u>	<u>\$891,278</u>	<u>\$849,011</u>

Revenues and expenditures and the related changes in net position (fund balance) are shown in the figure on the previous page.

LFD ISSUE	<p><u>Revenue Projections Appear High Given Recent Trends</u></p> <p>The warrant writer program is an operation that provides fixed costs for state agencies based upon a projected number of warrants processed in a given year. The legislature approves the program rates based on the anticipated number of warrants that will be processed in a year and the rates for the type of warrants processed. The total number of payments processed by the WWU has declined in the last three years:</p> <ul style="list-style-type: none"> • 6.7% between FY 2012 and FY 2013 • 10.5% between FY 2013 and FY 2014 <p>The program is projecting increased revenues based on increases in the total number of warrants that will be processed in the next biennium. The projected increases are:</p> <ul style="list-style-type: none"> • 6.0% in FY 2016 compared to FY 2014 • 4.7% in FY 2017 compared to FY 2014
----------------------	---

However, it appears that revenues may continue to decline instead. Reasons for potential reductions in the number of warrants processed include:

- Declining or stabilized unemployment rate, reducing the need for unemployment insurance warrants
- Move by state agencies to reduce the number of direct deposit advices printed for employees
- Decline in requests for mailer and nonmailer warrants by 10.0% and 45.6% respectively between FY 2012 and FY 2014, indicating reduced reliance on warrants as a means of payment

As shown in the figure on the previous page, if the program's revenue projections are accurate for the FY 2017 biennium revenues would be \$203,000 above the projected costs. Based on the above it appears the revenues projected for the program may be higher than will be realized in the 2017 biennium. If the number of warrants is unchanged from FY 2014 actuals, the program would realize sufficient revenues for projected costs. Any further reductions could result in a need to reduce costs or change proposed rates as the fund balance for the program is projected to be (\$9,150) at the end of FY 2015 as shown in the figure on the previous page.

The majority of the operating expenses for the program are in two categories:

- Postage and Mailing \$290,737, which is \$7,400 higher than anticipated in FY 2014
- Printing costs of \$133,893, which is \$15,000 lower in FY 2014 than anticipated

Cost reductions in these areas do not appear realistic. However, the division proposes \$6,600 in office equipment. The office equipment was purchased in FY 2014 and the expense was continued into the 2017 biennium. The costs can be considered a non-reoccurring cost and could be reduced. The program reduced FTE by 1.00 in FY 2014 and is currently operating with 4.33 FTE. Reductions in FTE could impact the programs ability to function.

Legislative Option

If the legislature wishes to ensure program costs do not exceed projected revenues it may wish to:

1. Reduce program costs by \$6,600;
2. Maintain rates that are proposed by the executive for reduction including external warrants for payroll and the universities, direct deposit advices, and unemployment insurance warrants; or
3. Both reduce program costs and maintain current rates

Rate and Rate Explanation:

For the 2017 biennium the following rates are proposed by the executive. The rates charged in previous biennia are shown for comparison purposes.

Requested Rates for Internal Service Funds Fee/Rate Information					
		Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Fee Description:	Mailer	0.74392	0.74464	0.74010	0.75111
	Non-Mailer	0.28392	0.28464	0.32010	0.32111
	Emergency	14.11292	14.11364	11.97641	11.87743
	Duplicates	3.35417	3.35489	8.60097	8.52199
	Externals				
	Externals - Payroll	0.20512	0.21239	0.16861	0.16368
	Externals - Universities	0.13859	0.13907	0.12081	0.11265
	Direct Deposit				
	Direct Deposit - Mailer	0.81859	0.82907	0.94981	0.95765
	Direct Deposit - No Advice Printed	0.13859	0.13907	0.13981	0.11265
	Unemployment Insurance				
	Mailer - Print Only	0.14533	0.14557	0.13280	0.13141
	Direct Deposit - No Advice Printed	0.04769	0.04785	0.03910	0.03308

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Local Government Audit and Reporting Program - 06042

Program Description

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for about 900 Montana local government entities. The work of the Audit Review program is mandated primarily in 2-7-5, MCA. The program reviews financial reports and enters selected data into a statewide database and notifies state agencies of audit findings related to financial assistance programs that they administer. The program also maintains a roster of independent auditors authorized to conduct local government audits, provides technical accounting assistance to local governments and other staff within the bureau.

Revenues and Expenses:

Revenues, expense and changes in net positions for the enterprise fund associated with this function are shown on the following page.

Expenses

As shown in the earlier figure, the majority of the costs of the program are for personal services. As previously discussed the executive proposes to increase the number of staff allocated to the program by 1.00 FTE, increasing personal service costs by 21.6% in the 2017 biennium.

Other changes include additional costs to support services provided by the Director's Office, present law personal services adjustments for current FTE, and applicable fixed cost adjustments.

Revenues

Unlike the other proprietary programs in SFSD, the Local Government Audit and Reporting Program is funded with enterprise funds, as it serves entities outside of state government. As an enterprise fund the legislature neither appropriates funding nor approves the proprietary rates charged for the program.

Fees include a:

- Report filing fee based on costs incurred by the department for administering the program. All local government entities are required to submit audit pay the fee, currently \$75
- Roster fee collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana, currently \$100 per year
- Late payment penalty incurred when a local government entity fails to file a report as required, currently 10% per month
- Fine for failure to file audits or reports as required, currently \$50 per publication.

2017 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Program Name			
6042	Single Audit Review - HB328	61010	State Financial Services			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Revenue from Audit Review Roster Fee		\$6,970	\$6,500	\$9,000	\$9,000
	Revenue from Annual Report Filing Fee		356,082	360,000	425,000	425,000
Other Operating Revenues						
	Revenue from Delinquent Report Submissions		40,996	40,000	35,000	35,000
	Miscellaneous Revenue					
Total Operating Revenues			404,048	406,500	469,000	469,000
Expenses						
	Personal Services		333,656	345,540	349,660	356,575
	Software upgrade			294,154		
	Other Operating Expense		89,208	90,100	91,001	91,911
Total Operating Expense			422,864	729,794	440,661	448,486
Operating Income (Loss)			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Total Nonoperating Revenues (Expenses)			0	0	0	0
Income (Loss) Before Contributions and Transfers			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Change in Net Position			(\$18,816)	(\$323,294)	\$28,339	\$20,514
Beginning Net Position - July 1			355,339	336,523	13,228	41,567
	Prior Period Adjustments					
	Change in Net Position		(18,816)	(323,294)	28,339	20,514
Ending Net Position - June 30			\$336,523	\$13,228	\$41,567	\$62,080
Net Position (Fund Balance) Analysis						
Restricted Net Position (Enterprise Funds Only)						
Unrestricted Net Position						

Proprietary Rates

Funding for the program is with enterprise type proprietary funds. As such, the legislature does not approve rates or appropriate funds for this proprietary funded program. The fees shown below are adopted in the Administrative Rules of Montana or are required in statute.

Requested Rates for Internal Service Funds Fee/Rate Information				
	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Major Fee:				
Local Government Report Filing Fee				
Annual revenues equal to or greater than \$500,000, but less than \$1,000,000	\$435 635	\$435 635	\$440 640	\$440 640
Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000	760	760	830	830
Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000	845	845	1,000	1,000
Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000	890	890	1,200	1,200
Annual revenues are equal to or greater than \$10,000,000, but less than \$50,000,000	965	965	1,400	1,400
Annual revenues are equal to or greater than \$50,000,000	1,000	1,000	1,600	1,600
Minor Fee:				
Auditor Roster Fee				
Annual Fee	100	100	150	150