

### Agency Budget Comparison

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

Agency 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	149.13	149.13	143.42	143.42	149.13	143.42	(5.71)	(3.83)%
Personal Services	10,060,576	11,012,224	11,967,031	11,949,173	21,072,800	23,916,204	2,843,404	13.49%
Operating Expenses	5,791,314	7,828,103	9,664,112	8,983,578	13,619,417	18,647,690	5,028,273	36.92%
Equipment & Intangible Assets	14,333	19,500	334,333	134,333	33,833	468,666	434,833	1,285.23%
Capital Outlay	0	0	0	0	0	0	0	0.00%
Local Assistance	9,890	32,228	26,640	26,640	42,118	53,280	11,162	26.50%
Transfers	61,642	0	25,900	27,250	61,642	53,150	(8,492)	(13.78)%
Debt Service	81,678	89,977	81,678	81,678	171,655	163,356	(8,299)	(4.83)%
<b>Total Costs</b>	<b>\$16,019,433</b>	<b>\$18,982,032</b>	<b>\$22,099,694</b>	<b>\$21,202,652</b>	<b>\$35,001,465</b>	<b>\$43,302,346</b>	<b>\$8,300,881</b>	<b>23.72%</b>
General Fund	5,131,158	6,540,899	8,319,123	8,173,245	11,672,057	16,492,368	4,820,311	41.30%
State/Other Special Rev. Funds	5,843,269	6,326,034	6,953,406	6,882,544	12,169,303	13,835,950	1,666,647	13.70%
Federal Spec. Rev. Funds	19,075	947,499	29,825	29,825	966,574	59,650	(906,924)	(93.83)%
Proprietary Funds	5,025,931	5,167,600	6,797,340	6,117,038	10,193,531	12,914,378	2,720,847	26.69%
<b>Total Funds</b>	<b>\$16,019,433</b>	<b>\$18,982,032</b>	<b>\$22,099,694</b>	<b>\$21,202,652</b>	<b>\$35,001,465</b>	<b>\$43,302,346</b>	<b>\$8,300,881</b>	<b>23.72%</b>

### Mission Statement

Agency Mission: The Department of Administration's (DOA) mission is to serve as the backbone of state government by providing leading edge services to our customers and business partners.

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: <http://leg.mt.gov/fbp-2017.asp>

### Agency Highlights

<b>Department of Administration Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• About 2.4% of the agency's budget is appropriated in HB 2</li> <li>• Executive proposes increases of 23.7% for HB 2 spending for DOA</li> <li>• The executive proposes increased premiums ranging from 20.4% for automobiles to 39.2% for property insurance for state agencies insured through the self insurance program</li> <li>• Fixed costs to state agencies for information technology services are proposed to increase \$11.3 million in the 2017 biennium</li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>• Changes in budgeting methodology for personal services results in proprietary rate increases for state agencies</li> <li>• Rate increases for State Financial Services Division could be mitigated using available fund balance</li> <li>• Fund balance in the Central Stores proprietary fund available for transfer to the general fund</li> <li>• Fees not commensurate with cost of providing services to banking and financial institutions</li> </ul>

### Agency Personal Services

The personal services budget for the 2017 biennium for HB 2, proprietary, and statutory appropriations would increase \$12.9 million or 17.4% when compared to the appropriations for personal services provided for the 2015 biennium in HB 2, HB 13, and HB 454. In addition to annualization of HB 13 salary and benefit adjustments, increases for the 2017 biennium are due to:

- Restoration of the 2% reduction to general fund support of personal services
- Full funding for personal services costs supported through proprietary funds
- Change in employer pension costs
- Adjustments for longevity
- An overall vacancy saving rate of 12.5% in HB 2 positions compared to a budgeted 6.0% vacancy rate for all HB 2 positions. For those FTE supported with proprietary funds, there was an overall vacancy savings rate of 7.6% compared to a budgeted 4.0% vacancy rate
- Broadband pay adjustments, including reclassification of positions

#### **LFD ISSUE**

#### DOA Implementation of Boilerplate Language Regarding Personal Services Has Following Issues:

- Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases
  - Positions Eliminated in HB 2 Were Moved to Proprietary Programs

The 2013 Legislature included boilerplate language in HB 2 outlining its intent that requests for personal services funding in the 2017 biennium be only for the level of personal services contained in the bill for fiscal years 2014 and 2015. The 2013 Legislature included a reduction of 4% in each position funded in HB 2 in DOA for anticipated reductions of FTE in the 2015 biennium.

#### Changes in Budgeting Methodology for Personal Services Results in Proprietary Rate Increases

The 2013 Legislature included boilerplate language in HB 2 outlining its intent that requests for personal services funding in the 2017 biennium be only for the level of personal services contained in the bill for fiscal years 2014 and 2015. The 2013 Legislature included a reduction of 4% in each position funded in HB 2 in DOA for anticipated vacancy savings in the 2015 biennium. The legislature's intent was that the agencies eliminate a sufficient number of positions from the 2015 budget request to equal the amount of funding reduced through the 4% vacancy savings component of the budget.

The positions within DOA that are supported by proprietary rates also had vacancy savings included in the calculation of the costs for personal services that were used to establish the rates in the 2015 biennium. The figure below shows the total 4% vacancy savings amounts used to reduce personal services costs in the 2015 biennium by program for all appropriation types.

Department of Administration 2015 Biennium Vacancy Savings											
Program	General Fund		State Special Revenues		Federal Revenues		Proprietary		Program Total		
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	
Director's Office	\$2,156	\$1,946	\$0	\$0	\$293	\$501	\$60,389	\$60,544	\$62,838	\$62,991	
State Financial Services Division*	47,449	47,406	0	0	38	38	82,829	82,843	130,316	130,288	
Architecture and Engineering Program	0	0	55,519	55,534	0	0	0	0	55,519	55,534	
General Services Division	28,388	28,377	4,615	4,609	0	0	198,429	198,651	231,432	231,637	
State Information Technology Services Division*	13,190	13,311	28,371	28,409	0	0	604,801	605,472	646,362	647,192	
Banking and Finance Division	0	0	114,399	114,456	0	0	0	0	114,399	114,456	
Montana State Lottery	0	0	0	0	0	0	74,729	74,850	74,729	74,850	
Health Care and Benefits Division	0	0	0	0	0	0	190,639	191,420	190,639	191,420	
State Human Resources Division	57,533	57,541	0	0	0	0	80,410	80,721	137,943	138,262	
Risk Management and Tort Defense Division	0	0	0	0	0	0	50,980	51,011	50,980	51,011	
State Tax Appeal Board	19,274	19,304	0	0	0	0	0	0	19,274	19,304	
Total Vacancy Savings	\$167,990	\$167,885	\$202,904	\$203,008	\$331	\$539	\$1,343,206	\$1,345,511	\$1,714,431	\$1,716,944	

As shown, the majority of the 4% reduction assessed in the 2015 biennium was included in the personal services costs supported by proprietary rates, \$2.7 million over the biennium or 78.4% of the total. In the 2017 biennium the assessment of an equivalent reduction in FTE of 4% is not included as part of the calculation of the positions funded through proprietary rates, increasing the cost of personal services between biennia and increasing fixed costs in the programs within DOA. This increase is then passed on in higher fixed costs assessments on agencies, including those funded with general fund.

#### Legislative Option

Should the legislature wish to ensure budget neutrality and at the same time reduce fixed costs, it could consider eliminating funding supporting the number of FTE that is equal to the total amount of the 4% vacancy savings as was done for the HB 2 positions.

#### Positions Eliminated in HB 2 Were Moved to Proprietary Programs

In both the State Accounting Division and the State Information Technology Services Division some of the HB 2 funded positions that were eliminated as part of compliance with the boilerplate language included in HB 2 were moved to the programs funded through proprietary rates. Adding positions to the proprietary programs increases fixed costs to the entities receiving services.

The figure below shows, by program, the FTE and funding that were moved from HB 2 to the proprietary programs.

Department of Administration Positions Moved to the Proprietary Programs			
Program	FTE	Costs	Costs
		FY 2016	FY 2017
State Financial Services Division	1.00	77,712	77,739
State Information Technology Services Division	0.41	47,111	46,972
	1.41	124,823	124,711

Unlike changes in HB 2, proprietary program changes for internal service funds are adopted by approving or disapproving proprietary rates, which are driven by anticipated costs. The legislature does not appropriate or approve rates for enterprise funds.

The State Financial Services Division proposes to provide an additional accountant in the Local Government Audit and Reporting Program. Costs for this program are charged to local governments and recorded in the enterprise fund. The impact of this increase is an additional \$155,451 in costs over the biennium that would be charged to local governments.

The State Information Technology Services Division (SITSD) costs are charged to state agencies and recovered through various rates. Part of the increased costs for SITSD rates are additional FTE and the elimination of vacancy savings discussed above. Options for the legislature are discussed in the proprietary rate section of the program narrative for SITSD and the State Financial Services Division.

### Recruitment and Retention

Within DOA two programs experienced recruitment and retention issues:

- State Financial Services Division - Accountants
- Banking and Financial Institutions Division- Bank examiners

According to agency staff, retaining accountants at all levels has been a challenge due to the competition for accountants both within state government and in private businesses. Keeping bank examiners has been an issue for several biennia. Vacancies result in retraining costs and higher workload for current staff. The federal government and private banking industry compensate trained examiners at a higher level than the Banking and Financial Institutions Division. To address these issues DOA provided:

- Career tracks
- Additional compensation programs

### Retirement

DOA indicates that 14% of its total workforce will be eligible for full retirement in the 2017 biennium. In FY 2014, 6.6% of the workforce retired. The agency paid \$0.4 million in retirement and sick leave payouts that are not included as part of the 2017 biennium personal services funding. To address the potential impacts of pending retirements, organizational reviews have been conducted to identify impacts and to develop plans for the succession planning in light of the retirements. No additional funds were requested for potential retirement payouts in the 2017 biennium.

### *Agency Wide Decision Packages*

DOA has a common present law increase in all programs within the agency. The Department of Administration's Director's Office uses a proprietary rate to allocate the costs of the Offices of Legal Services, Finance and Budget, and Human Resources. Additionally, the Director's Office provides IT management and project management services. The figure below shows the agency-wide impact of the present law proposal.

Department of Administration Allocate Department Indirect/Administrative Costs									
Program	FY 2016				FY 2017				2017
	General Fund	State Special	Proprietary	Total	General Fund	State Special	Proprietary	Total	Biennium Total
Director's Office	\$9,967	\$0	\$15,850	\$25,817	\$9,732	\$0	\$15,252	\$24,984	\$50,801
State Financial Services Division	2,212	0	8,772	10,984	1,287	0	5,723	7,010	17,994
Architecture and Engineering Division	0	(5,306)	0	(5,306)	0	(6,563)	0	(6,563)	(11,869)
General Services Division	6,608	2,768	291,685	301,061	6,060	2,620	282,552	291,232	592,293
State Information Technology Division	8,573	7,269	26,620	42,462	8,258	7,023	77	15,358	57,820
Banking and Finance Division	0	13,876	0	13,876	0	11,400	0	11,400	25,276
Montana State Lottery	0	0	11,587	11,587	0	0	8,783	8,783	20,370
Health Care and Benefits Division	0	0	(22,099)	(22,099)	0	0	(24,225)	(24,225)	(46,324)
State Human Resources Division	83,473	0	363	83,836	80,230	0	144	80,374	164,210
Risk Management and Tort Claims Division	0	0	16,484	16,484	0	0	10,371	10,371	26,855
State Tax Appeal Board	1,734	0	0	1,734	1,351	0	0	1,351	3,085
<b>Total</b>	<b>\$112,567</b>	<b>\$18,607</b>	<b>\$349,262</b>	<b>\$480,436</b>	<b>\$106,918</b>	<b>\$14,480</b>	<b>\$298,677</b>	<b>\$420,075</b>	<b>\$900,511</b>

As shown above, the proposal provides for \$0.9 million in increased costs in the Director's Office by increases in general fund, state special, and proprietary funds in the other divisions within the agency. Over half of the increase is included for the General Services Division proprietary programs. The increases for the Director's Office will thus be passed on to other state agencies through increased proprietary rates.

#### *5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

#### *Reorganization*

DOA reorganized a number of programs and offices in FY 2014, including moving:

- Office of Labor Relations, 3.5 FTE, and \$362,058 in general fund in FY 2014 and \$377,765 in FY 2015 from the State Human Resources Division to the Director's Office
- Business Continuity and Emergency Program, 3.0 FTE, and \$467,866 in proprietary funds in FY 2014 and \$471,114 in FY 2015 from the State Information Technology Division (SITSD) to the Director's Office. In addition, 1.0 FTE and \$84,270 in proprietary funds in FY 2014 and \$82,367 in FY 2015 were transferred from the General Services Division
- State Accounting, Budgeting, and Human Resources Program (SABHRS), 2.0 FTE moved from SITSD to the State Financial Services Division

In addition, DOA proposes to transfer 6.50 FTE and \$868,357 in the 2017 biennium to the Director's Office from General Services and State Human Resources Divisions as part of its budget submission.

#### **Comparison of FY 2015 Legislative Base to FY 2015 Appropriation**

The following highlights the differences between the FY 2015 appropriations as shown in the agency budget comparison table to the FY 2015 legislative appropriations used for purposes of the base budget, by program.

FY 2015 Appropriation Transactions - Department of Administration							
Program	Legislative Approps	Legislative App OTO	Direct Transfers	Operating Plan	Program Transfers	Reorgs	Total Executive Implementation
01 DIR OFFICE	\$90,960				\$20,352	\$377,765	\$489,077
Pers Svcs	62,443				19,852	327,265	409,560
Op Exp	12,053				500	50,500	63,053
Local Assist	16,464						16,464
03 FINANCIAL SVCS	1,510,039			-			1,510,039
Pers Svcs	1,260,306			(100)			1,260,206
Op Exp	249,733			100			249,833
04 ARCH & ENG DIV	1,968,711						1,968,711
Pers Svcs	1,438,836						1,438,836
Op Exp	529,875						529,875
06 GEN SVCS DIV.	889,083	\$1,173,196	\$27,000				2,089,279
Pers Svcs	725,163						725,163
Op Exp	163,920	1,173,196	27,000				1,364,116
07 IT SERV DIVISION	1,809,642			-			1,809,642
Pers Svcs	658,797			-			658,797
Op Exp	1,150,845			-			1,150,845
14 BANK & FNCL DIV	3,886,988						3,886,988
Pers Svcs	2,870,477						2,870,477
Op Exp	1,016,511						1,016,511
15 MT ST LOTTERY	5,112,576						5,112,576
Pers Svcs	2,039,103						2,039,103
Op Exp	2,963,996						2,963,996
Equip/As	19,500						19,500
Dbt Svc	89,977						89,977
23 HR DIVISION	1,919,476				(20,352)	(377,765)	1,521,359
Pers Svcs	1,465,304				(19,852)	(327,265)	1,118,187
Op Exp	454,172				(500)	(50,500)	403,172
37 TAX APPEAL BD	594,361						594,361
Pers Svcs	491,795						491,795
Op Exp	86,802						86,802
Loc Assist	15,764						15,764
Agency Total	\$17,781,836	1,173,196	\$27,000	-	-	-	\$18,982,032

In FY 2014 the agency reorganized moving the Office of Labor Relations out of the State Human Resource Division (SHRD) into the Director's Office. The reorganization moved 3.00 FTE, \$327,265 in personal services and \$50,500 in operating expenses. The agency also transferred an additional 0.46 FTE from SHRD to the Director's Office.

#### *FY 2014 Actual Expenditures*

In FY 2014 the Department of Administration expended \$641.6 million, of which \$16.0 million or 2.4% was as appropriated in HB 2 as shown on the agency budget comparison. The figure on the following page shows the total expenditures from all funding sources, including statutory appropriations and non-budgeted proprietary funds, in FY 2014 for the agency.

Department of Administration Overall Expenditures and Funding		
Budget Item	FY 2014	% of Total
<b>Expenditures</b>		
Personal Services	\$36,956,651	5.76%
Operating Expenses	106,490,713	16.60%
Equipment	389,159	0.06%
Capital Outlay	1,320,853	0.21%
Local Assistance	74,025,564	11.54%
Grants	14,836,778	2.31%
Benefits and Claims	187,946,841	29.29%
Transfers Out	213,314,282	33.24%
Debt Service	<u>6,371,282</u>	<u>0.99%</u>
<b>Total Expenditures</b>	<b><u>\$641,652,122</u></b>	<b><u>100.00%</u></b>
<b>Funding</b>		
General Fund	\$234,289,579	36.51%
State Special Revenue	34,699,062	5.41%
Federal Special Revenue	19,938,466	3.11%
Debt Service	6,569,710	1.02%
Capital Projects Funds	10,031,380	1.56%
Proprietary Fund		
Internal Service	271,082,478	42.25%
Enterprise	61,471,087	9.58%
Private Funds	1,216,803	0.19%
Trust Funds	<u>2,353,557</u>	<u>0.37%</u>
<b>Total Funding</b>	<b><u>\$641,652,122</u></b>	<b><u>100.00%</u></b>

As shown almost 17% of the expenditures in FY 2014 were for operating expenses, the majority of which are provided for by three appropriation types:

- Statutory – 34.9%
- Proprietary funds – 58.7%
- HB 2 – 6.4%

DOA provides for a number of centralized functions for state agencies, which are funded through internal service rates, as well as functions that are funded through enterprise revenues such as the lottery. Operating expenses for these types of services include:

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

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

- Local government employee pensions
- School district employee pensions
- Supplemental contributions to teachers' retirement
- Mineral fees distributed to counties from which the mineral were produced

- Taylor Grazing Act funds whereby 50% of the receipts from federal grazing permits and leases on section 15 public lands are returned to the state. By statute these funds are then apportioned to the counties where the leases are located
- Forest reserve funds also distributed to counties where federal forest lands are located

Benefit and claims payments include two categories:

- Payments from state sources of \$173.6 million for medical, dental, and other costs associated with Employee Group Health plan
- Insurance payments of \$14.3 million made by the Risk Management and Tort Defense Division

The majority of the transfers out are supported by general fund and include:

- \$101.5 million to long-range building and IT project funds
- \$35.7 million to the public employee retirement system
- \$42.9 million to local government and school district retirements
- \$16.3 million for debt services
- \$8.6 million transferred to the Montana State Fund for Old Fund claims costs

In addition in FY 2014 the Montana Lottery transferred \$12.1 million of profits to the general fund.

*HB 2 Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation*

As discussed above, only 2.4% of the FY 2014 actual expenditures for DOA were appropriated in HB 2. FY 2014 expenditures were \$1.8 million below FY 2015 legislative base budget. Primary reasons for the difference are:

- Personal services were about \$0.9 million below estimated costs. Lower spending for personal services was mostly due to vacant positions. HB 2 positions had a vacancy rate of 12.5% in FY 2014 compared to a budgeted rate of 6%.
- Operating expenses were about \$2.0 million below budgeted costs. The primary reason for the difference is due lower spending for the federal FirstNet planning grant. The federal grant supports the planning process for a specific frequency for emergency first responders. The program was budgeted at \$0.9 million for FY 2014, actual expenditures were \$13,400. Usage of information technology and professional consulting services lower than anticipated in the budget for the Banking and Finance Division and less advertising for the Lottery Division are part of the reason FY 2014 operating expenses were lower in than budgeted in FY 2015.

**Funding**

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

Total Department of Administration Funding by Source of Authority 2017 Biennium Budget - Department of Administration					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	16,492,368	0	192,146,469	208,638,837	19.88 %
State Special Total	13,835,950	0	44,341,410	58,177,360	5.54 %
Federal Special Total	59,650	0	37,558,580	37,618,230	3.58 %
Proprietary Total	12,914,378	655,942,275	75,550,755	744,407,408	70.92 %
Other Total	0	0	782,452	782,452	0.07 %
<b>Total All Funds</b>	<b>\$43,302,346</b>	<b>\$655,942,275</b>	<b>\$350,379,666</b>	<b>\$1,049,624,287</b>	
<b>Percent - Total All Sources</b>	<b>4.13 %</b>	<b>62.49 %</b>	<b>33.38 %</b>		

95.9% of the overall funding proposed for Department of Administration is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as a statutory appropriation.

Within HB 2 general fund supports the Governor Elect Program, State Human Resources Division, and the State Tax Appeal Board. In addition, general fund supports the following programs and functions within various agency divisions including:

- Office of Labor Relations, the Board of County Printing, and the Burial Preservation Board within the Director's Office
- Accounting Bureau, the Social Security Administrator, the Treasury Unit, and the Local Government Services Bureau within the State Financial Services Division
- Procurement Bureau and facilities management functions within the General Services Division
- Public safety services within the State Information Technology Division

State special revenues include:

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

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

The remaining proprietary funds, over \$655.9 million, are proposed as non-budgeted. About \$454.4 million of this provides for the state employee health insurance plan. The legislature examines proposed rates for internal service funds in this agency as part of its consideration of HB 2. The internal service funds make up 85.6% of the proprietary funds in this agency. The programs within DOA that provide services to other state agencies are proposed to increase by \$24.3 million in FY 2017 when compared to the doubled FY 2014 base. About 26.5% of the increase is related to increases in insurance premiums to ensure financial solvency for the state's self-insured risk pool. Another 46.1% are for increases in the costs of providing information technology services to state agencies. Proprietary funds are discussed in detail in the narrative sections of each program.

Statutory appropriations approved for the agency are discussed in detail in the narrative sections of each program with the majority included in the Director's Office.

**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	5,340,703	5,340,703	10,681,406	64.77 %	17,781,836	17,781,836	35,563,672	82.13 %
PL Adjustments	2,978,420	2,832,542	5,810,962	35.23 %	4,336,013	3,437,628	7,773,641	17.95 %
New Proposals	0	0	0	0.00 %	(18,155)	(16,812)	(34,967)	(0.08)%
<b>Total Budget</b>	<b>\$8,319,123</b>	<b>\$8,173,245</b>	<b>\$16,492,368</b>		<b>\$22,099,694</b>	<b>\$21,202,652</b>	<b>\$43,302,346</b>	