

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	751.58	751.58	688.56	688.56	751.58	688.56	(63.02)	(8.39)%
Personal Services	40,887,893	46,966,539	46,349,883	46,378,345	87,854,432	92,728,228	4,873,796	5.55 %
Operating Expenses	22,540,224	23,025,299	27,844,400	27,979,487	45,565,523	55,823,887	10,258,364	22.51 %
Equipment & Intangible Assets	350,454	398,986	312,574	312,574	749,440	625,148	(124,292)	(16.58)%
Grants	7,446,806	11,587,525	7,854,036	7,854,036	19,034,331	15,708,072	(3,326,259)	(17.48)%
Benefits & Claims	100,389	91,464	100,389	100,389	191,853	200,778	8,925	4.65 %
Transfers	333,512	603,901	311,861	312,039	937,413	623,900	(313,513)	(33.44)%
Debt Service	74,470	70,237	189,407	231,082	144,707	420,489	275,782	190.58 %
Total Costs	\$71,733,748	\$82,743,951	\$82,962,550	\$83,167,952	\$154,477,699	\$166,130,502	\$11,652,803	7.54 %
General Fund	1,347,215	1,446,087	2,485,192	2,484,215	2,793,302	4,969,407	2,176,105	77.90 %
State/Other Special Rev. Funds	40,594,667	42,847,908	47,627,178	47,820,345	83,442,575	95,447,523	12,004,948	14.39 %
Federal Spec. Rev. Funds	29,791,866	38,449,956	32,850,180	32,863,392	68,241,822	65,713,572	(2,528,250)	(3.70)%
Proprietary Funds	0	0	0	0	0	0	0	0.00 %
Total Funds	\$71,733,748	\$82,743,951	\$82,962,550	\$83,167,952	\$154,477,699	\$166,130,502	\$11,652,803	7.54 %

Mission Statement

The purpose of the Department of Labor and Industry is to promote and protect the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities.

Agency Highlights

Department of Labor and Industry Major Budget Highlights
<ul style="list-style-type: none"> • Executive proposes to increase DOLI budget by \$7.5% between biennia • General fund increases \$2.2 million. Two requests drive the increase including: <ul style="list-style-type: none"> ◦ Fund Jobs for Montana Graduates Program - \$0.7 million ◦ Restore general fund support for the Human Rights Bureau - \$0.25 million • Agency reorganized to create a Technology Services Division (TSD) pulling FTE and funding from other programs within the agency
Legislative Action Issues
<ul style="list-style-type: none"> • Long-term ongoing vacancies indicate additional positions may be eliminated • Change in budgeting methodology increases proprietary rates • Proprietary rates for legal services above levels needed for 60 day working capital balance

Agency Discussion

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$10.0 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- About \$5.3 million less in personal services related to a high number of vacant positions. The percentage of hours worked for positions within DOLI by program are shown in the figure below.

Department of Labor and Industry Vacancy Percentages for FY 2014	
Program	% of Hrs Worked
Workforce Services Division	83.29%
Unemployment Insurance Division	92.22%
Commissioner's Office/CSD	89.53%
Employment Relations Division	88.50%
Business Standards Division	90.93%
Technology Services Division	77.81%
Office of Community Service	81.93%
Workers' Compensation Court	88.88%
Grand Total	87.22%

As shown, six of the divisions had vacancy rates of greater than 10% in FY 2014. In FY 2012 the overall vacancy rate for DOLI was 8.9%.

- Grants agency-wide were \$4.0 million less in FY 2014 actual spending than anticipated in either FY 2015 or FY 2014 legislative appropriations. The majority of the difference is related to the Trade Adjustment Allowance (TAA) funding. TAA is a program created at the federal level to retrain workers who have lost their jobs as a result of foreign trade. TAA offers a number of benefits and services to support workers seeking reemployment including: job training, income support, job search, relocation allowances, and assistance with health care premiums. During the Great Recession this program was expanded to include service sector workers. As that expansion has expired and Montana's unemployment rate has dropped, the federal grant funding for this service has dropped. Montana received \$0.5 million in FY 2014 compared to an estimated \$5.5 million. The executive proposal incorporates the projected reductions in this grant source in the 2017 biennium. This reduction is also the main reason for the decrease in federal funds shown in the biennial comparison table on the previous page.

Agency Wide Decision Packages

The following proposals are requested in several programs across the agency:

- TSD Funding Switch changes the funding for the Technology Services Division as shown. The proposal is to switch the funding from support provided by revenues appropriated in HB 2 to the proprietary fund. Divisions would transfer the equivalent of the amount they spent on direct provision of technology services, and would be assessed a like amount, with minor differences as shown in the following figure.

Department of Labor and Industry TSD Funding Switch										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Workforce Services Division	\$0	\$0	\$692,812	\$693,166	\$1,182,430	\$1,183,066	\$0	\$0	\$1,875,242	\$1,876,232
Unemployment Insurance Division	0	0	1,068,549	1,068,679	1,869,463	1,871,558	0	0	2,938,012	2,940,237
Commissioner's Office/CSD	23,409	23,441	13,124	13,141	5,516	5,516	110,462	125,565	152,511	167,663
Employment Relations Division	22,652	22,652	1,497,673	1,498,788	23,842	23,842	0	0	1,544,167	1,545,282
Business Standards Division	0	0	1,556,944	1,543,508	0	0	0	0	1,556,944	1,543,508
Technology Services Division	(42,941)	(43,653)	(4,624,919)	(4,654,980)	(3,357,440)	(3,366,530)	8,055,954	8,101,166	30,654	36,003
Office of Community Services	3,504	3,504	0	0	4,062	4,062	0	0	7,566	7,566
Workers' Compensation Court	0	0	11,009	11,009	0	0	0	0	11,009	11,009
Total	\$6,624	\$5,944	\$215,192	\$173,311	(\$272,127)	(\$278,486)	\$8,166,416	\$8,226,731	\$8,116,105	\$8,127,500

As shown above, the proposal increases general fund, state special revenue, and proprietary funds and reduces support from federal revenues. LFD Issues on vacancies and restoration of 4% vacancy services within the Technology Services Division and rate impacts are discussed in the Program Narrative for the division.

- CAP rate adjustments provide for increases in the Commissioner's Office/Centralized Services Division budget that is assessed to DOLI divisions through proprietary rates. This request is discussed further under "Proprietary Rates" for the Commissioner's Office. The table below shows the proposed impacts of the higher rates compared to actual division assessments in FY 2014. The proposed increases are included as part of the legislative present law adjustments within each division.

Department of Labor and Industry Commissioner's Office/Centralized Services Division Indirect Cost Adjustment										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Workforce Services Division	\$2,106	\$2,113	\$50,097	\$50,256	\$80,276	\$80,531	\$0	\$0	\$132,479	\$132,900
Unemployment Insurance Division	0	0	17,349	17,014	26,396	27,111	0	0	43,745	44,125
Commissioner's Office/CSD	0	0	0	0	0	0	0	0	0	0
Employment Relations Division	16,473	16,416	116,471	116,728	8,174	8,287	0	0	141,118	141,431
Business Standards Division	0	0	117,262	117,865	0	0	0	0	117,262	117,865
Technology Services Division	0	0	0	0	0	0	0	0	0	0
Office of Community Services	0	0	0	0	0	0	0	0	0	0
Workers' Compensation Court	0	0	4,941	4,868	0	0	0	0	4,941	4,868
Total	\$18,579	\$18,529	\$306,120	\$306,731	\$114,846	\$115,929	\$0	\$0	\$439,545	\$441,189

Overall, charges for indirect costs to the various divisions increase \$0.4 million each year of the biennium when compared to FY 2014 actuals. General fund, state special revenue, and federal funds support the changes.

5% Plans

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

For this agency the general fund impact of the 5% plan is \$67,361 and the state special revenue impact is \$1,191,595.

Agency Personal Services

The personal services budget for the 2017 biennium included in HB 2 would increase \$15.0 million or 19.3% when compared to double the FY 2014 actual spending. 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 funding support of personal services
- Change in employer pension costs
- Adjustments for longevity
- An overall vacancy saving rate of 12.8% in HB 2 positions compared to a budgeted 6% vacancy rate
- Reclassification of 129 positions department-wide between the 2015 and 2017 biennia
- Broadband pay increases provided in FY 2014 for market adjustments to bring positions within 15 occupations up to 85% of the 2012 market midpoint and proficiency agreement progression

**LFD
ISSUE**

Proposed FTE Maybe Higher Than Needed Based on Sustained Vacancies In Past Biennia

As shown in the figure on the previous page, vacancy rates within the Workforce Services Division, the Employment Relations Division, the Office of Community Services, the Workers' Compensation Court, the Technology Services Division, and the Commissioner's Office/Centralized Services Division (Commissioner's Office) are above 10% in FY 2014. In FY 2012 the department had a vacancy rate of 8.9%, while in FY 2014 the overall rate was 12.1%. DOLI eliminated 30.02 FTE (4% of FTE funded in HB 2) as part of their compliance with the boilerplate language but still has had high ongoing vacancies.

As of August 13, 2014 51.93 FTE were vacant or 7.5% of the total positions funded in HB 2 in the 2017 biennium. On November 20, 2014 DOLI had 50.12 FTE vacant or 7.3%. A continued high number of vacancies within DOLI provided the agency with flexibility to move positions between programs. In FY 2014 DOLI transferred six vacant employment specialist positions from Workforce Services Division to either the Unemployment Insurance Division or the Commissioner's Office and one vacant administrative assistant from the Employment Relations Division to the Commissioner's Office, allowing the programs to expand without legislative discussion or approval. Another result of having high vacancies is that DOLI does not utilize its full appropriation level in that year. By law an agency can retain up to 30% of money appropriated for that year in HB 2 for personal services, operating expenses, and equipment. The funds may be reappropriated to be spent during the following 2 years for any purpose that is consistent with the goals and objectives of the agency. The funds are considered one-time-only. In FY 2014 DOLI requested and was approved for \$1.5 million in carryforward appropriations related to the unexpended funding from FY 2013.

Agency Number	66020					
Agency Name	Labor & Industry					
	30% of Calculated					
	Administrative Reversion	30% of Actual	30% of Actual GF	30% of Actual SSR	30% of Actual FSR	
Program Name	Amount	Reversions	Reversion	Reversions	Reversions	
Workforce Services Division	823,370	1,959,097	0	220,494	1,738,603	
Unemployment Insurance Division	110,308	111,484	0	54,695	56,789	
Centralized Services Division	38,999	38,411	0	32,632	5,780	
Employment Relations Division	203,135	203,139	0	166,116	37,022	
Business Standards Division	256,789	263,900	0	261,375	2,525	

Office of Community Services	15,921	16,510	32	4,898	11,580
Workers' Compensation Court	10,571	10,571	0	10,571	0
Agency Totals	1,459,093	2,603,112	32	750,781	1,852,299
Maximum Agency Carry Forward Available:	1,459,093				

The figure above shows the programs and funding sources of the carryforward amounts. In other words, in FY 2014 DOLI had \$2.8 million in carryforward authority available for expenditures that were consistent with the agency's goals and objectives. The figure below page shows uses and funding related to carryforward authority for FY 2014.

Department of Labor and Industry Carryforward Funds Expended	
FY 2014	
Operating Expenses	
Consulting and Professional Services	\$100,675
IT Consulting and Professional Services	69,525
Postage and Mailing	2,629
Cellular Phones	603
SITSD Voice Services	734
DOLI Legal Expense	<u>136,983</u>
Total Operating Expenses	311,148
Equipment and Intangible Assets	
Autos and Trucks	<u>511,620</u>
Total Equipment and Intangible Assets	511,620
Total Expenditures	822,768
Funding - State Special Revenues	
Board of Outfitters	32,475
Boilers Program	87,836
Employment Security Account	3,966
Board of Psychologist Exam	5,500
Building Codes	493,309
Private Alternative Adolescent Programs	2,500
Board of Speech Pathologists	2,500
Board of Medical Examiners	<u>194,683</u>
Total Funding	<u>\$822,768</u>

The vast majority of the funding was used to provide additional services for the Business Standards Division with about \$4,000 utilized by the Commissioner's Office for postage and mailing, cellular phones, and SITSD voice services. As stated earlier, current statute allows the agency this discretion.

If the legislature wishes to more closely align funding with program uses it can consider further reducing funding for personal services. In addition to the 30.02 FTE that were eliminated to comply with the boilerplate language in HB 2, the budget proposal includes 9.00 FTE that were vacant all of FY 2014 including:

- 1.00 FTE for an employment specialist

- 1.00 FTE for a program manager
- 2.00 FTE for an unemployment insurance claims examiner
- 1.00 FTE for a training development specialist
- 1.00 FTE for an insurance claims technician
- 1.00 FTE for an occupational health and safety specialist
- 1.00 FTE for a compliance specialist
- 1.00 FTE for an administrative assistant

Funding in the proposed budget associated with these positions is \$541,604 in FY 2016 and \$541,032 in FY 2017. The figure on the next page shows the positions that were vacant on November 11, 2014 and the job listings posted on November 21, 2014. Positions that were eliminated through the boiler plate language from HB 2 passed by the 2013 Legislature are not included in the figure.

Department of Labor and Industry Comparison Between Vacant Positions and Job Listings November 20 and 21, 2014			
Position	FTE	Job Listing	2017 Biennium
			Costs
Administrative Assistant	1.00	Yes	\$106,049
Administrative Specialist	1.50	No	225,659
Benefits Assistant*	0.62	No	57,167
Building Codes Inspectors	5.00	No	621,815
Compliance Specialist	1.00	No	113,674
Computer Application Engineer	2.00	Yes	368,900
Computer Programmer	4.00	No	617,815
Data Processor Clerk**	1.00	No	74,539
Document Imaging Operator	1.00	No	78,331
Employment Specialist	9.50	No	1,023,686
Human Resource Assistant	5.00	No	453,004
Insurance Claims Technician***	1.00	No	112,162
Lawyer	2.00	No	381,187
License Permit Technician	1.50	No	144,631
Occupational Health Safety Specialist	3.00	No	417,249
Operations Research Analyst	2.00	No	308,695
Program Manager	1.00	No	169,839
Secretary	1.00	No	83,358
Training Development Specialist	2.00	No	234,786
Unemployment Insurance Claims Examiner	<u>5.00</u>	<u>No</u>	<u>520,849</u>
Total Positions Vacant	<u>50.12</u>		<u>\$6,113,395</u>
Percentage of Vacancies Advertised	5.99%		
Additional Positions Advertised That Do Not Show As Vacant			
Computer Security Specialist		Yes	
Computer Support Specialist		Yes	
Employment Specialist Supervisor		Yes	
* Reclassified to a UI Claims Examiner			
** Reflects HB 2 portion			
*** Reclassified to an Insurance Claims Examiner			

As shown in the table above, only 5.99% of the vacant positions were advertised on the state job listings site on November 21, 2014. The agency was not actively recruiting for 94% of the vacant positions as of November 21, 2014. While 16.50 FTE (32.9%) show on the human resource system as being vacant since October 2014, the remainder (61%) have been open for longer periods ranging as vacant from December 15, 2012 in one case to September 20, 2014 in another.

Based on the number of vacant positions, the unspent appropriations of \$5.3 million of personal services authority in FY 2014, and the overall high level of vacancies between the last two biennia, the legislature may wish to consider further reducing funding for personal services.

Legislative Option

If the legislature wishes to more closely align funding with program uses it can consider further reducing funding for personal services by eliminating funding for the 9.0 FTE that were vacant in FY 2014 and a portion of the funding related to other vacancies within the agency. The legislature may wish to discuss further reductions with DOLI to ensure agency work load is not impacted.

**LFD
ISSUE****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 DOLI for anticipated reductions of FTE in the 2015 biennium.

The positions within DOLI 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 budgets or proprietary rates in the 2015 biennium. The figure below shows the total 4% vacancy savings amounts used to reduce personal service costs in the 2015 biennium by program for all appropriation types.

Department of Labor and Industry Vacancy Savings										
Program	General Fund		State Special Revenue		Federal Revenue		Proprietary Funds		Total Funds	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
HB 2										
Workforce Services Division	\$0	\$0	(\$222,208)	(\$222,365)	(\$435,375)	(\$436,048)	\$0	\$0	(\$657,582)	(\$658,412)
Unemployment Insurance Division	0	0	(99,390)	(98,321)	(245,431)	(246,578)	0	0	(344,821)	(344,899)
Commissioner's Office/CSD	(6,109)	(6,104)	(6,683)	(6,686)	(12,792)	(12,784)	0	0	(25,584)	(25,574)
Employment Relations Division	(34,618)	(34,651)	(291,400)	(291,761)	(20,049)	(20,054)	0	0	(346,067)	(346,466)
Business Standards Division	0	0	(383,851)	(384,314)	0	0	0	0	(383,851)	(384,314)
Office of Community Services	(2,570)	(2,572)	(107)	(107)	(11,282)	(11,328)	0	0	(13,959)	(14,008)
Worker's Compensation Court	0	0	(20,996)	(21,027)	0	0	0	0	(20,996)	(21,027)
Total HB 2	(43,298)	(43,327)	(1,024,634)	(1,024,581)	(724,929)	(726,792)	0	0	(1,792,861)	(1,794,701)
Proprietary										
Commissioner's Office/CSD	0	0	0	0	0	0	(220,265)	(220,574)	(220,265)	(220,574)
Total Proprietary	0	0	0	0	0	0	(220,265)	(220,574)	(220,265)	(220,574)
Total All Programs and Funding Sources	(\$43,298)	(\$43,327)	(\$1,024,634)	(\$1,024,581)	(\$724,929)	(\$726,792)	(\$220,265)	(\$220,574)	(\$2,013,126)	(\$2,015,275)

As shown, the majority of the 4% reduction assessed in the 2015 biennium was included in the personal services costs supported by HB 2 appropriations. About 10.9% of the vacancy was assessed against positions supported through proprietary rates assessed on other divisions of the agency, including those funded with general fund. 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 therefore the assessments (fixed costs) on the programs within DOLI. This increase is then passed on in higher fixed costs assessments on the agency divisions, including those funded with general fund and the Occupational and Licensing Boards within the Business Standards Division. Occupational and Licensing Boards are supported through license fees to their members that increase as the cost to operate the board increases.

Legislative Option

Should the legislature wish to apply the HB 2 boilerplate language to this proprietary fund 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. This is discussed further in the narrative sections of the applicable divisions.

Recruitment and Retention

DOLI indicates they have had difficulty attracting and retaining qualified applicants in Eastern Montana including Sidney, Glendive, and Wolf Point. The occupations include job service managers, employment specialists, and building codes inspectors. The other area where DOLI has had difficulty recruiting and receiving a qualified applicant pool is in the Technology Services Division. According to DOLI, Information Technology (IT) salaries are highly competitive within state government and DOLI often can't compete with the private sector for IT talent.

Retirements

DOLI indicates that about 44% of their employees are currently eligible for either early or full retirement. In FY 2014 the agency paid \$0.44 million in retirement and sick leave payouts that are not included as part of the 2017 biennium personal services funding.

5% Plans

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

For this agency the general fund impact of the 5% plan is \$67,361 and the state special revenue impact is \$1,191,595.

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

Comparison of FY 2015 Legislative Base to FY 2015 Adjusted Base

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

FY 2015 Appropriation Transactions - Department of Labor & Industry							
Program	Legislative Approps	Legislative App OTO	House Adjust.	Operating Plan	Program Transfers	Program Reorgs	Total Exec. Implement
Workforce Services	\$32,540,025		-	-	(\$267,089)	(\$1,852,345)	\$30,420,591
Personal Services	16,817,391			-	(242,597)	(512,332)	16,062,462
Operations	6,883,406		(\$27,490)	-	(24,492)	(1,340,013)	5,491,411
Equipment	9,209						9,209
Grants	8,483,517		-				8,483,517
Tranfers	333,399						333,399
Debt Service	13,103		27,490				40,593
Unemployment Ins.	14,474,782			-	169,371	(1,752,689)	12,891,464
Personal Services	9,077,503				173,577	(747,581)	8,503,499
Operations	5,309,934			(7,830)	(4,206)	(1,005,108)	4,292,790
Tranfers	87,345						87,345
Debt Service				7,830			7,830
Commissioner's Office	847,257				99,635	(21,545)	925,347
Personal Services	672,423				70,000	(12,602)	729,821
Operations	174,834				29,635	(8,943)	195,526
Employee Relations	13,278,727	\$225,000		-	(189)	(1,897,931)	11,605,607
Personal Services	8,876,654			200,000		(540,702)	8,535,952
Operations	4,219,799	225,000		(200,000)	(189)	(1,357,229)	2,887,381
Equipment	90,810						90,810
Benefits	91,464						91,464
Business Standards	16,095,429			-	(1,728)	(1,427,422)	14,666,279
Personal Services	9,907,957			(19,128)		(717,038)	9,171,791
Operations	5,846,468			(1,518)	(1,728)	(710,384)	5,132,838
Equipment	298,967						298,967
Grants	8,582						8,582
Tranfers	33,455			(298)			33,157
Debt Service				20,944			20,944
Technology Services				-		6,962,416	6,962,416
Personal Services						2,530,255	2,530,255
Operations				(870)		4,432,161	4,431,291
Debt Service				870			870
Community Services	3,601,485			-		(4,859)	3,596,626
Personal Services	313,059						313,059
Operations	215,000					(4,859)	210,141
Grants	3,073,426			(150,000)			2,923,426
Tranfers				150,000			150,000
Work Comp Court	681,248					(5,625)	675,623
Personal Services	535,263						535,263
Operations	145,985					(5,625)	140,360
Agency Total	\$81,518,953	\$225,000	-	-	-	-	\$81,743,953

As shown in the figure above, DOLI created a new division, Technology Services, by transferring \$6.962 million in appropriation authority from other divisions in the agency. DOLI also transferred 33.00 FTE as part of the reorganizations. The impact of the reorganization on the various divisions is outlined within the program discussion narratives of each division.

DOLI transferred personal services from the Workforce Services Division to two other divisions:

- Unemployment Division received \$173,577 in additional authority
- Commissioner’s Office/Centralized Services Division received \$70,000

DOLI also transferred \$29,635 in operating expenses authority to the Commissioner’s Office/Centralized Services Division. The divisions reducing their authority and amounts transferred include:

- Workforce Services Division - \$24,492
- Unemployment Division - \$4,206
- Employment Relations Division - \$189
- Business Standards Division - \$1,728

In addition, DOLI reduced authority for operating expenses in the Employment Relations Division by \$200,000 and increased personal services authority by the same amount. Authority for local assistance was reduced by \$150,000 in the Office of Community Services while transfers were increased.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$10.0 million below the FY 2015 legislative appropriation. Primary reasons for the difference are:

- About \$5.3 million less in personal services related to a high number of vacant positions. The percentage of hours worked for positions within DOLI by program are shown in the figure below.

Department of Labor and Industry Vacancy Percentages for FY 2014	
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Technology Services Division	77.81%
Office of Community Service	81.93%
Workers' Compensation Court	88.88%
Grand Total	87.22%

As shown, six of the divisions had vacancy rates of greater than 10% in FY 2014. In FY 2012 the overall vacancy rate for DOLI was 8.9%. This is discussed further under the Agency Personal Services narrative on the next page.

- Grants agency-wide were \$4.0 million less in FY 2014 actual spending than anticipated in either FY 2015 or FY 2014 legislative appropriations. The majority of the difference is related to the Trade Adjustment Allowance (TAA) funding. TAA is a program created at the federal level to retrain workers who have lost their jobs as a result of foreign trade. TAA offers a number of benefits and services to support workers seeking reemployment including: job training, income support, job search, relocation allowances, and assistance with health care premiums. During the Great Recession this program was expanded to include service sector workers. As that expansion has expired and Montana’s unemployment rate has dropped, the federal grant funding for this service has dropped. Montana received \$0.5 million in FY 2014 compared to an estimated \$5.5 million. The executive proposal incorporates

the projected reductions in this grant source in the 2017 biennium. This reduction is also the main reason for the decrease in federal funds shown in the biennial comparison table on the previous page.

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 Labor & Industry Funding by Source of Authority 2017 Biennium Budget - Department of Labor & Industry					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	4,969,407	0	0	4,969,407	1.05 %
State Special Total	95,447,523	0	1,580,068	97,027,591	20.54 %
Federal Special Total	65,713,572	0	0	65,713,572	13.91 %
Proprietary Total	0	304,569,137	0	304,569,137	64.49 %
Other Total	0	0	0	0	0.00 %
Total All Funds	\$166,130,502	\$304,569,137	\$1,580,068	\$472,279,707	
Percent - Total All Sources	35.18 %	64.49 %	0.33 %		

Almost 57% of the funding for DOLI is non-budgeted proprietary funding for unemployment benefits. State special revenue funds include the employment security account, individual accounts for each professional licensing board or program, and the uninsured employers fund. General fund supports activities within the Workforce Services Division and the Employment Relations Division.

**LFD
ISSUE**Employment Security Account Revenues Above Program Needs

State statute provides for a special administration assessment that is deposited into the Employment Security account. The rate is assessed at varying rates, 0.08% to 0.18% depending on the rate class and type of employer, with separate rates for nonprofits and government employers. Statute outlines the allowed uses of the fund as follows:

- Unemployment insurance benefits
- Administration of the unemployment insurance
- Costs for collecting special administrative assessment
- Cost for employment offices including expenses for providing services to the business community
- Apprenticeship and training programs
- Displaced homemaker services
- Department of Labor and Industry research and analysis programs
- Wage and hour laws, prevailing wages, and collective bargaining expenses of DOLI
- Principal, interest, and redemption of employment security revenue bonds

The figure below shows the revenues, expenditures, and fund balance for the account for the 2015 and 2017 biennia.

Department of Labor and Industry Employment Security Account				
Revenues, Expenditures, Fund Balance	Actual FY 2014	Budgeted FY 2015	Requested FY 2016	Requested FY 2017
Beginning Fund Balance	\$9,989,115	\$5,131,123	\$2,727,306	\$3,192,446
Revenues				
Charges for Services	\$40	\$300	\$300	\$300
Investment Earnings	12,285	7,627	14,416	21,861
Contributions/Premiums	16,252,989	16,900,000	17,188,801	17,532,577
Grants/Transfers/Misc	<u>0</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Revenues	\$16,265,314	\$16,912,927	\$17,208,517	\$17,559,738
HB 2 Budgeted Expenditures				
Workforce Services Division	\$8,368,911	\$8,517,630	\$9,979,700	\$10,004,482
Unemployment Insurance Division	9,916,894	7,632,250	4,799,453	4,795,862
Commissioner's Office	309,138	603,306	357,476	359,533
Employment Relations Division	1,399,512	1,425,538	1,606,748	1,607,399
Technology Services Division	<u>1,021,264</u>	<u>1,138,020</u>	<u>0</u>	<u>0</u>
Total Expenditures	\$21,015,719	\$19,316,744	\$16,743,377	\$16,767,276
Adjustments	(\$107,587)	\$0	\$0	\$0
Ending Fund Balance	<u>\$5,131,123</u>	<u>\$2,727,306</u>	<u>\$3,192,446</u>	<u>\$3,984,908</u>

It should be noted that FY 2014 actuals for the Workforce Services Division were \$0.7 million below estimates, mainly due to high vacancy rates for employment specialist positions and program managers. If estimates are correct, the fund balance in the account is estimated to be almost \$4.0 million at the end of FY 2017.

In the 2013 and 2015 biennia fund balance was used to pay for the unemployment tax modernization information technology project. Originally this project was to be funded using employment security revenue bonding authority. The agency was able to pay for the project without bonding due to:

- The large fund balance
- Continuing increased revenues
- Decreased costs of the project

In the 2013 biennium the legislature used the employment security account to provide funding for the Jobs for Montana Graduates Programs. The legislature provided an alternative state special revenue source for these purposes in the 2015 biennium in HB 2; however, it failed to approve the companion bill that would have established the funding of the state special revenue account. DOLI used general fund appropriated in SB 410 to fund this program in the 2015 biennium. In the 2017 biennium the executive proposes to increase general fund by \$0.7 million to support these activities.

Legislative Options:

- Reduce the assessment rates for special administrative funds as outlined in 39-51-404, MCA
- Amend statute to expand the uses of the employment security account

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	1,446,088	1,446,088	2,892,176	58.20 %	81,518,953	81,518,953	163,037,906	98.14 %
PL Adjustments	1,032,480	1,032,183	2,064,663	41.55 %	943,713	1,169,567	2,113,280	1.27 %
New Proposals	6,624	5,944	12,568	0.25 %	499,884	479,432	979,316	0.59 %
Total Budget	\$2,485,192	\$2,484,215	\$4,969,407		\$82,962,550	\$83,167,952	\$166,130,502	