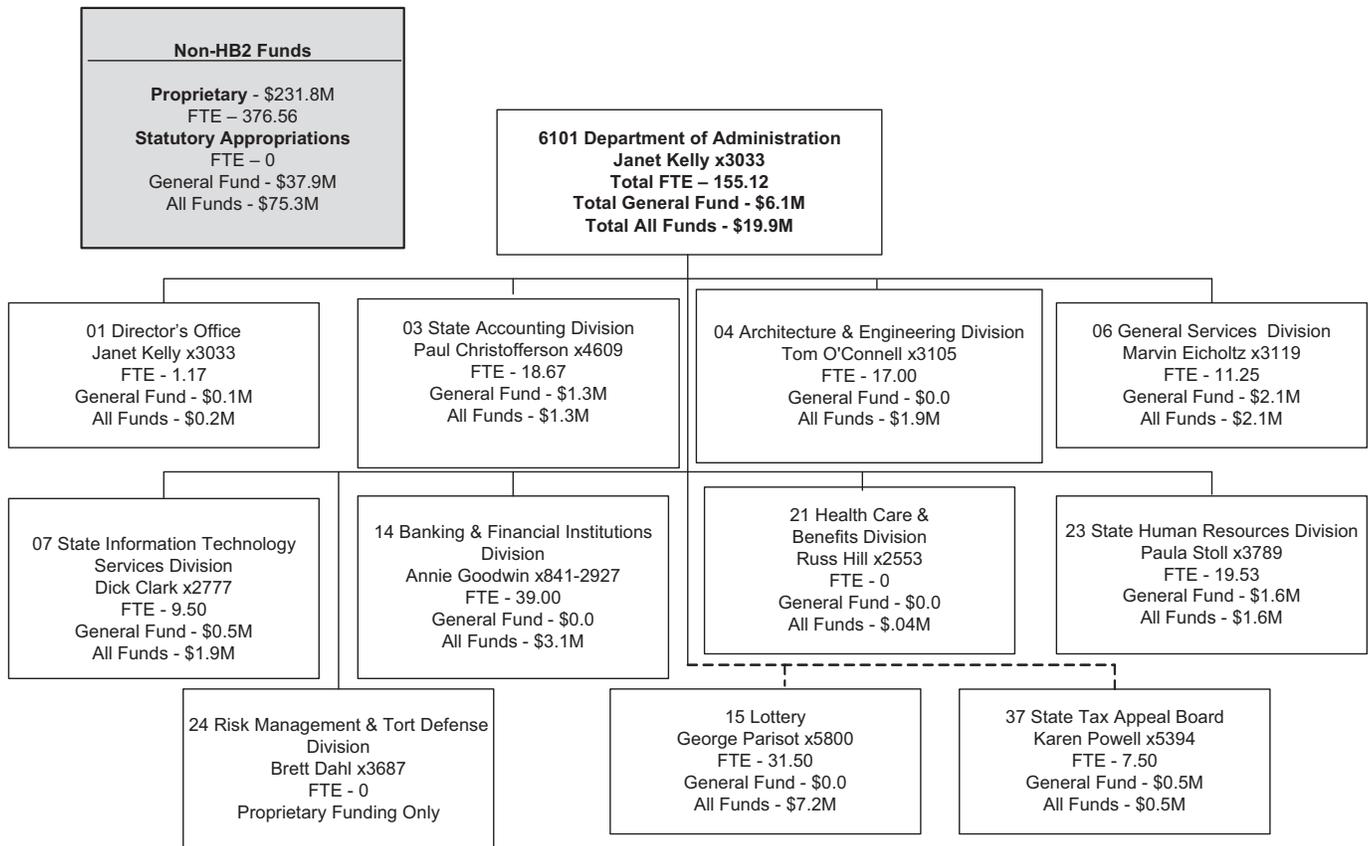


**Agency Budget Comparison**

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	155.12	155.12	153.63	153.63	155.12	153.63	(1.49)	(0.96%)
Personal Services	9,395,163	10,127,479	10,287,859	10,329,268	19,522,642	20,617,127	1,094,485	5.61%
Operating Expenses	9,553,673	9,009,538	9,786,024	9,587,457	18,563,211	19,373,481	810,270	4.36%
Equipment & Intangible Assets	42,077	42,077	42,077	42,077	84,154	84,154	0	0.00%
Local Assistance	39,206	37,633	43,206	42,206	76,839	85,412	8,573	11.16%
Grants	838,563	1,483,576	838,563	838,563	2,322,139	1,677,126	(645,013)	(27.78%)
Transfers	0	75,000	0	0	75,000	0	(75,000)	(100.00%)
Debt Service	32,050	32,050	176,275	0	64,100	176,275	112,175	175.00%
<b>Total Costs</b>	<b>\$19,900,732</b>	<b>\$20,807,353</b>	<b>\$21,174,004</b>	<b>\$20,839,571</b>	<b>\$40,708,085</b>	<b>\$42,013,575</b>	<b>\$1,305,490</b>	<b>3.21%</b>
General Fund	6,054,826	6,212,547	6,426,155	6,198,509	12,267,373	12,624,664	357,291	2.91%
State Special	6,508,794	7,884,856	7,117,969	7,111,969	14,393,650	14,229,938	(163,712)	(1.14%)
Federal Special	42,043	48,739	42,043	42,043	90,782	84,086	(6,696)	(7.38%)
Other	0	0	0	0	0	0	0	n/a
Other	7,295,069	6,661,211	7,587,837	7,487,050	13,956,280	15,074,887	1,118,607	8.02%
<b>Total Funds</b>	<b>\$19,900,732</b>	<b>\$20,807,353</b>	<b>\$21,174,004</b>	<b>\$20,839,571</b>	<b>\$40,708,085</b>	<b>\$42,013,575</b>	<b>\$1,305,490</b>	<b>3.21%</b>

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



**Agency Description**

Agency Mission - The Department of Administration's mission is to serve, satisfy, and support our customers.

The Department of Administration provides support services for state agencies in the following areas:

- o Accounting, financial reporting, and warrant writing
- o Audit review, enforcement and technical assistance for local governments
- o State treasury services
- o State-bonded indebtedness administration
- o Capitol complex grounds and building maintenance and security
- o Duplicating, mail and messenger services
- o Procurement and surplus property administration
- o Information systems development, telecommunications, geographic information services, 9-1-1 program management, data processing, and public safety radio communications
- o Human resource management, workforce development and labor relations
- o State financial institution oversight and regulation
- o Insurance coverage and risk management programs
- o Tort Claims Act administration
- o Long-Range Building Program
- o State employee group benefits
- o Workers compensation management

The following boards and commissions are attached to the department for administrative purposes only:

- o Board of Examiners
- o Burial Preservation Board
- o Information Technology Board
- o Public Employees' Retirement Board
- o State Banking Board
- o State Board of County Printing
- o State Compensation Insurance Fund Board
- o State Tax Appeal Board

The department is comprised of the following programs that are each discussed separately in their individual sections:

- o Director's Office
- o Governor Elect
- o State Accounting
- o Architecture and Engineering
- o General Services
- o Information Technology Services
- o Banking and Financial
- o Montana State Lottery
- o Health Care and Benefits
- o State Human Resources
- o Risk Management and Tort Defense
- o State Tax Appeals Board

## Agency Highlights

<b>Department of Administration Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ General fund increases nearly \$357,000, or 2.9% when comparing the 2013 biennium to the 2011 biennium due to:               <ul style="list-style-type: none"> <li>• Statewide present law adjustments (nearly \$825,000)</li> <li>• Final lease payment and option to buy the building that houses the Office of Public Instruction (\$144,225)</li> <li>• Costs to prepare and sell the state-owned building that previously housed the headquarters for the Department of Corrections (\$53,500)</li> <li>• Governor-elect startup costs (\$50,000)</li> <li>• Costs for workload impacts on county tax appeal boards due to the property reappraisal (\$42,000)</li> <li>• Burial board travel and meeting costs (\$24,000)</li> </ul> </li> <li>◆ 5% reduction plan items would reduce general fund by nearly \$593,000</li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>◆ Major/agency-wide LFD Issues               <ul style="list-style-type: none"> <li>• Revenues for the proprietary fund for the Central Stores Program do not support operating expenses</li> <li>• The legislature has options other than a working capital rate to fund proprietary programs</li> </ul> </li> <li>◆ Proprietary Rate Decisions               <ul style="list-style-type: none"> <li>• A number of programs and functions are funded with proprietary funds, for which the legislature sets a maximum rate, rather than a specific appropriation</li> </ul> </li> <li>◆ Interim Committee Recommendations               <ul style="list-style-type: none"> <li>• The Legislative Finance Committee recommends that base minus 5% be the starting point for legislative deliberations</li> </ul> </li> </ul>

## Agency Discussion

### *Goals and Objectives:*

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- o Goals, objectives and year-to-date outcomes from the 2011 biennium.
- o Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium.

### 2011 Biennium Goals

No goals for the department were monitored during the 2011 interim

### 2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. For the 2011 Legislature, the Legislative Finance Committee has recommended no goals for the legislature to monitor for this department

### Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Labor Market Experience**
  - Agency turnover in FY 2010 was about 9 percent for HB 2 funded positions
  - Hiring pools have been adequate to attract qualified candidates to fill open positions and for most position vacancies only one job posting was required to find a qualified candidate. But of the hiring pools about 63 percent of the applicants did not meet minimum qualifications
  - Leaving for higher paying positions or rejecting offers to fill open positions due to pay considerations accounted for 62 percent of the turnover and 1 offer rejection
- o **Pay Philosophy**
  - The department philosophy sets pay rates based on seven factors: 1) how the competencies of the employee meet the requirements of the job; 2) the employee's contribution to the overall department mission success; 3) salary paid in similar positions in the labor market, including the private sector; 4) internal pay equity for similar positions within the department or a division; 5) external pay equity for similar positions in other agencies; 6) recruitment and retention experience of similar positions; and 7) available funding
  - A minimum base salary of \$20,000 has been established for all full-time positions
- o **Obstacles**
  - Funding
  - Projected lack of qualified applicants for the 2013 biennium

### *Agency Overview*

The Department of Administration budget grows \$1.1 million, or 2.6% in total funds compared to the 2011 biennium. The agency budget comparison table indicates a higher total fund growth of \$1.3 million, or 2.7%, because a supplemental appropriation that moved \$225,000 of proprietary funds from FY 2011 to FY 2010 in the lottery due to increased sales was removed from the base funding, but the increased level of sales is continued in the 2013 biennium. The agency growth is comprised mostly of a \$357,291, or 2.9%, increase in general fund and \$893,607, or 6.3%, increase in proprietary funds.

General fund would grow because of on-going funding for travel and meeting costs of the burial board and one-time funding for the following:

- o The purchase of the building that currently houses staff of the Office of Public Instruction through a final balloon payment of a long-term lease with an option to buy
- o Costs to ready for sale and sell the building that formerly housed the headquarters of the Department of Corrections
- o Costs for anticipated work of county tax appeal boards due to the 2009 property reappraisal
- o Governor-elect program costs between the 2012 general election and when the Governor-elect takes office
- o Travel and meeting costs of the burial board
- o Costs to send presidential electors to represent the state

Budgeted proprietary funds would grow to fund increases in vendor payments for operation of the state lottery point of Sale system that are linked to growth in lottery ticket sales.

Agency HB 2 funded staffing would decline by 1.49 FTE due to initiatives to fund 1.00 FTE existing staff with non-budgeted proprietary funds and the elimination of 0.49 FTE. These initiatives are items included in the budget request that are also on the agency's 5% reduction plan.

### **5% Reduction Plan**

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor included reductions in the budget request that would reduce general fund by 4.9%. If other items not included

in the budget that were on the agency's plan were included, state special revenue would be reduced by 3.2% and total funds by a further 1.1%. The following summarizes the plan submitted for this program.

Total 5% Reduction Plan Identified by Agencies, By Division Included and Not Included in Executive Budget 2013 Biennium						
Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total	
<u>State Accounting Division</u>						
<i>Included in Executive Budget</i>						
55400 4% Personal Services Reduction*	1.00	\$153,123	25.8%	\$0	0.0%	
Total State Accounting Division		\$153,123	25.8%	\$0	0.0%	
<u>Architecture and Engineering Program</u>						
<i>Not Included in Executive Budget</i>						
Reduce Consultant and Professional Service	0.00	\$0	0.0%	\$177,426	42.6%	
Total Architecture and Engineering Program		\$0	0.0%	\$177,426	42.6%	
<u>General Services Program</u>						
<i>Included in Executive Budget</i>						
0603 Make FY 2011 17-7-140, MCA, Reductions P	0.00	\$274,712	46.3%	\$0	0.0%	
Total General Services Program		\$274,712	46.3%	\$0	0.0%	
<u>State Information Technology Division</u>						
<i>Included in Executive Budget</i>						
55400 4% Personal Services Reduction	0.50	\$126,563	21.3%	-\$126,563	-30.4%	
Total State Information Technology Division		\$126,563	21.3%	-\$126,563	-30.4%	
<u>Banking and Financial Division</u>						
<i>Not Included in Executive Budget</i>						
Reduce SB 351 Associated Operating Costs	0.00	\$0	0.0%	\$52,200	12.5%	
Eliminate Bank Examiner Positions	2.00	0	0.0%	230,764	55.4%	
Subtotal Not Included in Executive Budget		\$0	0.0%	\$282,964	67.9%	
Total Banking and Financial Division		\$0	0.0%	\$282,964	67.9%	
<u>Health Care and Benefits Division</u>						
<i>Included in Executive Budget</i>						
0213 Elimination of the Daycare Program	0.00	0	0.0%	82,628	19.8%	
Total Health Care and Benefits Division		\$0	0.0%	\$82,628	19.8%	
<u>State Human Resources Division</u>						
<i>Included in Executive Budget</i>						
55400 4% Personal Services Reduction	0.49	38,458	6.5%	0	0.0%	
Total State Human Resources Division		\$38,458	6.5%	\$0	0.0%	
<u>Total Reduction Plan</u>						
Included in Executive Budget		\$592,856	100.0%	-\$43,935	-10.5%	
Not Included in Executive Budget		0	0.0%	460,390	110.5%	
Total Agency Reduction Plan		\$592,856		\$416,455		

\*Proprietary funds would also be impacted. See the decision package description for further information.

## Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2013 Biennium Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Director'S Office	\$ 235,628	\$ 1,154	\$ 74,266	\$ -	\$ 311,048	0.74%
02 Governor Elect Program	50,000	-	-	-	50,000	0.12%
03 State Accounting Division	2,532,201	-	9,820	97,520	2,639,541	6.28%
04 Architecture & Engineering Pgm	-	3,937,631	-	-	3,937,631	9.37%
06 General Services Program	4,139,110	106,226	-	-	4,245,336	10.10%
07 State Information Technology Division	842,044	3,047,493	-	-	3,889,537	9.26%
14 Banking And Financial Division	-	7,137,434	-	-	7,137,434	16.99%
15 Montana State Lottery	-	-	-	14,977,367	14,977,367	35.65%
23 State Human Resources Division	3,693,454	-	-	-	3,693,454	8.79%
37 State Tax Appeal Board	1,132,227	-	-	-	1,132,227	2.69%
Grand Total	<u>\$ 12,624,664</u>	<u>\$ 14,229,938</u>	<u>\$ 84,086</u>	<u>\$ 15,074,887</u>	<u>\$ 42,013,575</u>	<u>100.00%</u>

In the general appropriations act, the agency is primarily funded with general fund, but state special revenue, federal special revenue, and budgeted proprietary funds support operations of several programs. In addition to budgeted proprietary funds, several programs are supported by non-budgeted proprietary funds that rely on legislatively approved fees and charges for generating revenues to support operations. The functions with the highest funding of state special revenue are the Banking and Financial Institution Division's bank examination and licensing functions, the Architectural and Engineering Division's construction support function, and the geographic information system coordination functions of the Information Technology Services Division.

Non-budgeted proprietary funds support all or portions of the operations of the following programs and several of these programs provide services that are budgeted statewide in agencies' budgets as fixed cost components of their statewide present law adjustments:

- o Director's Office
- o State Accounting Division
- o General Services Division
- o Information Tech Services Division
- o Health Care and Benefits Division
- o State Human Resources Division
- o Risk Management and Tort Defense

For this agency, 5.5% of the funding is budgeted in HB 2. In addition, 63.5% of the funding is in non-budgeted proprietary funds and the remaining 31% is in statutory appropriations.

## Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

Statutory Appropriations Department of Administration					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
<i>Direct Bearing on Agency Operations</i>					
Address damages with funds received for indemnification of damages to state prope	02-17-105	SSR	\$616,046	\$616,046	\$616,046
Cash Management Improvement Act returns	17-3-106	General Fund	152,962	152,962	152,962
Pay for cost of contracting for banking services	17-6-101	General Fund	2,256,300	2,256,300	2,256,300
Pay debt service costs	17-7-502	General Fund	17,328,504	16,054,418	16,373,667
Pay debt service costs	17-7-502	Capital Projects	62,976	388,582	388,333
Pay state lottery prizes	23-7-402	Proprietary	27,596,796	27,596,796	27,596,796
<i>Does Not Relate Directly to Agency Operations</i>					
Distribute 9-1-1 surcharge revenues	10-4-301	SSR	11,052,257	11,052,257	11,052,257
Apportion forest reserve funds to counties	17-3-212	FSR	24,619,013	24,619,013	24,619,013
Distributed mineral impact funds to counties	17-3-241	SSR	11,201,753	11,201,753	11,201,753
Distributed Taylor Grazing Act funds to counties	17-3-222	FSR	119,248	119,248	119,248
State contributions for local government employee pensions	19-3-319	General Fund	387,811	727,623	877,228
State contributions for school district employee pensions	19-3-319	General Fund	511,702	511,702	511,702
State contributions to teacher retirement	19-20-604	General Fund	806,797	889,500	934,000
State supplemental contributions to teacher retirement	19-20-607	General Fund	16,434,813	18,120,000	19,025,350

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	6,054,826	6,054,826	12,109,652	95.92%	19,900,732	19,900,732	39,801,464	94.73%
Statewide PL Adjustments	448,316	376,367	824,683	6.53%	1,103,212	924,635	2,027,847	4.83%
Other PL Adjustments	51,230	77,780	129,010	1.02%	234,916	261,466	496,382	1.18%
New Proposals	(128,217)	(310,464)	(438,681)	(3.47%)	(64,856)	(247,262)	(312,118)	(0.74%)
<b>Total Budget</b>	<b>\$6,426,155</b>	<b>\$6,198,509</b>	<b>\$12,624,664</b>		<b>\$21,174,004</b>	<b>\$20,839,571</b>	<b>\$42,013,575</b>	

**Supplemental Appropriations**

A supplemental appropriation was approved for the Montana Lottery to transfer \$650,000 of lottery proprietary fund appropriations from FY 2011 to FY 2010. The transfer was due to two factors:

- o Linkage between increased ticket sales and corresponding increased vendor fees accounted for \$225,000 of the request
- o A contract to purchase 60 lottery ticket vending machines accounts for \$425,000 of the total

During the process of review by the Legislative Finance Committee it was identified that purchase of the 60 lottery ticket vending machines was not anticipated in the 2011 biennium budget for the program. The 2013 biennium funding for the increased vendor fees that are linked to increased ticket sales is included in the program’s budget as DP 7701.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	1.17	1.17	1.17	1.17	1.17	1.17	0.00	0.00%
Personal Services	56,835	59,937	62,158	62,852	116,772	125,010	8,238	7.05%
Operating Expenses	65,611	23,177	89,562	22,210	88,788	111,772	22,984	25.89%
Local Assistance	37,133	37,133	37,133	37,133	74,266	74,266	0	0.00%
Transfers	0	0	0	0	0	0	0	n/a
<b>Total Costs</b>	<b>\$159,579</b>	<b>\$120,247</b>	<b>\$188,853</b>	<b>\$122,195</b>	<b>\$279,826</b>	<b>\$311,048</b>	<b>\$31,222</b>	<b>11.16%</b>
General Fund	121,869	81,527	151,143	84,485	203,396	235,628	32,232	15.85%
State Special	577	1,587	577	577	2,164	1,154	(1,010)	(46.67%)
Federal Special	37,133	37,133	37,133	37,133	74,266	74,266	0	0.00%
Other	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$159,579</b>	<b>\$120,247</b>	<b>\$188,853</b>	<b>\$122,195</b>	<b>\$279,826</b>	<b>\$311,048</b>	<b>\$31,222</b>	<b>11.16%</b>

### Program Description

The Director's Office provides the overall supervision and coordination of agency programs and administratively attached boards and agencies. The office provides legal services to agency and administratively attached programs and it provides IT management, financial, budgeting, accounting, personnel services, and payroll functions for the department.

### Program Highlights

Director's Office Major Budget Highlights	
◆	Besides statewide present law adjustments, the only adjustment requested for HB 2 is for one-time general fund for compensation and travel costs of presidential electors
◆	Proprietary rates requested for the Management Services Program would generate lower revenues than were generated in FY 2010

### Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
Director'S Office						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000 Total General Fund	\$ 121,869	76.4%	\$ 151,143	80.0%	\$ 84,485	69.1%
01100 General Fund	121,869	76.4%	151,143	80.0%	84,485	69.1%
02000 Total State Special Funds	577	0.4%	577	0.3%	577	0.5%
02317 Financial Advisor Fees	577	0.4%	577	0.3%	577	0.5%
03000 Total Federal Special Funds	37,133	23.3%	37,133	19.7%	37,133	30.4%
03369 Flood Control Payments	37,133	23.3%	37,133	19.7%	37,133	30.4%
Grand Total	<u>\$ 159,579</u>	<u>100.0%</u>	<u>\$ 188,853</u>	<u>100.0%</u>	<u>\$ 122,195</u>	<u>100.0%</u>

The Director's Office is funded with a combination of general fund, state and federal special revenues, and proprietary funds. General fund provides funding for the office's support of the Board of County Printing, Burial Preservation Board, allocations of police retirement funds, and general management and legal support for statewide functions of the department. State special revenue funds the office's functions in support of the Capital Financial Advisory Council. Federal special revenue funds administrative functions that support allocation of federal flood control payments.

Most operations of the office are funded with non-budgeted proprietary funds, which are discussed in the "Proprietary Rates" section of the narrative.

### Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	121,869	121,869	243,738	103.44%	159,579	159,579	319,158	102.61%
Statewide PL Adjustments	17,274	(50,884)	(33,610)	(14.26%)	17,274	(50,884)	(33,610)	(10.81%)
Other PL Adjustments	12,000	13,500	25,500	10.82%	12,000	13,500	25,500	8.20%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
<b>Total Budget</b>	<b>\$151,143</b>	<b>\$84,485</b>	<b>\$235,628</b>		<b>\$188,853</b>	<b>\$122,195</b>	<b>\$311,048</b>	

### Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					7,913					8,010
Vacancy Savings					(2,590)					(2,593)
Inflation/Deflation					1					1
Fixed Costs					11,950					(56,302)
<b>Total Statewide Present Law Adjustments</b>		<b>\$17,274</b>	<b>\$0</b>	<b>\$0</b>	<b>\$17,274</b>		<b>(\$50,884)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$50,884)</b>
DP 101 - Presidential Electors	0.00	0	0	0	0	0.00	1,500	0	0	1,500
DP 1003 - Burial Board	0.00	12,000	0	0	12,000	0.00	12,000	0	0	12,000
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$12,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$12,000</b>	<b>0.00</b>	<b>\$13,500</b>	<b>\$0</b>	<b>\$0</b>	<b>\$13,500</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$29,274</b>	<b>\$0</b>	<b>\$0</b>	<b>\$29,274</b>	<b>0.00</b>	<b>(\$37,384)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$37,384)</b>

### Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** – The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.

- o **Vacancy** – There were no vacancies in the HB 2 funded positions for this program.
- o **Legislatively Applied Vacancy Savings** – Carryforward funding from the Governor Elect Program was used to fund the vacancy savings in this program.
- o **Pay/Position Changes** – No pay changes outside statutory adjustments for longevity were given to HB 2 funded positions in this program.
- o **Retirements** – One employee in this program is eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$4,830.

DP 0101 - Presidential Electors – This general fund increase in FY 2013 would fund compensation and travel costs for presidential electors in 2012. The executive recommends funding be designated as one time only. Pay and mileage provided to presidential electors is at the same rate as allowed for members of the legislature.

DP 1003 – Burial Board – This general fund increase would fund costs for the Burial Preservation Board. It would fund two face-to-face meetings per year and two conference call meetings, along with reimbursement for member travel associated with reburial/repatriation of human remains.

### **Proprietary Rates**

#### **Director's Office (Management Services – 06534)**

##### *Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06534 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds					
Fund	Fund Name	Agency #	Agency Name	Program Name	
06534	Management Services	61010	Administration	Director's Office	
		Actual	Budgeted	Budgeted	Budgeted
		FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:					
Fee revenue					
	Management Services	\$1,243,325	\$1,282,862	\$1,228,672	\$1,229,544
	Net Fee Revenue	\$1,243,325	\$1,282,862	\$1,234,763	\$1,233,877
Other Operating Revenues					
		1,139	0	0	0
	Total Operating Revenue	\$1,244,464	\$1,282,862	\$1,234,763	\$1,233,877
Operating Expenses:					
Personal Services					
		993,060	1,014,451	1,076,963	1,075,495
Other Operating Expenses					
		156,530	196,280	151,643	154,195
	Total Operating Expenses	\$1,149,590	\$1,210,731	\$1,228,606	\$1,229,690
Operating Income (Loss)					
		94,874	72,131	66	(146)
Nonoperating Revenues (Expenses):					
Gain (Loss) Sale of Fixed Assets					
		0	0	0	0
Federal Indirect Cost Recoveries					
		0	0	0	0
Other Nonoperating Revenues (Expenses)					
		0	0	0	0
	Net Nonoperating Revenues (Expenses)	\$0	\$0	\$0	\$0
Income (Loss) Before Operating Transfers					
		94,874	72,131	66	(146)
Contributed Capital					
		0	0	0	0
Operating Transfers In (Note 13)					
		0	0	0	0
Operating Transfers Out (Note 13)					
		0	0	0	0
Change in net assets					
		\$94,874	\$72,131	\$6,157	\$4,187
Total Net Assets- July 1 - As Restated					
		(16,111)	78,763	150,894	150,960
Prior Period Adjustments					
		0	0	0	0
Cumulative effect of account change					
		0	0	0	0
Total Net Assets - July 1 - As Restated					
		(16,111)	78,763	150,894	150,960
Net Assets- June 30					
		\$78,763	\$150,894	\$150,960	\$150,814
60 days of expenses					
		\$191,598	\$201,789	\$204,768	\$204,948

### Program Description

The Director's Office provides services in the areas of legal, human resources, and financial management to other divisions of the agency and agencies and boards attached to the agency for administrative purposes. The Office of Legal Services advises the divisions on legal matters. The Office of Human Resources processes payroll; assists with recruitment, selection, and orientation of new employees; classifies positions; and develops human resources policies for the department. The Office of Finance and Budget prepares and presents the biennial budget, processes budget change documents, monitors approved budgets for compliance with state law and legislative intent, and provides accounting assistance. The Director's Office also provides information technology management and project management services.

### Program Narrative

#### Expenses

Significant costs for the program are for:

- o Personal services for 14.33 FTE, about \$983,800 or 87.8% of total costs
- o Operating costs, \$136,700 with nearly half of these costs due to:
  - Office space rent, \$34,044
  - Payments to the Information Technology Services Division, \$23,080
  - Building and grounds maintenance, \$9,412

Revenues

All divisions of the agency and other agencies and boards designated in statute as being administratively attached to the agency use all or a portion of the services provided by the programs. Administratively attached agencies or boards with staff to perform the provided functions do not use some of the services and are not charged a fee.

The revenues for this program are allocated in three ways: 1) for the human resources function an annual amount is charged per FTE served; 2) the legal unit costs are allocated based on a time-use study; and 3) the remaining portion is based on the proportional size of the division, board, or agency's budget to the total of all served.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (6.0%)
- o State special revenue (10.0%)
- o Other (84.0%)

*Present Law Adjustments*

The only adjustments for the program over the base expenses are for statewide present law adjustments.

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Requested Rates for Director's Office (Management Services)				
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Fee/Rate				
Human resources portion of program (annually per FTE)	\$553	\$567	\$574	\$570
Remaining portion of the program (fixed amount for allocation)	\$1,002,940	\$1,016,821	\$903,354	\$902,951

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. These rates reflect a net biennium reduction of nearly \$69,000 from the revenues of the 2011 biennium. The components of this net reduction to the two rate components are:

- o Human Resources portion -\$145,485 increase
- o Remaining portion - \$213,456 reduction

<b>LFD COMMENT</b>	<p><u>Reason for Growth in Human Resources Rates</u></p> <p>The per FTE rate for the human resources portion of the program is increasing over the FY 2010 rate due to a vacancy in the position that manages the human resources staff. When the 2011 biennium rates were developed, the 2011 biennium rates were not sufficient to fund costs of that portion of the program. The 2013 biennium rates increase to make that rate commensurate with costs now that the position is filled.</p>
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### Program Budget Comparison

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

Program Budget Comparison									
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change	
Personal Services	0	0	0	44,000	0	44,000	44,000		n/a
Operating Expenses	0	0	0	6,000	0	6,000	6,000		n/a
<b>Total Costs</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$50,000</b>		<b>n/a</b>
General Fund	0	0	0	50,000	0	50,000	50,000		n/a
<b>Total Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$50,000</b>		<b>n/a</b>

### Program Description

The Governor Elect Program pays start-up costs for the incoming Governor, as required by 2-15-221, MCA.

### Program Highlights

<b>Governor Elect Program Major Budget Highlights</b>	
◆	The only funding is for FY 2013 of \$50,000 general fund for Governor Elect costs prior to inauguration
<b>Major LFD Issues</b>	
◆	Restricted funding is recommended

### Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the executive.

Program Funding Table Governor Elect Program					
Program Funding		Base FY 2010	Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	\$ -	\$ -	\$ 50,000	100.0%
	01100 General Fund	-	-	50,000	100.0%
Grand	Total	<u>          </u>	<u>          </u>	<u>50,000</u>	<u>100.0%</u>

The Governor Elect Program is fully funded with general fund.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	0	0	0	0.00%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	0	50,000	50,000	100.00%	0	50,000	50,000	100.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
<b>Total Budget</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$50,000</b>		<b>\$0</b>	<b>\$50,000</b>	<b>\$50,000</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 201 - Governor Elect	0.00	0	0	0	0	0.00	50,000	0	0	50,000
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,000</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,000</b>

DP 201 - Governor Elect - The executive recommends \$50,000 general fund in FY 2013 for startup costs of a Governor-elect and staff from the general election to the inauguration. The executive recommends funding be designated as one time only.

<b>LFD COMMENT</b>	The funding for the Governor Elect startup costs have been funded at \$50,000 since FY 1993 without any increases for inflation.
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<b>LFD ISSUE</b>	<p><u>Restricted Funding</u></p> <p>In addition to designating funding for this purpose, the legislature may want to restrict any appropriation to only be used for Governor elect costs so that unexpended authority will revert and cannot be transferred and used for other purposes following the Governor elect’s inauguration.</p>
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### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	18.67	18.67	17.67	17.67	18.67	17.67	(1.00)	(5.36%)
Personal Services	1,043,760	1,103,048	1,044,823	1,045,884	2,146,808	2,090,707	(56,101)	(2.61%)
Operating Expenses	267,682	276,019	275,262	273,572	543,701	548,834	5,133	0.94%
<b>Total Costs</b>	<b>\$1,311,442</b>	<b>\$1,379,067</b>	<b>\$1,320,085</b>	<b>\$1,319,456</b>	<b>\$2,690,509</b>	<b>\$2,639,541</b>	<b>(\$50,968)</b>	<b>(1.89%)</b>
General Fund	1,257,772	1,317,847	1,266,415	1,265,786	2,575,619	2,532,201	(43,418)	(1.69%)
Federal Special	4,910	11,606	4,910	4,910	16,516	9,820	(6,696)	(40.54%)
Other	48,760	49,614	48,760	48,760	98,374	97,520	(854)	(0.87%)
<b>Total Funds</b>	<b>\$1,311,442</b>	<b>\$1,379,067</b>	<b>\$1,320,085</b>	<b>\$1,319,456</b>	<b>\$2,690,509</b>	<b>\$2,639,541</b>	<b>(\$50,968)</b>	<b>(1.89%)</b>

### Program Description

The State Accounting Division provides the statewide functions of the state treasury and accounting policies. Treasury functions include the performance of the central banking function for state agencies, reconciliation of state bank accounts, and oversight of bank account collateralization. The division 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 (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division also administers the warrant writer program, which provides check writing and automatic-deposit services for most agencies. It provides technical assistance and training to local government accounting and financial personnel and the audit review function for local governments.

### Program Highlights

<b>State Accounting Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ The majority of the funding in this program is from non-budgeted proprietary funds that do not show on the HB 2 tables</li> <li>◆ General fund decreases \$43,418, or 1.7% from the 2011 biennium, due primarily to: <ul style="list-style-type: none"> <li>• A 5% reduction plan item for a funding switch for 1.00 FTE that reduces general fund and refunds the position with proprietary funds</li> </ul> </li> </ul>

### Program Narrative

#### *5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

One item was included in the 5% plan for this program and this item has been included in the following decision packages in the executive budget to switch funding from general fund to proprietary funds for one position:

- o DP 55400 - 4% Personal Services Reduction in the HB 2 "New Proposal" section would eliminate funding for 1.00 FTE

- o DP 55400 - 4% Personal Services Reduction in the “Proprietary Rates” section for the Local Government Audit and Reporting Program would fund the same 1.00 FTE with proprietary funds

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	\$ 1,257,772	95.9%	\$ 1,266,415	95.9%	\$ 1,265,786	95.9%
01100 General Fund	1,257,772	95.9%	1,266,415	95.9%	1,265,786	95.9%
03000 Total Federal Special Funds	4,910	0.4%	4,910	0.4%	4,910	0.4%
03320 Cmia Funds	4,910	0.4%	4,910	0.4%	4,910	0.4%
06000 Total Proprietary Funds	48,760	3.7%	48,760	3.7%	48,760	3.7%
06527 Investment Division	48,760	3.7%	48,760	3.7%	48,760	3.7%
Grand Total	<u>\$ 1,311,442</u>	<u>100.0%</u>	<u>\$ 1,320,085</u>	<u>100.0%</u>	<u>\$ 1,319,456</u>	<u>100.0%</u>

The State Accounting Division is funded with general fund, federal special revenues, and proprietary funds. General fund provides funding for the statewide accounting standards, treasury, and accounting assistance for local government. Federal special revenue provides funding for activities associated with the federal Cash Management Improvement Act funds. The division is also funded with a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board. The reduction in federal funds from the 2011 biennium is due to Cash Management Improvement Act funding in FY 2011 that is not continued at that level in the 2013 biennium.

Most operations of the division are funded with non-budgeted proprietary funds, which are discussed in the “Proprietary Rates” section of the narrative.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	1,257,772	1,257,772	2,515,544	99.34%	1,311,442	1,311,442	2,622,884	99.37%
Statewide PL Adjustments	85,304	84,476	169,780	6.70%	85,304	84,476	169,780	6.43%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(76,661)	(76,462)	(153,123)	(6.05%)	(76,661)	(76,462)	(153,123)	(5.80%)
<b>Total Budget</b>	<b>\$1,266,415</b>	<b>\$1,265,786</b>	<b>\$2,532,201</b>		<b>\$1,320,085</b>	<b>\$1,319,456</b>	<b>\$2,639,541</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					124,453					125,352
Vacancy Savings					(46,729)					(46,766)
Inflation/Deflation					(234)					(206)
Fixed Costs					7,814					6,096
<b>Total Statewide Present Law Adjustments</b>		<b>\$85,304</b>	<b>\$0</b>	<b>\$0</b>	<b>\$85,304</b>		<b>\$84,476</b>	<b>\$0</b>	<b>\$0</b>	<b>\$84,476</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$85,304</b>	<b>\$0</b>	<b>\$0</b>	<b>\$85,304</b>	<b>0.00</b>	<b>\$84,476</b>	<b>\$0</b>	<b>\$0</b>	<b>\$84,476</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** – There are no employee groups identified that are experiencing high vacancy rates or difficult to fill vacant positions when turnover occurs.
- o **Legislatively Applied Vacancy Savings** – The program managed to the applied vacancy savings and experienced a vacancy rate of 7.6% in hours worked compared to hours budgeted.
- o **Pay/Position Changes** – No pay changes outside those specified in statute were provided.
- o **Retirements** – Two employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$15,408.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	-----Fiscal 2012-----					-----Fiscal 2013-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55400 - 4% Personal Services Reduction	03	(1.00)	(76,661)	0	0	(76,661)	(1.00)	(76,462)	0	0	(76,462)
<b>Total</b>		<b>(1.00)</b>	<b>(\$76,661)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$76,661)</b>	<b>(1.00)</b>	<b>(\$76,462)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$76,462)</b>

DP 55400 - 4% Personal Services Reduction – The executive recommends a 4% reduction of personal services funded with general fund. A funding switch for the 1.00 HB 2 FTE reflects a funding switch of the Local Government Services Bureau Chief position from the general fund to the Local Government Services enterprise fund.

<b>LFD COMMENT</b>	<p><u>A 5% Reduction Plan Item – Half of a Funding Switch</u></p> <p>This decision package would implement one item on the agency’s 5% reduction plan. The decision package has a complementary decision package with the same name and number in the “Proprietary Rates” section for the Local Government Audit and Reporting Program that would fund the 1.00 FTE position with proprietary funds.</p>
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**Proprietary Rates**

The State Accounting Division provides the following functions funded with proprietary funds. These programs are described separately along with a discussion of the program expenses, revenues, and rates being requested to finance the program:

- o Statewide Accounting, Budgeting and Human Resources Program
- o Warrant Writer Program
- o Local Government Audit and Reporting Program

**Statewide Accounting, Budgeting and Human Resources Program (SABHRS - 06511)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06511 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06511	SABHRS	61010	Administration	State Accounting Division
			Actual	Budgeted
			FY 2010	FY 2011
			Budgeted	Budgeted
			FY 2012	FY 2013
Operating Revenues:				
Fee revenue				
	SABHRS Services		<u>\$4,157,446</u>	<u>\$4,158,942</u>
	Net Fee Revenue		\$4,157,446	\$4,158,942
	Investment Earnings		0	0
	Securities Lending Income		0	0
	Premiums		0	0
	Other Operating Revenues		<u>24</u>	<u>0</u>
	Total Operating Revenue		\$4,157,470	\$4,158,942
Operating Expenses:				
	Personal Services		1,408,878	1,323,428
	Other Operating Expenses		<u>3,070,495</u>	<u>2,965,738</u>
	Total Operating Expenses		\$4,479,373	\$4,289,166
	Operating Income (Loss)		(\$321,903)	(\$130,224)
Nonoperating Revenues (Expenses):				
	Gain (Loss) Sale of Fixed Assets		0	0
	Federal Indirect Cost Recoveries		0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expense)		\$0	\$0
	Income (Loss) Before Operating Transfers		(\$321,903)	(\$130,224)
	Contributed Capital		0	0
	Operating Transfers In (Note 13)		0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>
	Change in net assets		(\$321,903)	(\$130,224)
	Total Net Assets- July 1 - As Restated		1,160,977	839,074
	Prior Period Adjustments		0	0
	Cumulative effect of account change		<u>0</u>	<u>0</u>
	Total Net Assets - July 1 - As Restated		\$1,160,977	\$839,074
	Net Assets- June 30		<u>\$839,074</u>	<u>\$708,850</u>
	60 days of expenses		\$746,562	\$714,861
	Working Capital (actual or projected)		\$688,090	\$557,866

### Program Description

The Statewide Accounting, Budgeting and Human Resource (SABHRS) Finance and Budget Bureau (SFAB) is responsible for operational support and maintenance for the financial portion of SABHRS and Montana Budget, Analysis, and Reporting System (MBARS).

### Program Narrative

#### Expenses

Significant base costs for the program are for:

- o Personal services for 18.00 FTE, \$1.6 million or 37.4% of total costs
- o Operating costs, \$2.8 million with 88.6% due to:
  - Payments to the Information Technology Services Division for services purchased that are not telephones and email, \$1.5 million
  - Computer system maintenance costs, \$0.9 million

Revenues

All state agencies are required to use this program. Revenues are based on costs to operate the program and maintain a reasonable working capital balance, which then factor into a maximum allocation of costs rate that is approved by the legislature. The program costs are allocated based on the following:

- o An agency's proportionate share of financial system journal lines to total journal lines (a journal line is line of data on the statewide accounting system that describes the details of one accounting transaction and includes such data as the transaction date, amount, purpose, and impacted expenditure, revenue, or balance sheet accounts) for all agencies (92%)
- o An agency's proportionate share of MBARS journal lines to total MBARS journal lines for all agencies (8%)

Budget authority to pay the SABHRS allocation is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for SABHRS is \$1.5 million lower for the 2013 biennium than the funding approved by the 2009 Legislature. The reasons for this change are detailed below in the "Proprietary Rates" section following the requested rates.

In FY 2010, the program refunded agencies \$350,000 to reduce the working capital in the fund and to reflect budget cuts taken by the program. As a result, working capital in the fund was down to a 57-day level at the end of FY 2010.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (38.2%)
- o State special revenue (15.2%)
- o Federal special revenue (16.2%)
- o Other (30.4%)

*Present Law Adjustments*

Statewide Present Law Adjustments – Statewide present law adjustments would reduce funding by nearly \$1.5 million for the biennium. The largest reduction is for the fixed cost allocation to the Information Technology Services Division (ITSD) of the department driven largely by computer system hosting cost reductions.

**LFD  
COMMENT**ITSD Fixed Costs

For more information on the ITSD fixed costs, see the "Proprietary Rates" section of the Information Technology Services Division narrative.

DP 0301 – Oracle/PeopleSoft Portal Licensing & Maint. Fee – An increase of \$236,773 for FY 2013 would pay for an increase in the licensing and maintenance fees with Oracle/PeopleSoft for the financial module of SABHRS. The increase assumes a contractual trigger based on the size of the state budget, excluding Office of Public Instruction transfers to local school districts. The adjustment assumes the trigger of \$3.575 billion will be exceeded in FY 2013. The increase in the licensing and maintenance fee associated with the adjustment will be an ongoing cost.

**LFD  
COMMENT**SABHRS Licensing Triggers

The SABHRS licensing agreement with Oracle/PeopleSoft includes triggers based on the level of the state budget, excluding transfers from the Office of Public Instruction to local school districts. Whenever the applicable state budget increases over a trigger level that reset with every \$350.0 million increase from the previous trigger, the annual licensing fees increase by \$195,000. During the 2011 biennium the first trigger point was reached and the legislature funded decision packages associated with the anticipation of this first trigger being reached when the budget exceeded \$3.25 billion

DP 0302 - Oracle/PeopleSoft Portal Fee - An increase of \$76,250 for FY 2013 would pay for an increase in the portal licensing and maintenance fees with Oracle/PeopleSoft for SABHRS. The increase assumes a contractual trigger based

on the size of the state budget, excluding Office of Public Instruction transfers to local school districts. The adjustment assumes the trigger of \$3.3 billion will be exceeded in FY 2013.

**LFD  
COMMENT**
One of Two Adjustments for the Portal License and Maintenance Fee

This adjustment represents half of the fee increase for the portal license and maintenance fee. The other half of the fee increase is funded by DP 55232 in the Human Resources Information Services proprietary section of the State Human Resources Division.

DP 0303 - Oracle/PeopleSoft 5% Annual Fee Increase - Increases of \$38,500 in FY 2012 and \$40,425 in FY 2013 would fund an annual 5% increase in the maintenance contract for the financial module of SABHRS.

DP 0304 - Add MBARS Programming Back to the Base - Increases of \$50,000 per year would fund annual 5% increases in the Oracle/PeopleSoft License fee for the financial module of SABHRS.

DP 0305 - Purchasing Licensing and Maintenance Increase - Increases of \$54,668 in FY 2012 and \$10,256 in FY 2013 would fund an increase in licensing fees for the SABHRS purchasing module. The increase assumes a contractual trigger based on the size of the state budget, excluding Office of Public Instruction transfers to local school districts. The adjustment assumes the trigger of \$3.575 billion will be exceeded in FY 2013.

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Rates Requested for SABHRS				
Fee/Rate Information	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
SABHRS Services Fee (total allocation of costs)	\$4,157,446	\$4,158,942	\$3,554,526	\$3,795,313

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.

The above decision packages would have the following impact on the statewide fixed cost allocation, comparing the FY 2012/2013 rates to the \$4,507,446 amount approved by the legislature for FY 2010:

- o Statewide present law adjustments (15.6%/17.6% reduction)
- o PL 0301 - Oracle/PeopleSoft Portal Licensing & Maint. Fee (no impact/5.3% increase)
- o PL 0302 - Oracle/PeopleSoft Portal Fee (no impact/1.7% increase)
- o PL 0303 - Oracle/PeopleSoft 5% Annual Fee Increase (0.9% increase both years)
- o PL 0304 - Add MBARS Programming Back to the Base (1.1% increase both years)
- o PL 0305 - Purchasing Licensing and Maintenance Increase (1.2%/0.2% increase)
- o Cumulative impact of all adjustments (12.4%/8.4% reduction)

**Warrant Writer Program (Warrant Writing - 06564)**
*Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06564 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.



Revenues

Because the service is mandated in statute, no alternative exists for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system. Revenues are derived from monthly billings based on actual warrants issued.

Budget authority to pay the warrant writer costs is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for warrant writer is \$275,729 lower for the 2013 biennium than the funding approved by the 2009 Legislature because the rates approved for the 2011 biennium were higher than needed to fund program costs. As such, the fund balance grew. Despite expenditure increases via factors in the statewide present law adjustments the rates requested for the 2013 biennium are lower than those approved by the 2009 Legislature to reduce excess liquid fund balance. The legislative audit of the agency for the two fiscal years ending in June 30, 2010, identified that fees were not commensurate with costs for this program and recommended that the program reduce rates. In response to the audit finding, rates for FY 2011 have been lowered below those approved by the 2009 Legislature.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (27.5%)
- o State special revenue (20.7%)
- o Federal special revenue (27.2%)
- o Other (24.6%)

Present Law Adjustments

The only adjustment for this program is for statewide present law adjustments. The adjustments would increase funding by \$32,395 in FY 2012 and \$548 in FY 2013. The adjusted base for the 2013 biennium would result in a reduction to the fixed cost allocation that is described in more detail below in the "Proprietary Rates" section.

The largest statewide present law adjustments are as follows:

- o Personal services net of vacancy savings increase \$12,360 in FY 2012 and \$12,180 in FY 2013
- o Fixed cost items:
  - ITSD allocation decrease \$15,774 in FY 2012 and \$16,287 in FY 2013
  - Audit fees increase \$14,474 in FY 2012 and decrease \$16,775 in FY 2013
- o Inflation/deflation items:
  - Postage and mailing increase \$18,527 in FY 2012 and \$18,522 in FY 2013 and this is a major cost driver for the program

Proprietary Rates

For the 2013 biennium the following rates are proposed by the executive.

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.

The rates requested for the 2013 biennium would result in a \$275,729 reduction for the biennium in the statewide fixed cost allocation for warrant writer compared to the \$1,087,866 amount approved by the legislature for FY 2010.

Fee/Rate Information (each)	Requested Rates for Warrant Writer			
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Mailer	\$0.72121	\$0.72446	\$0.74392	\$0.74464
Non-Mailer	0.30121	0.29446	0.28392	0.28464
Emergency	13.64547	13.64872	14.11292	14.11364
Duplicates	3.26014	3.26339	3.35417	3.35489
Externals				
Externals - Payroll	0.20503	0.19882	0.20512	0.21239
Externals - Universities	0.12229	0.11531	0.13859	0.13907
Direct Deposit				
Direct Deposit - Mailer	0.76229	0.77531	0.81859	0.82907
Direct Deposit - No Advice Printed	0.17892	0.11531	0.13859	0.13907
Unemployment Insurance				
Mailer - Print Only	0.17892	0.17915	0.14533	0.14557
Direct Deposit - No Advice Printed	0.04538	0.04297	0.04769	0.04785

**Local Government Audit and Reporting Program (Fund 06042)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06042 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06042	Single Audit Review - HB328	61010	Administration	State Accounting Division		
			Actual	Budgeted	Budgeted	Budgeted
			FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:						
Fee revenue						
	Revenue from Audit Review Roster Fees		\$5,500	\$5,800	\$5,800	\$5,800
	Revenue from Annual Report Filing Fees		<u>350,815</u>	<u>309,200</u>	<u>350,000</u>	<u>350,000</u>
	Net Fee Revenue		\$356,315	\$315,000	\$355,800	\$355,800
	Investment Earnings		0	0	0	0
	Securities Lending Income		0	0	0	0
	Premiums		0	0	0	0
	Other Operating Revenues		<u>6</u>	<u>25</u>	<u>0</u>	<u>0</u>
	Total Operating Revenue		\$356,321	\$315,025	\$355,800	\$355,800
Operating Expenses:						
	Personal Services		219,274	226,643	291,543	291,286
	Other Operating Expenses		<u>95,077</u>	<u>86,477</u>	<u>88,781</u>	<u>89,238</u>
	Total Operating Expenses		\$314,351	\$313,120	\$380,324	\$380,524
	Operating Income (Loss)		\$41,970	\$1,905	(\$24,524)	(\$24,724)
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets		\$0	0	0	0
	Federal Indirect Cost Recoveries		0	0	0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		0	0	0	0
	Income (Loss) Before Operating Transfers		\$41,970	\$1,905	(\$24,524)	(\$24,724)
	Contributed Capital		0	0	0	0
	Operating Transfers In (Note 13)		0	0	0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Change in net assets		\$41,970	\$1,905	(\$24,524)	(\$24,724)
	Total Net Assets - July 1 - As Restated		306,346	348,316	350,221	325,697
	Prior Period Adjustments		0	0	0	0
	Cumulative effect of account change		0	0	0	0
	Total Net Assets - July 1 - As Restated		<u>306,346</u>	<u>348,316</u>	<u>350,221</u>	<u>325,697</u>
	Net Assets - June 30		<u>\$348,316</u>	<u>\$350,221</u>	<u>\$325,697</u>	<u>\$300,973</u>
	60 days of expenses		\$52,392	\$52,187	\$63,387	\$63,421

*Program Description*

The Local Government Audit and Reporting Program is responsible for administering the provisions of the Montana Single Audit Act (MSAA), which specifies the audit requirements for all Montana local government entities (2-7-5, MCA). The program performs the following services:

- o Mails out to and receives annual financial reports from approximately 900 local governments
- o Enters selected financial data from the reports into a database
- o Obtains and enters into the database information regarding school district revenues
- o Determines which local government entities are subject to audit under the act and notifies them of the audit requirements

- o Accepts applications from and maintains a roster of independent auditors authorized to conduct local government audits
- o Prepares and keeps current a legal compliance supplement for use by independent auditors in conducting local government audits
- o Receives and approves audit contracts for local government audits
- o Verifies that all local governments required to have audits do so
- o Receives and reviews local government audit reports to determine whether the audits have been conducted in accordance with required standards
- o Notifies state agencies of audit findings related to financial assistance programs that they administer
- o Receives and reviews each local government's response to the audit report findings and determines whether the entity has developed a satisfactory plan to correct deficiencies noted in the audit report
- o Maintains copies of all local government entity audit reports and the local government's responses to audit findings, and makes those reports and responses available upon request to state and federal agencies and the public
- o Provides technical advice on accounting, auditing, and legal compliance matters to local governments and certified public accountants conducting local government audits
- o Investigates or refers to auditors for follow-up action complaints or allegations received from the public, either directly or through the Legislative Auditor's hotline
- o Provides information regarding local government audits, audit findings, entity responses to findings, and legal compliance and accounting requirements to the public
- o Requests for special audits and arranges for such audits if determined to be necessary

#### *Program Narrative*

#### Expenses

Significant costs for the program are for:

- o Personal services for 4.00 FTE, \$217,917 or 72.2% of total costs
- o Operating costs, \$83,873 with 54.2% due to:
  - Office rent, \$28,916
  - Indirect/administrative cost paid to the Management Services Program in the Director's Office, \$16,564

#### Revenues

All local government entities that are required to submit audits pay a filing fee. The fee schedule has been adopted as ARM 2.4.402 and is shown for information below in the "Rate Explanation" section. A fee is also collected from local governments that are required to submit financial reviews. The fee has been adopted in ARM 2.4.410 and is currently set at \$75. A roster fee is collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana. The annual auditor roster fee has been adopted as ARM 2.4.406 and is currently set at \$100 per year. The program also may receive reimbursement from audited entities for costs to contract for special audits as requested.

#### Funding Sources

The funding to pay for the services provided by this program comes from local governments and private auditing firms. No state funds directly support this program.

#### *Present Law Adjustments*

The only present law adjustments are for statewide adjustments that net to increases of \$1,873 in FY 2012 and \$2,272 in FY 2013. Statewide present law adjustments are comprised primarily of the following offsetting components:

- o Personal services, net of vacancy savings, decrease \$3,035 in FY 2012 and \$2,272 in FY 2013
- o Fixed costs increase \$4,810 in FY 2012 and \$5,260 in FY 2013, and are dominated by increases in:
  - ITSD allocations

- Messenger services

*New Proposals*

DP 55400 - 4% Personal Services Reduction – Increases of \$76,661 in FY 2012 and \$76,462 in FY 2013 would fund the existing 1.00 FTE local government services bureau chief position with proprietary funds to complete a funding switch.

<b>LFD COMMENT</b>	<u>A 5% Reduction Plan Item – Half of a Funding Switch</u> This adjustment is the complementary adjustment in the proprietary program to a similar adjustment in the HB 2 portion of the program narrative that reduces general fund for this position by the same amount of the increase in this adjustment.
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*Proprietary Rates*

For the 2013 biennium the following rates are presented for informational purposes.

Rates for Single Audit Review Enterprise Fund				
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Local government report filing fee (variable):				
Annual revenues less than \$200,000	\$0	\$0	\$0	\$0
Annual revenues equal to or greater than \$200,000, but less than \$500,000	0	0	0	0
Annual revenues equal to or greater than \$500,000, but less than \$1,000,000	435	435	435	435
Annual revenues equal to or greater than \$1,000,000, but less than \$1,500,000	635	635	635	635
Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000	760	760	760	760
Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000	845	845	845	845
Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000	890	890	890	890
Annual revenues are equal to or greater than \$10,000,000, but less than \$50,000,000	965	965	965	965
Annual revenues are equal to or greater than \$50,000,000	1,000	1,000	1,000	1,000
Auditor roster fee:				
Annual fee	100	100	100	100
	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013
Working Capital (November)	227,356	229,261	204,737	180,013
Note: Because of the timing of revenue collections, the low point on working capital for this fund is in November of each year.				

The program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	17.00	17.00	17.00	17.00	17.00	17.00	0.00	0.00%
Personal Services	1,283,732	1,247,129	1,302,775	1,305,035	2,530,861	2,607,810	76,949	3.04%
Operating Expenses	659,066	724,159	665,017	664,804	1,383,225	1,329,821	(53,404)	(3.86%)
Transfers	0	0	0	0	0	0	0	n/a
<b>Total Costs</b>	<b>\$1,942,798</b>	<b>\$1,971,288</b>	<b>\$1,967,792</b>	<b>\$1,969,839</b>	<b>\$3,914,086</b>	<b>\$3,937,631</b>	<b>\$23,545</b>	<b>0.60%</b>
State Special	1,942,798	1,971,288	1,967,792	1,969,839	3,914,086	3,937,631	23,545	0.60%
Other	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$1,942,798</b>	<b>\$1,971,288</b>	<b>\$1,967,792</b>	<b>\$1,969,839</b>	<b>\$3,914,086</b>	<b>\$3,937,631</b>	<b>\$23,545</b>	<b>0.60%</b>

### Program Description

The Architecture & Engineering Program manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration each session.

### Program Highlights

<b>Architecture and Engineering Major Program Highlights</b>
◆ The only adjustments for the program are for statewide present law adjustments

### Program Narrative

#### *5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

The plan includes one item for this program, but the item was not included in the executive budget. The 5% reduction plan identified a savings of \$177,426 state special revenue for the 2013 biennium that would be achieved by reducing consultant and professional services by 26%. The program uses contracted service to augment state FTE to administer the state Long-range Building Program for various activities such as preliminary project planning and analysis, specialized plan reviews, constructability reviews, project management, construction administration, and value engineering. Reducing funding for consultant services could result in project delays. This item would be a 4.6% reduction from the executive budget.

### Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
Architecture & Engineering Pgm						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000 Total State Special Funds	\$ 1,942,798	100.0%	\$ 1,967,792	100.0%	\$ 1,969,839	100.0%
02030 Arch & Engin Construction	1,942,798	100.0%	1,967,792	100.0%	1,969,839	100.0%
Grand Total	<u>\$ 1,942,798</u>	<u>100.0%</u>	<u>\$ 1,967,792</u>	<u>100.0%</u>	<u>\$ 1,969,839</u>	<u>100.0%</u>

The Architecture & Engineering Program is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses in support of the state Long-range Building Program.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	1,942,798	1,942,798	3,885,596	98.68%
Statewide PL Adjustments	0	0	0	0.00%	24,994	27,041	52,035	1.32%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$1,967,792</b>	<b>\$1,969,839</b>	<b>\$3,937,631</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					73,327					75,679
Vacancy Savings					(54,284)					(54,376)
Inflation/Deflation					(5,942)					(5,804)
Fixed Costs					11,893					11,542
<b>Total Statewide Present Law Adjustments</b>		<b>\$0</b>	<b>\$24,994</b>	<b>\$0</b>	<b>\$24,994</b>		<b>\$0</b>	<b>\$27,041</b>	<b>\$0</b>	<b>\$27,041</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$24,994</b>	<b>\$0</b>	<b>\$24,994</b>	<b>0.00</b>	<b>\$0</b>	<b>\$27,041</b>	<b>\$0</b>	<b>\$27,041</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Pay Plan Exceptions** - No occupation groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** - The program does not have any occupation groups with high turnover rates.
- o **Legislatively Applied Vacancy Savings** - The program achieved the 7.0% applied vacancy savings via the

following means:

- Filled two positions only half time
  - Carry forward authority
  - Moved funding from the operating expenditure category
- o **Pay/Position Changes** - Besides pay increases authorized in statute, only one pay raise was given to satisfy terms of an employment acceptance letter (3.3% increase for a construction manager).
- o **Retirements** – Four employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$123,795.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	11.25	11.25	11.25	11.25	11.25	11.25	0.00	0.00%
Personal Services	637,187	647,206	669,576	668,685	1,284,393	1,338,261	53,868	4.19%
Operating Expenses	1,461,448	1,517,323	1,378,614	1,352,186	2,978,771	2,730,800	(247,971)	(8.32%)
Grants	0	0	0	0	0	0	0	n/a
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	32,050	32,050	176,275	0	64,100	176,275	112,175	175.00%
<b>Total Costs</b>	<b>\$2,130,685</b>	<b>\$2,196,579</b>	<b>\$2,224,465</b>	<b>\$2,020,871</b>	<b>\$4,327,264</b>	<b>\$4,245,336</b>	<b>(\$81,928)</b>	<b>(1.89%)</b>
General Fund	2,084,174	2,142,509	2,171,272	1,967,838	4,226,683	4,139,110	(87,573)	(2.07%)
State Special	46,511	54,070	53,193	53,033	100,581	106,226	5,645	5.61%
Federal Special	0	0	0	0	0	0	0	n/a
Other	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$2,130,685</b>	<b>\$2,196,579</b>	<b>\$2,224,465</b>	<b>\$2,020,871</b>	<b>\$4,327,264</b>	<b>\$4,245,336</b>	<b>(\$81,928)</b>	<b>(1.89%)</b>

### Program Description

The General Services Division is composed of four bureaus responsible for providing certain internal services to government agencies and the public.

The Facilities Management Bureau manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, lease negotiation, security, janitorial, recycling, pest control, grounds maintenance, and garbage collection.

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act. The bureau also manages the state's vehicle fueling, energy procurement, and procurement card programs.

The Print and Mail Services Bureau provides print and mail services to state agencies. Services include internal and external (contracted) printing, photocopy pool services, mail preparation, central mail operations, and inter-agency (deadhead) mail. The bureau also operates the United States post office in the Capitol and provides three quick copy locations on the Capitol Complex.

The Property and Supply Bureau manages the central stores program and the state and federal surplus property programs.

## Program Highlights

<b>General Services Division Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>◆ One-time general fund of \$197,735 would allow the state to:               <ul style="list-style-type: none"> <li>• Make a balloon payment on the lease and exercise the option to buy the building in Helena that houses a portion of personnel for the Office of Public Instruction</li> <li>• Prepare and sell the former Department of Correction's headquarters building</li> </ul> </li> <li>◆ A 5% plan item would reduce general fund by nearly \$275,000 for the biennium for general and deferred maintenance of state-owned buildings on the Capitol Complex</li> </ul>	

## Program Narrative

### 5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. One item listed on the agency's 5% reduction plan for this program is also included in the executive budget. DP 0603 reduces funding for Long-range Building Program projects associated with general and deferred maintenance of state-owned buildings on the Capitol Complex in Helena. No long-term safety risks have been identified with this reduction. This item is discussed further in the "New Proposals" section for this program.

## Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table General Services Program							
Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000	Total General Fund	\$ 2,084,174	97.8%	\$ 2,171,272	97.6%	\$ 1,967,838	97.4%
	01100 General Fund	2,084,174	97.8%	2,171,272	97.6%	1,967,838	97.4%
02000	Total State Special Funds	46,511	2.2%	53,193	2.4%	53,033	2.6%
	02211 Procurement Special Revenue	46,511	2.2%	53,193	2.4%	53,033	2.6%
<b>Grand Total</b>		<b>\$ 2,130,685</b>	<b>100.0%</b>	<b>\$ 2,224,465</b>	<b>100.0%</b>	<b>\$ 2,020,871</b>	<b>100.0%</b>

Funding for the General Services Division includes general fund, state special revenue, and proprietary funds. General fund provides funding for the Procurement Bureau and a portion of the facilities maintenance functions. General fund supports facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. State special revenue from procurement rebates fund portions of procurement functions that serve the fueling and procurement card operations.

The following programs are funded with proprietary funds and are not shown on the main budget tables but are discussed in the "Proprietary Rates" section for the division:

- o Print and mail services
- o Property and supply
- o Central stores
- o Facilities management
- o Surplus property

### Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	2,084,174	2,084,174	4,168,348	100.71%	2,130,685	2,130,685	4,261,370	100.38%
Statewide PL Adjustments	40,999	38,790	79,789	1.93%	47,681	45,312	92,993	2.19%
Other PL Adjustments	39,230	14,280	53,510	1.29%	39,230	14,280	53,510	1.26%
New Proposals	6,869	(169,406)	(162,537)	(3.93%)	6,869	(169,406)	(162,537)	(3.83%)
<b>Total Budget</b>	<b>\$2,171,272</b>	<b>\$1,967,838</b>	<b>\$4,139,110</b>		<b>\$2,224,465</b>	<b>\$2,020,871</b>	<b>\$4,245,336</b>	

### Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					60,287					59,359
Vacancy Savings					(27,898)					(27,861)
Inflation/Deflation					56					70
Fixed Costs					15,236					13,744
<b>Total Statewide Present Law Adjustments</b>		<b>\$40,999</b>	<b>\$6,682</b>	<b>\$0</b>	<b>\$47,681</b>		<b>\$38,790</b>	<b>\$6,522</b>	<b>\$0</b>	<b>\$45,312</b>
DP 6010 - Close and Sell Old Corrections Building - OTO	0.00	39,230	0	0	39,230	0.00	14,280	0	0	14,280
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$39,230</b>	<b>\$0</b>	<b>\$0</b>	<b>\$39,230</b>	<b>0.00</b>	<b>\$14,280</b>	<b>\$0</b>	<b>\$0</b>	<b>\$14,280</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$80,229</b>	<b>\$6,682</b>	<b>\$0</b>	<b>\$86,911</b>	<b>0.00</b>	<b>\$53,070</b>	<b>\$6,522</b>	<b>\$0</b>	<b>\$59,592</b>

### Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** – There are no employee groups in this program with high vacancy or turnover rates.
- o **Legislatively Applied Vacancy Savings** – Funding was moved from other expenditure categories and carryforward funding was used to achieve the applied vacancy savings rate.
- o **Pay/Position Changes** – The program had no position or pay increases in the base except for those specified in statute.
- o **Retirements** – Three employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$44,907.

DP 6010 - Close and Sell Old Corrections Building - OTO - – This general fund increase would fund costs to get the building that formerly housed the main offices of the Department of Corrections ready to be sold. The executive recommends designating any funding for this purpose as one time only.

<b>LFD COMMENT</b>	<p><u>Background on the Building</u></p> <p>The building located in Helena at 1539 11th Avenue housed the main offices of the Department of Corrections. The building has recently been unoccupied as the department staff have been relocated to the building formerly occupied by the Montana State Fund. Occupancy of the 11<sup>th</sup> Avenue building by state workers was stopped because of adverse building environmental issues including poor ventilation and mold contamination. The components of this cost are \$3,600 to board up the building, \$10,680 to maintain the building in a dormant state, \$3,600 for mechanical services and \$21,350 for sale preparation including an appraisal and environmental assessment.</p>
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**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	FTE	Fiscal 2012				Fiscal 2013				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 601 - Purchase of 1227 11th Ave - OPI Building OTO										
06	0.00	144,225	0	0	144,225	0.00	(32,050)	0	0	(32,050)
DP 603 - Make FY 2011 17-7-140, MCA, Reductions Permanent										
06	0.00	(137,356)	0	0	(137,356)	0.00	(137,356)	0	0	(137,356)
<b>Total</b>	<b>0.00</b>	<b>\$6,869</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,869</b>	<b>0.00</b>	<b>(\$169,406)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$169,406)</b>

DP 601 - Purchase of 1227 11th Ave - OPI Building OTO - FY 2012 funding is requested for the final payment on a lease-purchase agreement for the building at 1227 11th Avenue in Helena that houses the Office of Public Instruction (OPI). The executive recommends designating funding as one time only.

<b>LFD COMMENT</b>	<p><u>Lease-Purchase Agreement</u></p> <p>The funding would allow the state to exercise the option to purchase the OPI building and complete a 15-year lease agreement that began on July 1, 1997. HB 398 of the 1997 legislature authorized the Department of Administration to enter into a lease-purchase agreement for this building. HB 398 also authorized the department to issue general obligation bonds for \$900,000 to add a second floor to the building. A ten-year general obligation bond was issued for the second floor addition in the 1997B issuance. The 1997B bonds have subsequently been refinanced at a lower interest rate under the 2005A issuance and are scheduled to be paid off August 1, 2018.</p> <p>The state has been paying annual lease-payments of \$32,050 for the first-floor space. The annual lease payments correspond to 75% of the cost of the agreement. The funding of this decision package represents the final 25%, which is stipulated as a balloon payment at the end of the contract term. The state must exercise its option to purchase the building on or before June 1, 2012.</p>
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DP 603 - Make FY 2011 17-7-140, MCA, Reductions Permanent - The executive recommends reducing general fund for deferred and general maintenance projects and for upkeep for the capital complex.

**LFD  
COMMENT**5% Reduction Plan – Reduce Deferred and General Maintenance

This decision package is the only item for the program on the agency's 5% reduction plan. This item was also included as two items on the Governor's 17-7-140, MCA, reduction plan. Specifically, FY 2011 funding was reduced to delay deferred maintenance projects such as parking lot and sidewalk repairs. This adjustment would continue to reduce funding for deferred maintenance projects that do not impact life safety aspects of state facilities. The impact is that the list of deferred maintenance would grow and the future cost of addressing the maintenance items could be higher as a more degraded condition may need to be addressed. For example, delaying parking lot repairs could lead to more cracks and pot holes that may degrade the subsurface and require more substantial efforts to restore. Also included were general maintenance items that would be reduced and would include eliminating the window washing contract and reducing irrigation on the capitol complex. The impacts would be that the appearance of the capitol complex buildings and grounds would be diminished.

**Proprietary Rates**

The General Services Division provides the following functions funded with proprietary funds. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- o Facilities Management (Rent and Maintenance)
- o Print Services
- o Mail Services
- o Surplus Property
- o Central Stores

**Facilities Management (Rent and Maintenance - 06528)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06528 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06528	Rent & Maintenance	61010	Department of Administration	Facilities Management
			Actual	Budgeted
			FY 2010	FY 2011
			Budgeted	Budgeted
			FY 2012	FY 2013
Operating Revenues:				
Fee revenue				
	Revenue from Office Rental Rate		\$9,528,412	\$9,819,581
	Revenue from Warehouse Rental Rate		406,937	421,692
	Revenue from Recycling Revenue		19,699	26,495
	Revenue from Handyman Charges		96,231	11,140
	Revenue from Project Work		128,090	27,465
	Revenue from Grounds Maintenance		<u>500,422</u>	<u>505,373</u>
	Net Fee Revenue		\$10,679,791	\$10,811,746
	Investment Earnings		0	0
	Securities Lending Income		0	0
	Premiums		0	0
	Other Operating Revenues		<u>49</u>	<u>0</u>
	Total Operating Revenue		\$10,679,840	\$10,811,746
Operating Expenses:				
	Personal Services		1,652,198	1,830,710
	Other Operating Expenses		<u>7,982,936</u>	<u>7,856,983</u>
	Total Operating Expenses		\$9,635,134	\$9,687,693
	Operating Income (Loss)		1,044,706	1,124,053
Nonoperating Revenues (Expenses):				
	Gain (Loss) Sale of Fixed Assets		(24,975)	0
	Federal Indirect Cost Recoveries		0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		(\$24,975)	\$0
	Income (Loss) Before Operating Transfers		\$1,019,731	\$1,124,053
	Contributed Capital		0	0
	Operating Transfers In (Note 13)		0	0
	1424 9th Avenue HVAC Expenditures		0	0
	LRBP Transfers Out		470,104	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>
	Change in net assets		\$1,489,835	\$1,124,053
	Total Net Assets- July 1 - As Restated		4,890,827	6,380,662
	Prior Period Adjustments		0	0
	Cumulative effect of account change		0	0
	Total Net Assets - July 1 - As Restated		<u>4,890,827</u>	<u>6,380,662</u>
	Net Assets- June 30		<u>\$6,380,662</u>	<u>\$7,504,715</u>
	60 days of expenses		\$1,605,856	\$1,614,616
			\$1,558,015	\$1,571,956

### Program Description

Rent and maintenance is managed by the Facilities Management Bureau, which is the custodian of state property and grounds in the State Capitol area. The State Capitol area is the geographic area within a 10-mile radius of the State Capitol. The bureau provides facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and provides statewide leasing assistance to agencies to negotiate co-location of agencies to procure leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

### Program Narrative

#### Expenses

Significant costs for the program are for:

- Personal services for 34.90 FTE, \$ 1.6 million or 17.7% of total costs
- Operating costs, \$7.4 million with 74.3% of these costs due to:

- Buildings and grounds repair, \$1.4 million
- Electricity, \$1.2 million
- Janitorial services, \$1.1 million
- Caretaker services, \$1.1 million
- Natural gas, \$0.7 million

The program pays for all utilities on the complex including water, sewer, electricity, natural gas, and garbage collection. It also pays for locksmith services, repair and maintenance, construction, construction management, grounds maintenance, leasing services, recycling, emergency response and management, and security. The bureau manages several service contracts that are provided by private sector employees including security, pest control, mechanical maintenance, janitorial services, elevator repair and maintenance, and fire sprinkler systems maintenance and access control.

#### Revenues

All agencies occupying office space in state-owned buildings on the capitol complex pay rent to the program. Separate rental rates are established for office and storage space and for grounds. In addition to rent payments agencies pay a percentage of costs for non-routine maintenance projects. These fees are charged at different rates depending on whether bureau or contracted employees are used to complete the project. The revenues from fees are generated in the following percentages:

- Office and warehouse rental rates - 92%
- Grounds Maintenance - 5%
- Construction, and handyman services – 2%
- Recycling - 1%.

Budget authority to pay rent is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for capitol complex rent is \$1.1 million lower for the 2013 biennium than the funding approved by the 2009 Legislature, primarily due to a reduction in the 2011 biennium as part of the Governor's 17-7-140, MCA, reductions and their continuation in the 2013 biennium. The reductions were for general and deferred maintenance of state-owned buildings on the Capitol Complex.

#### Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- General fund (48.6%)
- State special revenue (12.8%)
- Federal special revenue (9.7%)
- Other (28.9%)

#### *Present Law Adjustments*

DP 0602 - Increase for Contracted Services – Increases of \$100,522 in FY 2012 and \$160,106 in FY 2013 would fund increases that are anticipated as the janitorial, elevator, mechanical, and access control contracts are rebid following completion of the five-year contract terms.

**LFD  
COMMENT**Factors in Contract Increases

The five-year contracts for the janitorial, elevator, mechanical, and access control have no inflationary clauses. However, although not certain, prevailing wage rates for the associated contract employees that provide the services indicate that the wages for all should increase by from 2.2% to 6.0% per year, depending on the type of worker. The increases are based on prevailing wage rates published for Montana in February 2010 by the U.S. Department of Labor.

DP 0605 - Add the Spring Meadow Lake Facility – Increases of \$104,422 per year would fund the addition of facilities at Spring Meadow Lake State Park in Helena to the facilities management responsibilities of the program. Funding would include the following services with associated annual cost estimates:

- o Utilities (electricity, natural gas, sewer, and water) - \$59,000
- o Contracted services (janitorial, mechanical, and sanitation) - \$39,482
- o Grounds maintenance - \$5,940

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Requested Rates for Facilities and Maintenance				
Fee	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Office rent (per sq. ft.)	\$8.869	\$9.002	\$8.412	\$8.460
Warehouse rent (per sq. ft.)	4.804	5.010	4.844	4.876
Grounds maintenance (per sq. ft.)	0.541	0.543	0.494	0.494
Project management - in-house	15%	15%	15%	15%
Project management - contracted	5%	5%	5%	5%

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.

The above decision packages would have the following impact on the statewide fixed cost allocation, comparing the FY 2012/2013 rates to the rates approved by the legislature for FY 2010:

- o Statewide present law adjustments (\$0.630/\$0.630 reductions)
- o DP 0602 - Increase for Contracted Services (\$0.085/\$0.135 per square foot increases in the office space rent rate and \$0.036/\$0.067 in the warehouse rent rate)
- o DP 0605 - Add the Spring Meadow Lake Facility (\$0.082 per square foot increases in both years in the office space rent rate, \$0.073 per square foot each year in the warehouse rent rate, and \$0.006 per square foot each year in the grounds maintenance)
- o Cumulative impact of all adjustments (\$0.457/\$0.409 per square foot reductions in office space rent, \$0.04/0.072 per square foot increase in warehouse rent, and \$0.047 per square foot reductions each year in grounds maintenance)

In addition to the above impacts the decision packages of this proprietary program have on the rates, present law DP 0603 – 17-7-140 MCA budget reductions would lower the rental rate by \$0.116 per square foot in both years only to the office space rent rate.

**Print and Mail Services Bureau (Print & Mail - 06530)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06530 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06530	Print & Mail Services	61010	Department of Administration	General Services		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
Fee revenue						
	Internal Printing		\$1,752,421	\$1,927,717	\$1,829,873	\$1,878,273
	External Printing		3,801,568	3,801,568	3,801,568	3,801,568
	Photocopy Pool		899,923	525,000	899,923	904,923
	Mail Preparation		666,577	646,577	656,577	666,177
	Mail Operations		4,735,725	4,191,245	4,937,426	4,937,426
	Inter-agency (Deadhead Mail)		281,917	281,917	297,657	297,657
	Postal Contract Station		<u>38,976</u>	<u>38,976</u>	<u>38,976</u>	<u>38,976</u>
	Net Fee Revenue		\$12,177,107	\$11,413,000	\$12,462,000	\$12,525,000
	Investment Earnings		0	0	0	0
	Securities Lending Income		0	0	0	0
	Premiums		0	0	0	0
	Other Operating Revenues		<u>7</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Total Operating Revenue		\$12,177,114	\$11,413,000	\$12,462,000	\$12,525,000
Operating Expenses:						
	Personal Services		1,350,421	1,782,421	1,769,188	1,769,017
	Other Operating Expenses		<u>10,853,162</u>	<u>9,698,162</u>	<u>11,290,772</u>	<u>11,286,028</u>
	Total Operating Expenses		\$12,203,583	\$11,480,583	\$13,059,960	\$13,055,045
	Operating Income (Loss)		(\$26,469)	(\$67,583)	(\$597,960)	(\$530,045)
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets		(78,147)	0	0	0
	Federal Indirect Cost Recoveries		0	0	0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		(\$78,147)	\$0	\$0	\$0
	Income (Loss) Before Operating Transfers		(\$104,616)	(\$67,583)	(\$597,960)	(\$530,045)
	Contributed Capital		0	0	0	0
	Operating Transfers In (Note 13)		0	0	0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Change in net assets		(\$104,616)	(\$67,583)	(\$597,960)	(\$530,045)
	Total Net Assets- July 1 - As Restated		1,916,376	1,811,760	1,744,177	1,146,217
	Prior Period Adjustments		0	0	0	0
	Cumulative effect of account change		0	0	0	0
	Total Net Assets - July 1 - As Restated		<u>1,916,376</u>	<u>1,811,760</u>	<u>1,744,177</u>	<u>1,146,217</u>
	Net Assets- June 30		<u>\$1,811,760</u>	<u>\$1,744,177</u>	<u>\$1,146,217</u>	<u>\$616,172</u>
	60 days of expenses		\$2,033,931	\$1,913,431	\$2,176,660	\$2,175,841

*Program Description*

The Print and Mail Services Bureau provides printing, mail services, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The bureau has seven basic components: 1) internal printing; 2) external (contracted) printing; 3) photocopy pool; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead mail); and 7) postal contract station with

locked mail boxes in the Capitol. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 70 percent of printing expenditures are procured through commercial vendors. The Postal Contract Station provides mail services to the public.

### *Program Narrative*

#### Expenses

Significant costs for the program are for:

- o Personal services for 44.80 FTE, \$1.4 million or 53.8% of total costs
- o Operating costs, \$10.4 million with 91.1% of these costs due to:
  - Postage and mailing, \$4.5 million
  - Printing, \$3.7 million
  - Direct materials for printing (paper and ink), \$1.1 million
  - Building rent, \$0.2 million

#### Revenues

All agencies in Helena use the services of this program depending upon their printing and mail needs. Printing revenue is based on the actual type and volume of printing provided and mail services is based on agency specified service frequency.

Revenue is received in the following percentages:

- o Internal printing (printing, duplicating, desktop publishing, binding and quick copy services, variable data printing warrant writer and mainframe printing) - 14.4%
- o External printing (printing procured through commercial vendors) - 31.2%
- o Photocopy pool (photocopiers contracted through the private sector) - 7.4%
- o Mail preparation (preparing documents for mailing by tabbing, labeling, inkjet addressing, inserting, and bar coding) - 5.5%.
- o Central mail operations (pick-up and metering of out-going U.S. Mail and express small package services) - 38.9%
- o Inter-agency (sorting and delivery of incoming mail and pickup and delivery of deadhead mail) - 2.3%
- o Capitol building postal contract station (\$3,248.00 monthly from the U.S. Postal Service for operation of the Capitol Post Office) - 0.3 %

Budget authority to pay inter-agency mail fees is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for inter-agency mail (fixed cost item messenger services) is \$41,354, or 6.6%, higher for the 2013 biennium than the funding approved by the 2009 Legislature.

#### Funding Sources

Federal funds pay for the operation of the contract post office in the capitol building. Except for the contract post office and inter-agency mail, expenditure categories used to record customer agency expenditures include expenditures for the services of this program and other expenditures not related to the services provided by this program. As such, only the funding sources that finance payments for inter-agency mail are able to be estimated with any confidence. The following sources of funding were used to pay for the inter-agency mail services provided by this program:

- o General fund (33.0%)
- o State special revenue (23.2%)
- o Federal special revenue (13.1%)
- o Other (30.6%)

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Requested Rates - Print and Mail - Printing Rates				
Fee group and fee	FY 2010	FY 2011	FY 2012	FY 2013
Internal Printing				
Impression Cost				
1-20	\$0.0762	\$0.0762	\$0.0762	\$0.0762
21-100	\$0.0336	\$0.0336	\$0.0336	\$0.0336
101-1000	\$0.0193	\$0.0193	\$0.0193	\$0.0193
1001-5000	\$0.0078	\$0.0078	\$0.0078	\$0.0078
5000 +	\$0.0039	\$0.0039	\$0.0039	\$0.0039
Color Copy				
8 1/2 x 11	\$0.25	\$0.25	\$0.25	\$0.25
11 x 17	\$0.50	\$0.50	\$0.50	\$0.50
Ink				
Black per Sheet	\$0.0002	\$0.0002	\$0.0002	\$0.0002
Color	\$15.00	\$15.00	\$15.00	\$15.00
Special Mix	\$25.00	\$25.00	\$25.00	\$25.00
Large Format Color per ft.	\$12.696	\$12.70	\$12.70	\$12.70
Collating Machine	\$0.0072	\$0.0072	\$0.0072	\$0.0072
Collating Hand	\$0.60	\$0.60	\$0.60	\$0.60
Stapling Hand	\$0.018	\$0.018	\$0.018	\$0.018
Stapling In-line	\$0.012	\$0.012	\$0.012	\$0.012
Saddle Stitch	\$0.036	\$0.036	\$0.036	\$0.036
Folding	\$12.00 + \$0.006	\$12.00 + \$0.006	\$12.00 + \$0.006	\$12.00 + \$0.006
Folding Rt Angle	\$12.00 + \$0.006	\$12.00 + \$0.006	\$12.00 + \$0.006	\$12.00 + \$0.006
Folding In-line	\$0.036	\$0.036	\$0.036	\$0.036
Punching St 3 hole	\$0.0012	\$0.0012	\$0.0012	\$0.0012
Punching Non St	\$3.60 + \$0.0012	\$3.60 + \$0.0012	\$3.60 + \$0.0012	\$3.60 + \$0.0012
Cutting	\$0.66	\$0.66	\$0.66	\$0.66
Padding	\$0.0024	\$0.0024	\$0.0024	\$0.0024
Scoring, perf, num	\$6.00 + Dup Rate			
Perfect Binding	\$18.00 + \$0.66	\$18.00 + \$0.67	\$18.00 + \$0.68	\$18.00 + \$0.69
Spiral Binding	\$0.69	\$0.69	\$0.69	\$0.69
Laminating				
8 1/2 x 11	\$0.57	\$0.57	\$0.57	\$0.57
11 x 17	\$0.85	\$0.85	\$0.85	\$0.85
Tape Binding	\$0.60	\$0.60	\$0.60	\$0.60
Tabs	\$0.60	\$0.60	\$0.60	\$0.60
Transparencies	\$0.60	\$0.60	\$0.60	\$0.60
Shrink Wrapping	\$0.30	\$0.30	\$0.30	\$0.30
Hand Work Production	\$0.60	\$0.60	\$0.60	\$0.60
Overtime	\$22.15	\$22.15	\$22.15	\$22.15
Desktop	\$46.36	\$46.36	\$46.36	\$46.36
Scan	\$9.52	\$9.52	\$9.52	\$9.52
Proof	\$0.25	\$0.25	\$0.25	\$0.25
Programming	\$45.46	\$45.46	\$45.46	\$45.46
File Transfer	\$22.73	\$22.73	\$22.73	\$22.73
Variable Data	\$0.009	\$0.009	\$0.009	\$0.009
Mainframe Printing			\$0.069	\$0.069
CD Duplicating	\$1.75	\$1.75	\$1.75	\$1.75
DVD Duplicating	\$3.50	\$3.50	\$3.50	\$3.50
Silver Plates				
8.5x11	\$9.20	\$9.20	\$9.20	\$9.20
11x17	\$10.35	\$10.35	\$10.35	\$10.35
CTP Plates				
8.5x11	\$9.20	\$9.20	\$9.20	\$9.20
11x17	\$10.35	\$10.35	\$10.35	\$10.35
External Printing (% markup on invoice)	6.73%	6.73%	6.73%	6.73%

Requested Rates - Print and Mail - Photocopy and Mail				
Fee group and fee	FY 2010	FY 2011	FY 2012	FY 2013
Photocopy Pool (% markup on invoice)	15.9%	15.9%	15.9%	15.9%
Mail Preparation				
Tabbing	\$0.021	\$0.021	\$0.021	\$0.021
Labeling	\$0.021	\$0.021	\$0.021	\$0.021
Ink Jet	\$0.034	\$0.034	\$0.034	\$0.034
Inserting	\$0.030	\$0.030	\$0.030	\$0.030
Winsort	\$0.062	\$0.062	\$0.062	\$0.062
Permit Mailings	\$0.062	\$0.062	\$0.062	\$0.062
Mail Operations				
Service Type (each)				
Machinable	\$0.043	\$0.043	\$0.043	\$0.043
Non-Machinable	\$0.080	\$0.080	\$0.080	\$0.080
Seal Only	\$0.020	\$0.020	\$0.020	\$0.020
Post cards	\$0.049	\$0.049	\$0.049	\$0.049
Certified Mail	\$0.614	\$0.614	\$0.614	\$0.614
Registered Mail	\$0.614	\$0.614	\$0.614	\$0.614
Internatl Mail	\$0.400	\$0.400	\$0.400	\$0.400
Flats	\$0.110	\$0.110	\$0.110	\$0.110
Priority	\$0.614	\$0.614	\$0.614	\$0.614
Express Mail	\$0.614	\$0.614	\$0.614	\$0.614
USPS Parcels	\$0.400	\$0.400	\$0.400	\$0.400
Insured mail	\$0.614	\$0.614	\$0.614	\$0.614
Media Mail	\$0.307	\$0.307	\$0.307	\$0.307
Standard Mail	\$0.200	\$0.200	\$0.200	\$0.200
Postage Due	\$0.061	\$0.061	\$0.061	\$0.061
Fee Due	\$0.061	\$0.061	\$0.061	\$0.061
Tapes	\$0.245	\$0.245	\$0.245	\$0.245
Express Services	\$0.500	\$0.500	\$0.500	\$0.500
Inter-agency Mail (maximum allocation per year)	\$281,917	\$281,917	\$297,657	\$297,657
Postal Contract - Capitol Post Office (annual amount)	\$38,976	\$38,976	\$38,976	\$38,976

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.

### Central Stores Program (Central Stores - 06531)

#### *Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06531 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06531	Central Stores	6101	Department of Administration	General Services Division
			Actual	Budgeted
			FY 2010	FY 2011
			Budgeted	Budgeted
			FY 2012	FY 2013
Operating Revenues:				
Fee revenue				
	Central Stores Supplies		<u>\$4,854,919</u>	<u>\$5,000,000</u>
	Net Fee Revenue		<u>\$4,854,919</u>	<u>\$5,000,000</u>
	Investment Earnings		0	0
	Securities Lending Income		0	0
	Premiums		0	0
	Other Operating Revenues		<u>7</u>	<u>0</u>
	Total Operating Revenue		\$4,854,926	\$5,000,000
Operating Expenses:				
	Personal Services		388,508	511,278
	Other Operating Expenses		<u>4,450,553</u>	<u>4,532,143</u>
	Total Operating Expenses		\$4,839,061	\$5,043,421
	Operating Income (Loss)		\$15,865	(\$43,421)
Nonoperating Revenues (Expenses):				
	Gain (Loss) Sale of Fixed Assets		0	0
	Federal Indirect Cost Recoveries		0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		\$0	\$0
	Income (Loss) Before Operating Transfers		\$15,865	(\$43,421)
	Contributed Capital		0	0
	Operating Transfers In (Note 13)		0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>
	Change in net assets		\$15,865	(\$43,421)
	Total Net Assets- July 1 - As Restated		813,086	828,951
	Prior Period Adjustments		0	0
	Cumulative effect of account change		0	0
	Total Net Assets - July 1 - As Restated		<u>813,086</u>	<u>828,951</u>
	Net Assets- June 30		<u>\$828,951</u>	<u>\$785,530</u>
	60 days of expenses		\$806,510	\$840,570

### Program Description

The Central Stores Program contracts with a large warehouse distribution center to provide on-line ordering for office supplies. The program develops standard specifications and procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program, as long as the office supply conforms in all material respects to the terms, conditions, and quality offered by the stores program. Local governments and university system employees are not mandated to use central stores.

### Program Narrative

#### Expenses

Significant costs for the program are for:

- o Personal services for 11.55 FTE, \$0.4 million or 7.7% of total costs
- o Operating costs, \$4.6 million with 89.5% of these costs due to the purchase of supplies such as office supplies, computer paper, fine paper stock, printed forms, course paper, and janitorial supplies

Revenues

All agencies and units within state government and participating local governments purchase office supplies and paper products through this program. The customer pays for the products purchased plus a markup on the invoice of purchased products that funds the administration of this program.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (39.4%)
- o State special revenue (28.1%)
- o Federal special revenue (17.2%)
- o Other (15.3%)

*Present Law Adjustments*

The only present law adjustments for this program are for statewide adjustments that impact all agencies' budgets. For Central Stores, personal services adjustments dominate and account for most of the \$145,986 increase in FY 2012 and \$140,600 increase in FY 2013.

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Requested Rates for Central Stores				
Fee	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Central Stores Supplies (maximum markup)	20.0%	25.0%	25.0%	25.0%

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.

**Surplus Property Program (Surplus Property - 06066)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06066 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds					
Fund	Fund Name	Agency #	Agency Name	Program Name	
06066	Surplus Property	61010	Department of Administration	General Services	
		Actual	Budgeted	Budgeted	Budgeted
		FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:					
Fee revenue					
	State Surplus Property Handling Fee	\$0	\$297,000	\$455,000	\$455,000
	Federal Surplus Property Handling Fee	0	12,000	10,000	10,000
	Misc. Revenue	<u>662,387</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Fee Revenue	\$662,387	\$309,000	\$465,000	\$465,000
	Investment Earnings	0	0	0	0
	Securities Lending Income	0	0	0	0
	Premiums	0	0	0	0
	Other Operating Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Total Operating Revenue	\$662,387	\$309,000	\$465,000	\$465,000
Operating Expenses:					
	Personal Services	246,548	226,660	244,723	245,143
	Other Operating Expenses	357,093	121,075	125,626	125,247
	Inventory Adjustment*	<u>0</u>	<u>0</u>	<u>465,000</u>	<u>465,000</u>
	Total Operating Expenses	\$603,641	\$347,735	\$835,349	\$835,390
	Operating Income (Loss)	\$58,746	(\$38,735)	(\$370,349)	(\$370,390)
Nonoperating Revenues (Expenses):					
	Gain (Loss) Sale of Fixed Assets	3,757	0	0	0
	Federal Indirect Cost Recoveries	0	0	0	0
	Other Nonoperating Revenues (Expenses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)	\$3,757	\$0	\$0	\$0
	Income (Loss) Before Operating Transfers	\$62,503	(\$38,735)	(\$370,349)	(\$370,390)
	Contributed Capital*	408,464	326,000	465,000	465,000
	Operating Transfers In (Note 13)	0	0	0	0
	Operating Transfers Out (Note 13)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Change in net assets	\$470,967	\$287,265	\$94,651	\$94,610
	Total Net Assets- July 1 - As Restated	6,735	477,702	764,967	859,618
	Prior Period Adjustments	0	0	0	0
	Cumulative effect of account change	0	0	0	0
	Total Net Assets - July 1 - As Restated	<u>6,735</u>	<u>477,702</u>	<u>764,967</u>	<u>859,618</u>
	Net Assets- June 30	<u>\$477,702</u>	<u>\$764,967</u>	<u>\$859,618</u>	<u>\$954,228</u>
	60 days of expenses	\$100,607	\$57,956	\$139,225	\$139,232
*Inventory adjustment is a non-budgeted, non-cash expenditure. Contributed Capital is a non-budgeted, non-cash revenue.					

### Program Description

The Property and Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by agencies. The federal surplus program acquires surplus property from federal agencies. This property is distributed to state agencies or other eligible organizations. The surplus property programs provide a mechanism to transfer surplus property between agencies and extend the life of state property. The program provides accountability in the disposal of surplus state property, provides agencies with a service to collect surplus equipment, and provides an in-state screening service to locate federal surplus property for state agencies and local governments.

### Program Narrative

#### Expenses

Significant costs for the program are for:

- o Personal services for 4.60 FTE, \$239,695 or 65.0% of total costs
- o Operating costs, \$128,983 with no single item driving operating expense
- o The following two operating cost areas that make up 17.4% of operating costs are the most significant to the operation of the program:
  - Utilities such as electricity, natural gas, water and sewer, and garbage disposal, \$12,583
  - Rent, \$9,836

### Revenues

Revenues are derived from the following handling fees:

- o Property is sold for less than \$500, the program retains the proceeds
- o Property sold for \$500 or more the program retains \$500 plus unusual expenses
- o Federal Surplus Property program fees are an allocation of freight expense and 14 percent of acquisition cost

### Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o State special revenue (0.4%)
- o Other (99.6%)

In FY 2010, the Department of Transportation (DOT) paid \$255,324 in fees to surplus equipment and vehicles in their equipment and motor pool programs that are funded with proprietary funds. These DOT fees financed the majority of the program for FY 2010.

### *Present Law Adjustments*

The only present law adjustments for this program are for statewide adjustments that impact all agencies' budgets. For the Surplus Property Program, personal services adjustments dominate and account for most of the \$1,671 increase in FY 2012 and \$1,712 increase in FY 2013.

### *Proprietary Rates*

The fees charged are discussed above in the "Revenue" section for this proprietary program.

The program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	9.50	9.50	9.50	9.50	9.50	9.50	0.00	0.00%
Personal Services	775,175	716,257	751,550	751,889	1,491,432	1,503,439	12,007	0.81%
Operating Expenses	273,735	378,835	353,415	355,557	652,570	708,972	56,402	8.64%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	838,563	1,483,576	838,563	838,563	2,322,139	1,677,126	(645,013)	(27.78%)
Transfers	0	75,000	0	0	75,000	0	(75,000)	(100.00%)
<b>Total Costs</b>	<b>\$1,887,473</b>	<b>\$2,653,668</b>	<b>\$1,943,528</b>	<b>\$1,946,009</b>	<b>\$4,541,141</b>	<b>\$3,889,537</b>	<b>(\$651,604)</b>	<b>(14.35%)</b>
General Fund	508,363	539,317	419,613	422,431	1,047,680	842,044	(205,636)	(19.63%)
State Special	1,379,110	2,114,351	1,523,915	1,523,578	3,493,461	3,047,493	(445,968)	(12.77%)
Federal Special	0	0	0	0	0	0	0	n/a
<b>Total Funds</b>	<b>\$1,887,473</b>	<b>\$2,653,668</b>	<b>\$1,943,528</b>	<b>\$1,946,009</b>	<b>\$4,541,141</b>	<b>\$3,889,537</b>	<b>(\$651,604)</b>	<b>(14.35%)</b>

### Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies located throughout the state. ITSD provides local and long distance telephone network services used by all agencies, including the university system, and manages the state's video network. ITSD coordinates electronic government services for the state, and manages the state's Internet presence mt.gov. ITSD also manages the security and continuity and information technology (IT) project management enterprise offices.

The division coordinates Geographic Information Systems (GIS) development, and manages the Public Safety Services Office that includes the state's 911 and public safety radio programs. These programs are funded by state special, federal special and general funds.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates IT for the state, and reviews and approves IT acquisitions. The division also provides statewide IT training and establishes hardware, software, and consulting services contracts used by agencies.

**Program Highlights**

<b>Information Technology Services Division Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>◆ The majority of funding in this program is proprietary funds                             <ul style="list-style-type: none"> <li>• The general fund required to fund ITSD is reduced by \$205,636, or 19.6% compared to the 2011 biennium due primarily because a 5% reduction plan item shifts funding for 0.50 FTE from general fund to state special revenue</li> <li>• A change in the methodology for allocating the costs of ITSD and reductions in recommended spending for ITSD result in a statewide reduction in general fund being used to support ITSD services.</li> </ul> </li> </ul>	
<b>Major LFD Issues</b>	
<ul style="list-style-type: none"> <li>◆ Alternatives are available for the rates for the proprietary funded program instead of the requested 30-day working capital rate</li> <li>◆ A request to increase 9-1-1 program administrative funding lack details on why the increase is needed</li> </ul>	

**Program Narrative**

*5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

DP 55400 - 4% Person Services Reduction is for a funding switch for 0.50 FTE. This executive recommended adjustment would replace general fund with state special revenue. For further discussion on this adjustment see the “New Proposals” section for this program. No other items were included on the agency 5% plan for this program.

**Funding**

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table							
State Information Technology Division							
Program Funding		Base	% of Base	Budget	% of Budget	Budget	% of Budget
		FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000	Total General Fund	\$ 508,363	26.9%	\$ 419,613	21.6%	\$ 422,431	21.7%
	01100 General Fund	508,363	26.9%	419,613	21.6%	422,431	21.7%
02000	Total State Special Funds	1,379,110	73.1%	1,523,915	78.4%	1,523,578	78.3%
	02594 Basic 911 Emerg Phone Program	300,498	15.9%	364,497	18.8%	363,019	18.7%
	02779 Montana Land Information	1,078,612	57.1%	1,159,418	59.7%	1,160,559	59.6%
Grand	Total	<u>\$ 1,887,473</u>	<u>100.0%</u>	<u>\$ 1,943,528</u>	<u>100.0%</u>	<u>\$ 1,946,009</u>	<u>100.0%</u>

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables, but is discussed in the “Proprietary Rates” section for this program. The HB 2 budgeted portion of the division is funded with general fund and state special revenue. The division receives general fund to administer the Public Safety Services Office. State special revenue funds the administration of the statewide 911 emergency telephone program and GIS coordination work with funding derived from land transaction fees under the Montana Land Information Act.

### Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	508,363	508,363	1,016,726	120.74%	1,887,473	1,887,473	3,774,946	97.05%
Statewide PL Adjustments	(25,389)	(22,730)	(48,119)	(5.71%)	56,055	58,536	114,591	2.95%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(63,361)	(63,202)	(126,563)	(15.03%)	0	0	0	0.00%
<b>Total Budget</b>	<b>\$419,613</b>	<b>\$422,431</b>	<b>\$842,044</b>		<b>\$1,943,528</b>	<b>\$1,946,009</b>	<b>\$3,889,537</b>	

### Present Law Adjustments

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					7,690					8,042
Vacancy Savings					(31,315)					(31,328)
Inflation/Deflation					(1,358)					(1,338)
Fixed Costs					81,038					83,160
<b>Total Statewide Present Law Adjustments</b>		<b>(\$25,389)</b>	<b>\$81,444</b>	<b>\$0</b>	<b>\$56,055</b>		<b>(\$22,730)</b>	<b>\$81,266</b>	<b>\$0</b>	<b>\$58,536</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>(\$25,389)</b>	<b>\$81,444</b>	<b>\$0</b>	<b>\$56,055</b>	<b>0.00</b>	<b>(\$22,730)</b>	<b>\$81,266</b>	<b>\$0</b>	<b>\$58,536</b>

### Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - the obstacles the program face in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** - There was no turnover in this program in FY 2010.
- o **Legislatively Applied Vacancy Savings** - The program achieved the 7.0% applied vacancy savings rate by shifting funding from other operational areas.
- o **Pay/Position Changes** - No pay or position changes were made in the last two years.
- o **Retirements** - Three employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$67,385.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	-----Fiscal 2012-----					-----Fiscal 2013-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 55400 - 4% Person Services Reduction											
07	0.00	(63,361)	63,361	0	0	0.00	(63,202)	63,202	0	0	
<b>Total</b>	<b>0.00</b>	<b>(\$63,361)</b>	<b>\$63,361</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>(\$63,202)</b>	<b>\$63,202</b>	<b>\$0</b>	<b>\$0</b>	

DP 55400 - 4% Person Services Reduction - The executive recommends a 4% reduction of personal services funded with general fund. For this program general fund would be reduced and state special revenue increased by a like amount for the 0.50 FTE bureau chief position of the Public Safety Services Bureau. Funding for 50% of the position would be the statewide 9-1-1 state special revenue fund that receives a 2.74% allocation of 9-1-1 fees.

<b>LFD COMMENT</b>	5% Reduction Plan Item This adjustment is an item on the agency’s 5% reduction plan.
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**Proprietary Rates  
Information Technology Services Division (SITSD Proprietary -06522)**

*Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06522 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06522	SITSD Proprietary	61010	Department of Administration	State Information Technology Services		
			Actual	Budgeted	Budgeted	Budgeted
			FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:						
Fee revenue			\$41,430,278	\$40,610,336	\$39,500,500	\$39,700,500
Other Charges For Services			<u>0</u>	<u>0</u>	<u>1,547,636</u>	<u>1,613,916</u>
Net Fee Revenue			\$41,430,278	\$40,610,336	\$41,048,136	\$41,314,416
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Premiums			240	0	0	0
Other Operating Revenues			<u>21,885</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenue			\$41,452,403	\$40,610,336	\$41,048,136	\$41,314,416
Operating Expenses:						
Personal Services			14,929,431	16,448,850	15,979,604	15,970,587
Software Capitalization (GASB 51) - Expensed in FY 2010			4,223,779	0	0	0
Other Operating Expenses			<u>21,032,254</u>	<u>24,161,486</u>	<u>25,554,731</u>	<u>25,828,834</u>
Total Operating Expenses			\$40,185,464	\$40,610,336	\$41,534,335	\$41,799,421
Operating Income (Loss)			\$1,266,939	\$0	(\$486,199)	(\$485,005)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			0	0	0	0
Federal Indirect Cost Recoveries			0	0	0	0
Other Nonoperating Revenues (Expenses)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Nonoperating Revenues (Expenses)			\$0	\$0	\$0	\$0
Income (Loss) Before Operating Transfers			\$1,266,939	\$0	(\$486,199)	(\$485,005)
Contributed Capital			0	0	0	0
Operating Transfers In (Note 13)			0	0	0	0
Operating Transfers Out (Note 13)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in net assets			\$1,266,939	\$0	(\$486,199)	(\$485,005)
Total Net Assets- July 1 - As Restated			(971,812)	295,127	295,127	(191,072)
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			<u>(971,812)</u>	<u>295,127</u>	<u>295,127</u>	<u>(191,072)</u>
Net Assets- June 30			<u>\$295,127</u>	<u>\$295,127</u>	<u>(\$191,072)</u>	<u>(\$676,077)</u>
60 days of expenses			\$6,697,577	\$6,768,389	\$6,922,389	\$6,966,570
45 days of expenses			\$5,023,183	\$5,076,292	\$5,191,792	\$5,224,928

### Program Description

The Information Technology Services Division (ITSD) manages the following information technology (IT) services for state government:

- o Operation of the state data center and backup data center
- o Shared statewide desktop and data network services
- o Central mainframe computer processing
- o Mid-tier access and production services
- o Local and long-distance telephone networking
- o IT planning, research, and coordination
- o Design, development, and maintenance support of IT applications
- o Personal computer (PC) and office automation support and consultation
- o Design and development of telephone equipment, networking applications, and other telecommunication needs
- o Internet and intranet services
- o Electronic government planning and coordination

- o Central imaging
- o Geographic information systems (GIS) coordination
- o Disaster recovery facilities for critical data processing applications
- o IT training

### *Program Narrative*

### Expenses

Significant costs for the program are for:

- o Personal services for 174.71 FTE, \$15.0 million or 36.7% of total costs
- o Operating costs, \$19.8 million with 72.7% of these costs due to:
  - Contracting for IT vendor services (\$1.2 million)
  - Local voice and data circuits (\$1.6 million)
  - Long distance voice and data circuits and charges (\$2.7 million)
  - Rent of software programs (\$5.3 million)
  - Maintenance of multi-user computers and terminals (\$1.9 million)
  - Procurement of computer equipment (non-capitalizable) (\$1.7 million)
- o Equipment costs, \$5.7 million with 92.0% of these costs due to:
  - Procurement of computer equipment (capitalizable) (\$1.0 million)
  - Purchase of computer software (\$4.2 million)

### Revenues

Funding for ITSD is primarily from charges to state agencies for server and application hosting, and data/voice network services. A significant portion of ITSD's budget is Enterprise Services. Funding for Enterprise Services comes from agency charges based on a per-user allocation.

### **LFD COMMENT**

#### Agency Impacts of ITSD Allocation

Budget authority to pay the ITSD allocation is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for ITSD is \$1.1 million lower for the 2013 biennium than the funding approved by the 2009 Legislature. The primary reason for this reduction is that the statewide present law adjustments reduce the 2013 budget for this program by \$2.4 million from the base. Two factors contributed heavily to this reduction:

- o Permanent FTE generated no vacancy savings in FY 2010
- o Base expenditures funded 18.00 FTE in modified positions and this funding is not included in the funding for the 2013 biennium

In spite of the decline in the net statewide allocation for the ITSD fixed cost allocation as compared to the level allocated in the 2011 biennium some other changes regarding the allocation among agencies should be noted.

ITSD uses a tool to identify and allocate the full cost of each separate service it offers to the users of that service. This tool, known as the Financial Transparency Model (FTM), is relatively new in its use by the division. It was developed during FY 2008 and first used to develop the 2011 biennium budget. Because ITSD continues to refine the model for the services and the costs to provide them, the allocation of costs to the various state agencies has shifted for the 2013 biennium.

**LFD  
COMMENT CONT.**

In particular, the allocation of costs to host software applications has changed dramatically from the allocation used in the 2011 biennium. This is due to refinement of more specific costs for application hosting services. Hosting in this instance is where a customer's software application resides on the computer equipment operated by ITSD and ITSD provides services like provision of network and data storage space, 24x7 operational support, data backups, etc. In the 2011 biennium many of the services incidental to application hosting that are now being separately charged for the costs were bundled under one rate. With these services no longer bundled agencies with large hosted services are seeing their ITSD allocations go down and those with smaller applications are seeing their allocations going up. The reason is that under the bundled rates used in the 2011 biennium agencies with larger applications subsidized the smaller applications for many of the services that are now being separately billed for. For the 2013 biennium, the subsidies no longer are occurring.

The following figure illustrates the amount of the change and the general fund impact by agency. The general fund contribution to base expenditures was used to estimate the general fund impact for the 2013 biennium.

Agency	ITSD Fixed Cost Adjustment						
	Total Change			General Fund	General Fund Amount		
	FY 2012	FY 2013	Biennium	FY 2010 %	FY 2012	FY 2013	Biennium
41100 Department of Justice	987,400	922,497	1,909,897	49.1%	485,170	453,280	938,450
66020 Labor & Industry	756,365	740,177	1,496,542	1.5%	11,225	10,985	22,211
57060 Dept Nat Resource/Conservation	498,688	590,656	1,089,344	75.2%	375,260	444,466	819,726
52010 Dept. of Fish, Wildlife & Parks	282,929	284,953	567,882	0.0%	0	0	0
61080 Public Defender	187,019	186,858	373,877	100.0%	187,019	186,858	373,877
53010 Dept of Environmental Quality	112,847	112,847	225,694	10.1%	11,343	11,343	22,687
51030 University of Montana	100,535	89,047	189,582	0.0%	0	0	0
62010 MT Dept of Agriculture	93,675	94,997	188,672	11.8%	11,037	11,193	22,230
11040 Legislative Branch	(857)	132,629	131,772	92.8%	(795)	123,031	122,236
35130 MSU College of Tech-GF	50,955	50,920	101,875	0.0%	0	0	0
61010 Department of Administration	51,885	42,434	94,319	7.9%	4,117	3,367	7,484
32020 Commissioner of Political Prac	40,419	42,723	83,142	100.0%	40,419	42,723	83,142
64010 Dept of Corrections	33,016	41,081	74,097	97.4%	32,153	40,008	72,161
51060 Montana State Univ-Billings	28,830	27,318	56,148	0.0%	0	0	0
51070 MSU-Northern	26,584	26,459	53,043	0.0%	0	0	0
41070 Crime Control Division	26,304	26,434	52,738	77.1%	20,289	20,389	40,678
35140 Helena College of Tech-UM	24,806	24,806	49,612	0.0%	0	0	0
51170 Historical Society	20,261	27,045	47,306	34.0%	6,879	9,182	16,061
51050 Montana Tech of the U of M	18,834	18,726	37,560	0.0%	0	0	0
11120 Consumer Counsel	17,749	17,918	35,667	0.0%	0	0	0
65010 Department of Commerce	13,136	13,343	26,479	14.3%	1,879	1,908	3,787
51140 Montana Arts Council	13,041	12,733	25,774	46.7%	6,085	5,941	12,025
51010 Board of Public Education	12,237	12,241	24,478	17.8%	2,176	2,177	4,353
56030 Department of Livestock	9,915	11,072	20,987	2.1%	210	235	445
31010 Governor's Office	9,276	9,151	18,427	98.6%	9,144	9,020	18,164
35010 Office of Public Instruction	1,699	859	2,558	22.2%	378	191	569
51150 Library Commission	715	742	1,457	93.9%	672	697	1,368
51080 University of Montana Western	(277)	(362)	(639)	0.0%	0	0	0
51130 School for the Deaf & Blind	(6,391)	(6,176)	(12,567)	87.5%	(5,591)	(5,403)	(10,995)
42010 Public Service Regulation	(6,865)	(8,973)	(15,838)	0.0%	0	0	0
51020 Commissioner of Higher Ed	(8,257)	(9,200)	(17,457)	23.7%	(1,955)	(2,178)	(4,133)
67010 Dept of Military Affairs	(16,179)	(13,126)	(29,305)	40.2%	(6,507)	(5,279)	(11,787)
34010 State Auditor's Office	(20,402)	(17,655)	(38,057)	0.0%	0	0	0
54010 Department of Transportation	5,335	(49,676)	(44,341)	0.0%	0	0	0
51040 Montana State University	(32,788)	(42,132)	(74,920)	0.0%	0	0	0
21100 Judiciary	(281,256)	(245,324)	(526,580)	96.1%	(270,310)	(235,776)	(506,086)
69060 Public Health & Human Services	(912,660)	(824,174)	(1,736,834)	41.4%	(377,909)	(341,269)	(719,178)
58010 Department of Revenue	(1,494,329)	(1,491,115)	(2,985,444)	97.4%	(1,454,871)	(1,451,741)	(2,906,612)
Total Adjustment	\$644,194	\$852,753	\$1,496,947		(\$912,483)	(\$664,653)	(\$1,577,136)

As stated, ITSD's rates are based on a full cost activity based budgeting model, the Financial Transparency Model. The program has defined nearly 200 services, allocated costs and staff time to each service, and estimated units of service provided to each agency. Rates are based on a detailed allocation of expenses and staff time to each service. ITSD uses a staff time tracking system to refine the accuracy of staff time allocation. For a wide variety of services, agencies will have the choice of using the service or altering the units consumed.

Rates and the billing bases that generate major portions of ITSD revenue are listed below:

- o Hosting services
  - Storage hosting rates are based on space usage
- o Server hosting
  - Mainframe rates are based on actual usage
  - Mid-tier server's rates are based on a formula that accounts for the size of server, space used, and ITSD staff time required
- o Application hosting
  - Rates are based on space, backup, servers used, support required, and licensing usage
- o Connectivity services
  - Data network rates are based on the number of connections with Active Directory accounts on the network
  - Video services are based on conference hours
- o Voice services
  - Telephone desktop equipment rates are based on type of equipment
  - Local calls are based on a flat rate
  - Long distance and toll free services are based on minutes
- o Enterprise Service
  - Rate is based on the number of users with Active Directory accounts on the network

The Enterprise Services listed below are statewide in nature and agencies are required to use these services unless granted an exception in statute or by the CIO due to existence of an exceptional condition.

Enterprise Services:

- o Statewide continuity planning
- o Information system risk management
- o Enterprise security and computing systems monitoring
- o Montana Information Technology Act (MITA) oversight of IT activities
  - IT strategic planning and agency IT plan approval
  - IT policy, standards, and procedures
- o Staff support for statutory IT councils
- o State chief information officer (CIO) activities
- o Enterprise-wide IT procurement and contract management
- o Enterprise application hosting - Citrix and Oracle
- o IT training coordination
- o mt.gov and MINE portal development and website hosting
- o Maintenance of an active directory of computer users
- o State telephone operators

### Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (39.4%)
- o State special revenue (26.5%)
- o Federal special revenue (17.3%)
- o Other (16.8%)

The above sources of funding are based on base year expenditures. With the allocation shift identified above, the funding sources for the 2013 biennium may be different. The amount of the change is not determinable.

#### *Present Law Adjustments*

Statewide Present Law Adjustments – Statewide present law adjustments would reduce funding by nearly \$2.4 million for the biennium. The largest reductions are for personal services. As stated above, the primary factors for this reduction are that the base had no vacancy savings but funding for modified FTE and this funding is not continued into the 2013 biennium.

#### *Proprietary Rates*

For the 2013 biennium the State Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 30-day working capital.

#### **LFD ISSUE**

#### Alternatives Are Available for the Program Proprietary Rates

Because the 30-day working capital rate proposed does not provide a means of limiting either rates or expenditures, the legislature may wish to use an alternate rate that establishes limits.

#### *Statutory Direction*

Montana laws states that the executive budget submission must contain a report for internal services funds that includes:

“Fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

The program requests that instead of approving fees, that the legislature provide the program the flexibility to operate as it determines necessary to maintain a 30-day working capital balance to operate the division. The legislature has adopted the 30-day working capital balance for ITSD for the past several biennia.

1995 Legislature in HB 576 replaced the legislative action from appropriating internal services funds to approving the maximum level of fees and charges an internal service funded program can charge for its services. An intent of this legislation was to replace a direct limitation on expenditures with a limitation on how much the program could charge, thereby allowing the program to respond to changing workload if necessary while still limiting the amounts that could be charged to those using the service. Approving a limit on the maximum working capital the program does not limit how much can be charged. It limits the amount of cash the program can accumulate at a given moment.

One argument agencies make in requesting a working capital rate is that otherwise the legislature would have to approve hundreds of rates. Proprietary funded programs also argue that the costs are subject to the choices of service users who control the level of services they purchase from the service provider. Unlike some proprietary funded services where users are free to purchase services from other providers, users must use most of the services provided by ITSD.

Within limits, users control which of the ITSD services they use, many of which have alternatives based on cost and features. For example, users must purchase telephone services from ITSD, but users control the type and number of each different telephone unit they use. Telephones with different features have different rates to the users and costs to ITSD. The legislature should be aware that user agencies’ funding and flexibility to choose the type and amounts of services purchased place constraints on ITSD to control costs. Furthermore, statutory constraints during the interim that require ITSD to obtain approval from the Governor’s budget office to increase funding limits also constrain expenditures of ITSD.

**LFD  
ISSUE CONT.**

Given that the working capital rate requested does limit rates or expenditures of ITSD, but users' consumption choices and funding do, the legislature may approve the rates as requested or other alternatives for adding constraints on expenditures of ITSD. An alternative to consider is:

1. Approve specific fees for some of the more predictable usage areas, such as those listed below, and a working capital rate for all other areas:
  - Enterprise Services (\$6,166,189 in FY 2012 and \$6,195,048 in FY 2013)
  - Web content management - sharp content – primary domain – initial setup (\$600 one-time charge in FY 2012 and FY 2013)
  - Web content management – sharp content – sub-site – initial setup (\$100 one-time per setup per sub-site domain in FY 2012 and FY 2013)
  - GIS services – GIS data services – BMSC SSITSD Managed (\$350 per service per application per year in FY 2012 and FY 2013)
  - GIS services – GIS data services – customer managed (\$800 per service per year in FY 2012 and FY 2013)
  - GIS services – direct connectivity (\$3,600 per connection in FY 2012 and FY 2013)
  - Voice services – dial tone (\$13.37 in FY 2012 and \$13.19 in FY 2013 per phone per year or \$1.11 in FY 2012 and \$1.10 in FY 2013 per phone per month)
  - Voice services – installation fee to add a new phone or move an existing phone (\$132.64 in FY 2012 and \$44.16 in FY 2013 per phone)
  - Email – email mailbox (\$46.28 in FY 2012 and \$46.14 in FY 2013 per email box per year or \$3.86 in FY 2012 and \$3.84 in FY 2013 per email box per month)

By approving the working capital rate the legislature would allow ITSD to charge more specific rates to its customers and ITSD would be allowed to set and change the level of these rates throughout the interim. The rates ITSD would charge customers are based on a wide variety of measures, each measure proportional to the usage, which is determined by each agency.

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.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	39.00	39.00	39.00	39.00	39.00	39.00	0.00	0.00%
Personal Services	2,310,011	2,910,454	2,815,272	2,813,261	5,220,465	5,628,533	408,068	7.82%
Operating Expenses	788,473	789,990	757,220	751,681	1,578,463	1,508,901	(69,562)	(4.41%)
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
<b>Total Costs</b>	<b>\$3,098,484</b>	<b>\$3,700,444</b>	<b>\$3,572,492</b>	<b>\$3,564,942</b>	<b>\$6,798,928</b>	<b>\$7,137,434</b>	<b>\$338,506</b>	<b>4.98%</b>
State Special	3,098,484	3,700,444	3,572,492	3,564,942	6,798,928	7,137,434	338,506	4.98%
<b>Total Funds</b>	<b>\$3,098,484</b>	<b>\$3,700,444</b>	<b>\$3,572,492</b>	<b>\$3,564,942</b>	<b>\$6,798,928</b>	<b>\$7,137,434</b>	<b>\$338,506</b>	<b>4.98%</b>

### Program Description

The Banking and Financial Institutions Division licenses, supervises, regulates, and examines a variety of financial institutions operating in and outside Montana such as:

- o State-chartered banks, trust companies, savings and loans, and credit unions
- o Consumer loan and sales finance companies
- o Title loan companies
- o Escrow companies
- o Foreign capital depositories in accordance with Title 32, MCA
- o Deferred deposit loan companies
- o Mortgage brokers and loan originators

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations of applications for new bank charters and foreign capital depository charters; hearing appeals of division decisions on branch bank, merger, or relocation applications; and acting in an advisory capacity with respect to the duties and powers given by statute or otherwise to the department as the duties and powers relate to banking and to the

### Program Highlights

<b>Banking and Financial Division Major Budget Highlights</b>	
◆	The only adjustments recommended for the division are for statewide present law adjustments

**Program Narrative**

*5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program. The 5% plan includes two items that impact this program, but neither item has been included in the executive budget:

- o Reduce the division’s state special revenue funding for operating expenses to implement SB 351 of the 2009 Legislature by \$26,100 per year. SB 351 is the Montana Mortgage Broker, Mortgage Lender, and Mortgage Loan Originator Licensing Act. This act implements the requirements in the federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) that requires states to pass legislation to protect consumers and the stability of the state’s economy. The biggest impacts on the operations of the program due to SB 351 are in implementing the rules to implement the SAFE Act and to train staff per the requirements of the act. Training requirements are ongoing but rules will only need to be changed upon subsequent federal changes. Workload impacts were addressed by redirecting existing, but vacant FTE to perform the functions required in SB 351. According to the agency, the risks of reducing this operation funding is that the division would then not have sufficient funding to address unexpected changes to federal legislation both by addressing changes in statutes and rules and by maintaining staff trained on the changes. This item would be a 0.8% reduction for this program
- o Eliminate funding for 2.00 FTE bank examiner positions by \$115,382 per year. The agency has been able to meet statutory examination frequency requirements for banks and credit unions but the risk is that when more frequent examinations or spot checks are warranted for financial institutions identified as problem institutions, the staffing levels would not be sufficient to monitor the institution more frequently than the minimum statutory level. This item would be a 3.7% reduction for this program

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table							
Banking And Financial Division							
		Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding		FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000	Total State Special Funds	\$ 3,098,484	100.0%	\$ 3,572,492	100.0%	\$ 3,564,942	100.0%
	02077 Financial Institutions Div	<u>3,098,484</u>	<u>100.0%</u>	<u>3,572,492</u>	<u>100.0%</u>	<u>3,564,942</u>	<u>100.0%</u>
	Grand Total	<u>\$ 3,098,484</u>	<u>100.0%</u>	<u>\$ 3,572,492</u>	<u>100.0%</u>	<u>\$ 3,564,942</u>	<u>100.0%</u>

The division is funded solely by state special revenue through assessments, application fees, and examination fees paid by the regulated financial institutions.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	3,098,484	3,098,484	6,196,968	86.82%
Statewide PL Adjustments	0	0	0	0.00%	474,008	466,458	940,466	13.18%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$3,572,492</b>	<b>\$3,564,942</b>	<b>\$7,137,434</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					622,563					620,466
Vacancy Savings					(117,302)					(117,216)
Inflation/Deflation					(10,387)					(10,143)
Fixed Costs					(20,866)					(26,649)
<b>Total Statewide Present Law Adjustments</b>		<b>\$0</b>	<b>\$474,008</b>	<b>\$0</b>	<b>\$474,008</b>		<b>\$0</b>	<b>\$466,458</b>	<b>\$0</b>	<b>\$466,458</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$474,008</b>	<b>\$0</b>	<b>\$474,008</b>	<b>0.00</b>	<b>\$0</b>	<b>\$466,458</b>	<b>\$0</b>	<b>\$466,458</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - The program offers a professional career ladder program for banking examiners to address challenges in hiring and retaining competent staff due to much higher pay structures offered by federal banking regulators and private banks.
- o **Program Specific Obstacles** - The program competes with federal banking regulators and private banks for examiner staff and these competing entities have higher pay structures than the state.
- o **Vacancy** - The program experienced a 25.3% vacancy rate in a comparison between hours budgeted and hours expended and the highest vacancy rates are in bank examiner positions.

<b>LFD COMMENT</b>	<p><u>Factors in High Vacancy Rate</u></p> <p>Positions experiencing high vacancy savings were those associated with the consumer finance company area. Examiners in this area were left vacant due to a concern with the potential passage of I-164, the initiative on the November 2010 election ballot that capped payday, title, and retail installment lending rates at 36%. The program was concerned that with passage of the initiative the number of lenders renewing licenses would decrease, as would the revenues for the licenses. The program has stated that they are waiting until renewals are due to determine the impact of the passage of I-164.</p>
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- o **Legislatively Applied Vacancy Savings** – The program achieved a 22.5% vacancy savings when comparing actual personal services expenditures to budgeted personal services with vacancy savings reductions added back in (16.9% without the vacancy savings added back) and this occurred primarily due to bank examiner turnover.
- o **Pay/Position Changes** – No pay changes were given in the base year even though the program had legislative funding for a professional career ladder program, but career ladder increases were provided at the end of FY 2009 and impacted FY 2010 by an estimated \$35,383.
- o **Retirements** – Six employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$97,694.

**Program Budget Comparison**

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00%
Personal Services	1,753,693	1,752,431	1,800,101	1,800,905	3,506,124	3,601,006	94,882	2.71%
Operating Expenses	5,450,539	4,817,089	5,696,899	5,595,308	10,267,628	11,292,207	1,024,579	9.98%
Equipment & Intangible Assets	42,077	42,077	42,077	42,077	84,154	84,154	0	0.00%
<b>Total Costs</b>	<b>\$7,246,309</b>	<b>\$6,611,597</b>	<b>\$7,539,077</b>	<b>\$7,438,290</b>	<b>\$13,857,906</b>	<b>\$14,977,367</b>	<b>\$1,119,461</b>	<b>8.08%</b>
State Special	0	0	0	0	0	0	0	n/a
Other	7,246,309	6,611,597	7,539,077	7,438,290	13,857,906	14,977,367	1,119,461	8.08%
<b>Total Funds</b>	<b>\$7,246,309</b>	<b>\$6,611,597</b>	<b>\$7,539,077</b>	<b>\$7,438,290</b>	<b>\$13,857,906</b>	<b>\$14,977,367</b>	<b>\$1,119,461</b>	<b>8.08%</b>

**Program Description**

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

The Montana Lottery is attached to the Department of Administration for administrative purposes only.

**Program Highlights**

Montana State Lottery Major Budget Highlights	
◆	The program would increase \$1.1 million, or 8.1% due to: <ul style="list-style-type: none"> <li>• Statewide present law adjustments</li> <li>• Increased funding for payments to the lottery system vendor that are tied to increased lottery sales (\$450,000)</li> </ul>

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table Montana State Lottery							
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013	
06000 Total Proprietary Funds	\$ 7,246,309	100.0%	\$ 7,539,077	100.0%	7,438,290	100.0%	
06001 State Lottery Fund	<u>7,246,309</u>	<u>100.0%</u>	<u>7,539,077</u>	<u>100.0%</u>	<u>\$ 7,438,290</u>	<u>100.0%</u>	
Grand Total	<u>\$ 7,246,309</u>	<u>100.0%</u>	<u>\$ 7,539,077</u>	<u>100.0%</u>	<u>\$ 7,438,290</u>	<u>100.0%</u>	

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund and by law its funding must be appropriated by the legislature.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	7,246,309	7,246,309	14,492,618	96.76%
Statewide PL Adjustments	0	0	0	0.00%	67,768	(33,019)	34,749	0.23%
Other PL Adjustments	0	0	0	0.00%	225,000	225,000	450,000	3.00%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$7,539,077</b>	<b>\$7,438,290</b>	<b>\$14,977,367</b>	

**Present Law Adjustments**

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					121,361					122,202
Vacancy Savings					(74,953)					(74,990)
Inflation/Deflation					3,106					4,618
Fixed Costs					18,254					(84,849)
<b>Total Statewide Present Law Adjustments</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$67,768*</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$33,019)*</b>
DP 7701 - Vendor Fee Increase	0.00	0	0	0	225,000*	0.00	0	0	0	225,000*
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$225,000*</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$225,000*</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$292,768*</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$191,981*</b>

\* "Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** - No employee groups in this program experience high turnover rates.
- o **Legislatively Applied Vacancy Savings** - The program held positions open to manage to the 7% applied vacancy savings.
- o **Pay/Position Changes** - No pay changes outside of statutory pay changes were given.
- o **Retirements** - Six employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$69,574.

DP 7701 – Vendor Fee Increase – This increase of lottery proprietary funds would fund payments to the vendor that operates and maintains the lottery operating systems.

**LFD  
COMMENT**Vendor Fees

This request is associated with an increase in vendor fees the Lottery paid beginning in FY 2010 and is due to an increase in sales. The contract with the vendor links vendor fees with sales. According to reports by the department, lottery sales have increased in the past two to three years by \$3-4 million from prior year sales.

The vendor fee increase associated with this request was a factor presented in a supplemental appropriation to move \$650,000 of funding from FY 2011 to FY 2010. This funding was removed from the base when developing the 2013 biennium budget. However, the level of sales is assumed to continue in the 2013 biennium at the 2010 level or higher.

### Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Operating Expenses	41,314	43,116	0	0	84,430	0	(84,430)	(100.00%)
<b>Total Costs</b>	<b>\$41,314</b>	<b>\$43,116</b>	<b>\$0</b>	<b>\$0</b>	<b>\$84,430</b>	<b>\$0</b>	<b>(\$84,430)</b>	<b>(100.00%)</b>
State Special	41,314	43,116	0	0	84,430	0	(84,430)	(100.00%)
<b>Total Funds</b>	<b>\$41,314</b>	<b>\$43,116</b>	<b>\$0</b>	<b>\$0</b>	<b>\$84,430</b>	<b>\$0</b>	<b>(\$84,430)</b>	<b>(100.00%)</b>

### Program Description

The Health Care and Benefits Division provides state employees, retirees, members of the legislature, judges and judicial branch employees, and their dependents with group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Employee benefits are governed by 2-18-701 et seq., 2-18-801 et seq., 2-18-1301 et seq., and 33-2-712, MCA. The Montana Safety Culture Act as it applies to state government is found in 39-71-1501 et seq.

The division consists of two programs with the following functions:

- Health Care Administration (13.87 FTE) provides oversight and administrative functions for the state employee group benefit plan including administration of health, life insurance, and flexible spending accounts.
- 
- The Workers' Compensation Management Program (3.00 FTE) is the central resource for agencies in working to enhance safety, loss-prevention, and return to work programs and in working with the workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

### Program Highlights

<b>Health Care and Benefits Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ The executive budget proposal maintains the state share for employee group benefits at \$733 per month during the 2013 biennium</li> <li>◆ Group health plan medical, dental, and pharmacy costs are estimated to increase 8% to 11% per year from a base level of \$116.3 million in plan (calendar) year 2009</li> <li>◆ Group health plan insurance reserves were projected to be within 10% of the top of the reserve level benchmark in the latest actuarial report (June 30, 2010)</li> <li>◆ An estimated \$3 to \$6 million of group health insurance costs will be covered by federal grant funding from the early retiree reinsurance grant program in plan year 2010 and 2011</li> </ul>

<b>Major LFD Issues</b>	
◆	The legislature may wish to evaluate the impact of several components of federal health insurance reform legislation that apply to the state employee group plan and monitor plan administration during the interim with respect to those policies
◆	State group health insurance costs could be increased due to requirements of federal health insurance reform that require it to extend eligibility and plan services while plan administrative actions to offset those increases may be narrowed due to new federal requirements
◆	State group health insurance costs could be offset/lowered: <ul style="list-style-type: none"> <li>• Due to federal grant funds to pay a portion of high cost claims for retirees under 55 who are not eligible for Medicare</li> <li>• Due to children of state employees shifting from the state group health plan to the Healthy Montana Kids plan</li> <li>• If the state receives federal approval for a proposal to allow all Montanans to purchase drugs at the discounted Medicaid cost</li> </ul>
◆	The administrative fee for administration of flex spending accounts could be lowered

**Program Narrative**

The Health Care and Benefits Division (division) budget is funded almost entirely from proprietary funds, which are not appropriated in HB 2. Figure 1 shows the division budget by major proprietary component.

Figure 1

Health Care and Benefits Division - Proprietary Program Costs					
Program/Costs	Actual FY10	Budgeted FY11	Budgeted FY12	Budgeted FY13	% of Total
<u>Health Care Benefits</u>					
Personal Services	\$914,125	\$988,127	\$964,689	\$964,753	0.5%
Operating/Other Expenses*	22,640,773	24,066,712	25,446,673	27,563,066	15.2%
Medical Services Benefits**	89,823,384	96,861,726	106,160,018	116,326,122	64.1%
Prescription Benefits**	<u>21,585,470</u>	<u>22,289,042</u>	<u>24,881,049</u>	<u>27,768,567</u>	<u>15.3%</u>
Subtotal Health Care Expenses	134,963,751	144,205,606	157,452,428	172,622,507	95.1%
<u>Flexible Spending Accounts</u>					
Personal Services	0	0	0	0	0.0%
Operating Expenses	<u>7,761,047</u>	<u>7,518,828</u>	<u>7,583,935</u>	<u>8,571,805</u>	<u>4.7%</u>
Subtotal Flex Account Expenses	7,761,047	7,518,828	7,583,935	8,571,805	4.7%
<u>Workers' Compensation Management</u>					
Personal Services	194,314	251,150	213,579	213,899	0.1%
Operating Expenses	<u>192,990</u>	<u>144,021</u>	<u>200,697</u>	<u>200,697</u>	<u>0.1%</u>
Subtotal Work Comp Management	<u>387,304</u>	<u>395,171</u>	<u>414,276</u>	<u>414,596</u>	<u>0.2%</u>
Total Operating Expenses	<u>\$143,112,102</u>	<u>\$152,119,605</u>	<u>\$165,450,639</u>	<u>\$181,608,908</u>	100.0%
*Operating/other costs include dental, health screenings, life insurance, and wellness services as well as administrative costs.					
**Medical services and prescription drug benefit costs interpolated from the low inflation actuarial projection 6-30-10. A new actuarial projection will be available in early December 2010 and LFD staff will provide an update for legislators.					

The single largest expenditure funds medical services for participants in the state employee group benefit plan (64% in FY 2013). Costs for prescription drug benefits are about 15% as are other operating costs (including some plan services such as dental and health screenings). Personal services costs to administer the group benefits plan are just under \$1.0 million or about 0.5%.

Figure 1 includes the estimated costs for medical and prescription services as of June 30, 2010. LFD staff will provide an update based on actuarial evaluations based on September 2010 claims costs.

Flexible spending account expenditures largely reflect reimbursements to plan members for allowable dependent care and medical costs. Contracted flex plan administration is about \$136,000 annually.

The workers' compensation management program is about 0.2% of the total projected costs for the division in FY 2013.

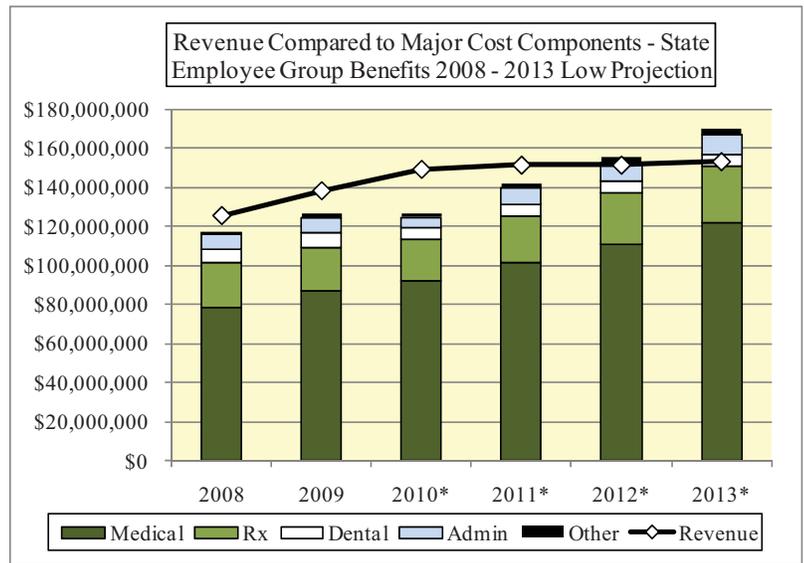
*Health Benefits Program Cost and Revenue*

Figure 2 shows the actuarial estimate for cost and revenue for plan (calendar) years 2008 through 2013 (low cost projection) as of June 30. Total program costs are projected to grow from about \$126 million to about \$153 million in 2013 based on medical claims inflation of 8% and drug inflation of 10%. These projections do not take into account future benefit plan changes that may impact expenditure projections.

Claims costs make up 92% of program expenditures. Administrative costs are about 8% of total program expenditures and support direct administrative costs as well as contracted services with vendors to process claims.

Figure 2 also shows the cost projection for health plan costs based on the June 30, 2010 actuarial evaluation. It anticipates that plan costs will exceed plan revenues by about \$3.8 million in 2012 and by about \$17.0 million in 2013.

Figure 2



*Reserve Levels*

The state employee benefit plan maintains reserves to cover health claims against the self-insured plan. By statute (2-18-812, MCA), the plan must maintain reserves sufficient to “liquidate the unrevealed claim liability and other liabilities” of the state employee group benefits plans. This portion of the reserve is for incurred but not reported claims (IBNR) to pay pending claims that have been incurred but not paid or submitted for payment. Other portions of the reserves are to cover items such as:

- o Risk of large claims (the state does not reinsure its claim liability)
- o Overall underwriting risk (based on a national formula)
- o Risk for certain types of coverage categories
- o Risk for unique aspects of the state plan

*Risk Based Capital Approach to Establish State Plan Reserve Levels*

The division, based on actuarial determination, uses a risk-based capital (RBC) approach to set reserve levels. The RBC model is a methodology promulgated by the National Association of Insurance Commissioners (NAIC) and is used by virtually every state to evaluate the financial health of private insurers. The RBC formula establishes a minimum capital level for a plan based on its specific features and compares the minimum level to the plan’s actual capital level. This ratio provides a measure to compare to recommended levels of capitalization for insurance risk. In Montana, the legislature adopted this model in 1995 for determining the level of assets that are needed to evaluate financial health of domestic health insurance corporations. It is codified in Title 33, MCA as the regulatory standard applied to health care insurers in Montana.

Under the RBC approach, a target ratio or measure known as the “authorized control level” of reserves indicates the financial stability of the insurance plan. Under the NAIC guidelines adopted by Montana, the minimum recommended level of reserves required for a private insurance company is 200% of the authorized control level. Levels below that amount are subject to varying degrees of regulatory oversight and control.

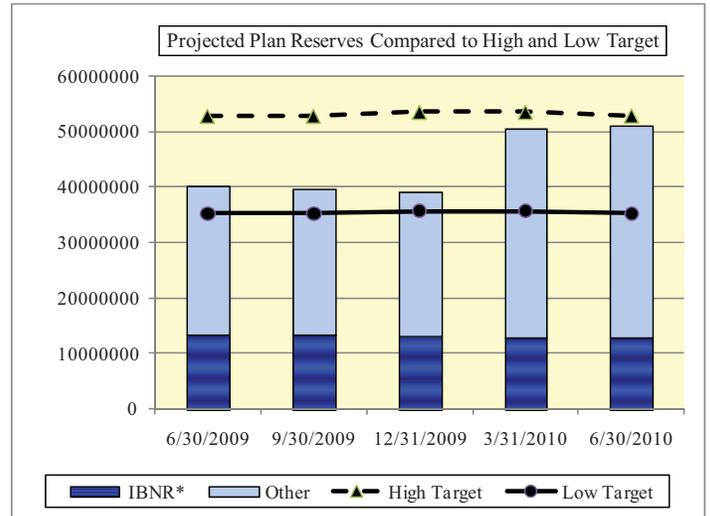
*State Plan Reserve Target and Current Reserve Level*

The state employee benefit plan actuary recommended that the plan establish a reserve level target range equivalent to 200% to 300% of the authorized control level, which was adopted by the State Employee Group Benefits Advisory Council (SEGBAC authorized under 2-15-1016, MCA). Private insurance companies in the same marketplace have higher reserves levels, anywhere from 700% to 1,000% of the authorized control level.

Figure 3 shows estimated reserves and costs for plan year 2010 based on the June 30, 2010 actuarial report. The reserve level will be nearly equivalent to the top margin of 300% at the end of 2010.

Reserves would be adequate to fund the projected cost overruns in plan years 2012 and 2013. However, if the division takes no other management action such as increasing premiums or changing benefit levels, the reserve would be drawn down to 171%, or \$5.1 million below the 200% low reserve target level based on the projected costs and revenues as of June 30, 2010.

Figure 3



Items Impacting Plan Costs

There are several issues that will impact plan costs over the next several years. Some components of federal health insurance reform will raise plan costs, while a grant program to offset some costs for provision of health benefits for early retirees not eligible for Medicare will lower plan costs. Recent federal changes allowing children of state employees to be covered under the Children’s Health Insurance Program (CHIP) will lower costs. If the state receives approval to allow all Montanans to purchase drugs at the Medicaid program price, it would lower plan costs.

<b>LFD ISSUE</b>	Changes Required for Federal Health Insurance Reform and Legislative Oversight
	The legislature may wish to consider whether to monitor issues related to the state group health insurance plan and the impact of the Patient Protection and Affordable Care Act of 2010 (PPACA). In general, there are several conditions that apply to the state plan such as covering dependents up to age 26 that will raise state plan costs. There are also conditions that restrict actions the state plan can take to address potential cost increases.
	<i>Grandfathered Plan</i>
	The state employee group health plan is considered a “grandfathered” plan under PPACA, because it is a group health plan that was in existence on the date of enactment of PPACA, March 23, 2010. A grandfathered plan is exempt from some of the changes to health insurance enacted by PPACA.

**LFD  
ISSUE CONT.***Changes that Apply to the State Plan*

There are changes in PPACA that apply to the state plan beginning in 2010 and 2011. The state plan has received preliminary estimates for some of the changes required. Based on plan costs as of June 30, 2010, a 1% change in health services costs (medical and pharmacy) at a minimum was projected to be about \$1.4 million in FY 2013. The next actuarial evaluation is due in early December.

The state plan may not impose:

- o Annual coverage limits - +2.0% increase
- o Lifetime coverage limits - +0.4% increase
- o Exclusions for pre-existing health conditions for coverage of children under age 19 – negligible cost impact

The state plan must:

- o Allow coverage of dependents to age 26, unless dependents have access to other employer group coverage - +0.1% increase
- o Provide written notice of plan changes at least 60 days prior to the effective date of the change
- o Provide a standardized summary of benefits
- o Report the value of each employee's health insurance to the IRS

*Conditions that Don't Apply*

Examples of PPACA changes that the state is exempted from include:

- o Provision of preventive care and screenings within specified guidelines without cost-sharing
- o Admission to emergency services without prior authorization or out-of-network cost-sharing
- o Provision of annual reports on wellness initiatives and health care quality
- o Participation in internal and external reviews in accordance with federal regulations

*Requirements to Maintain Grandfathered Status*

The state plan could lose its grandfathered status under certain conditions such as:

- o Entering into a new policy, certificate, or contract of insurance after March 23, 2010, even if the benefits and cost sharing arrangements remain the same
- o Eliminating benefits to diagnose or treat a particular condition
- o Increasing a percentage cost-sharing requirement (such as coinsurance) above the March 23, 2010 level
- o Increasing fixed-amount cost-sharing requirements (deductible out-of-pocket limit) by a percentage measured from March 23, 2010 that is more than the sum of medical inflation and 15% according to methodologies included in federal regulations
- o Decreasing the employer contribution rate more than 5% below the contribution rate on March 23, 2010 according to methodologies included in federal regulations

*Evaluation of Maintaining Grandfathered Status*

The division will evaluate the benefits and costs of maintaining its grandfathered status each year (probably in June/July) prior to establishing rates for the next plan year. DofA does not need legislative permission to change the plan status.

Legislative Options

Legislators could request that DofA provide its analysis for consideration by an interim committee such as the Legislative Finance Committee or State Administration and Veterans' Affairs Interim Committee and that the committee review and provide comments on the analysis.

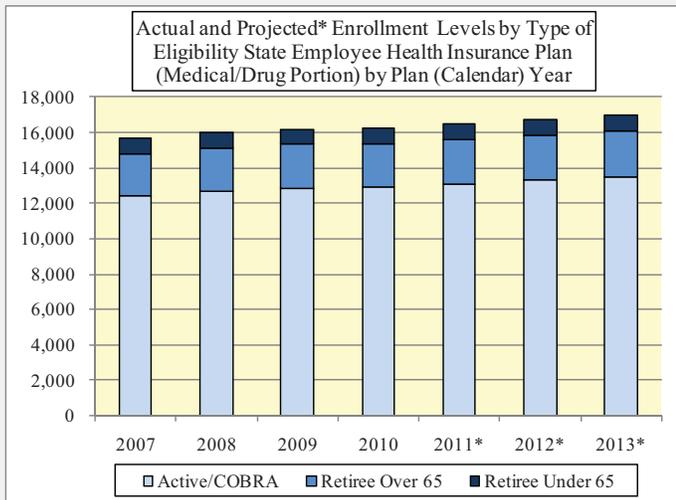
For a further discussion of federal health care reform, please refer to the Office of the State Auditor in this volume.

**LFD COMMENT**

Group Health Plan Per Capita Income and Cost – Estimated Liability

*Enrollment in the Health Plan*

The figure below shows enrollment in the state group health insurance plan by major eligibility category – active employees and those recently separated from state service but opting to continue participation in the group plan as allowed by federal law (COBRA); retirees under 65; and retirees eligible for Medicare. The largest group is active employees with an estimated enrollment level of about 13,300 during the 2013 biennium. The smallest group is retirees under 65 with an estimated enrollment of about 860.



Statute allows retirees to continue to participate in the group health plan by paying the full premium. Until plan year 2010, full premium for retirees has been considered to be the same premium as active employees. However, for plan year 2010, while rates for retiree only coverage were pegged to the same rate as active employees, rates for other coverage including dependent coverage were raised above comparable active employee premium levels due to ongoing losses for retiree groups.

*Revenues and Losses by Eligibility*

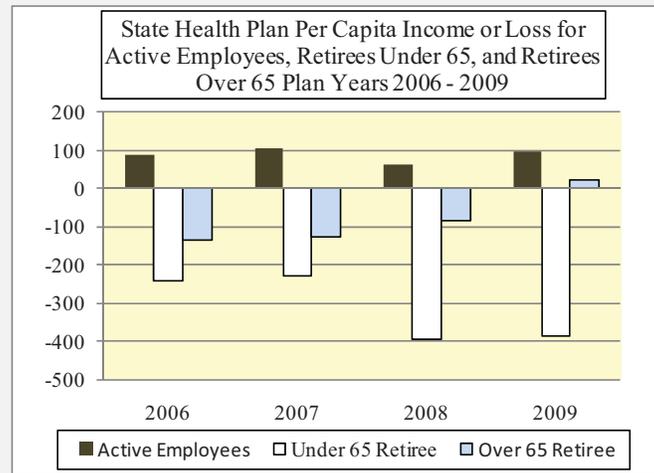
The figure below shows per capita revenue and loss by major enrollment group for plan years 2006 to 2009. A positive amount shows that per capita revenue exceeded per capita cost, while a negative amount (below \$0)

shows that per capita cost exceeded per capita revenue.

Revenues from active employees/COBRA enrollees exceeded costs by \$63 to \$104 per person over the time period shown. Costs to cover retirees under 65 exceeded per capita revenues by \$229 to \$386, while experience for Medicare eligible retirees enrolled in the state group health plan has ranged from a \$24 per person gain most recently to \$133 per person loss historically.

*Unfunded Liability*

The Governmental Accounting Standards Board (GASB) adopted Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” June 2004. This statement requires governments to include the liability for post employment benefits. Since the state allows retirees to continue to participate in the state group plan, Montana must include the liability related to that policy. The state estimated a liability of \$449.3 million for FY 2008 and FY 2009, dropping to \$357.7 million in FY 2010. Lower estimates of unfunded liability are related to eliminating the losses for Medicare eligible retirees and to increasing premiums for spouse and dependent coverage for early retirees.



**LFD  
COMMENT**Federal Health Insurance Reform and Early Retirees

Federal health insurance reform legislation impacts the issue of state plan coverage for early retirees in two ways:

- o Limitations on actions that can be taken to reduce cost
- o Provision of grant funds to offset some costs

As noted previously, if the state plan wants to maintain its grandfathered status, its ability to change cost sharing, premium amounts, and service coverage is limited. These conditions limit the flexibility of the state group management of early retiree costs.

*Early Retiree Reinsurance Grant*

PPACA includes a \$5.0 billion grant program to help employers continue to provide health insurance to retirees over 55 who do not yet qualify for Medicare. The Montana state employee group health plan submitted an application to participate in the program and will submit its first request for reimbursement in December 2010. Funds are available on a first come first served basis. The actuary for the state group health plan estimated that the plan would be able to use \$3.2 million in plan year 2011 and \$6.0 million in plan year 2012.

Grant funds may be used to offset a portion of the cost of medical claims for early retirees and their spouses, surviving spouses, and dependents (80% of the costs for claims from \$15,000 to \$90,000). Savings can be used to reduce employer health care costs, provide premium relief to workers and families, or both. The program ends on January 1, 2014 when state health insurance exchanges are up and running. For a further discussion of the health insurance exchanges, please refer to the Office of the State Auditor in this volume.

*Use of Federal Reinsurance Grant Funds*

The legislature may wish to discuss the use of the grant funds received for early retiree reinsurance, and determine whether the grant funds will be used to reduce premium costs and if so for which plan participants, whether the grant funds will be used to offset high claims costs, or whether grant funds will support an increase in reserves.

**LFD  
COMMENT**Children of State Employees Eligible for Healthy Montana Kids – Could Lower Costs

Recent federal changes allow the children of low-income state employees to be enrolled in the Healthy Montana Kids (HMK) program. Families with incomes between 133% and 250% of the federal poverty level (\$29,327 to \$55,125 annually for a family of four in 2010) may elect to discontinue coverage of their children in the state employee plan and enroll them in HMK.

HMK coverage is equivalent to the state group plan service package. However, the total deductible and co-pay for children may be lower in the HMK program. State employees may begin enrolling their children in HMK in December 2010.

The LFD has asked the division to brief the legislature about how state group health plan revenues and costs will be affected by this federal policy change. Plan revenues and costs both may be lowered. However, the amount of change may be negligible compared to total plan revenues and costs.

<b>LFD COMMENT</b>	<p><u>Medicaid Proposal Could Lower State Employee Group Plan Costs</u></p> <p>The Department of Public Health and Human Services (DPHHS) submitted a proposal for federal approval to allow all Montanans to purchase drugs at the discounted Medicaid price. If this proposal is approved, the state employee group health plan cost for prescription drugs could be lowered. LFD staff has asked the division to address the impact of the Medicaid drug proposal with the legislature.</p> <p>A more detailed discussion of the Medicaid discounted drug proposal is included in the DPHHS agency summary.</p>
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**5% Reduction Plan**

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

The executive budget includes elimination of the daycare program, which reduces state special revenue by \$41,314 per year, as this division’s part of the agency 5% reduction plan. The daycare program is funded by assessments related to state agency FTE levels.

<b>LFD COMMENT</b>	<p><u>General Fund Reduction Will be less than the 5% Reduction</u></p> <p>The day care program is funded through assessments on agencies. Because agencies use sources of funding within those agencies to pay for the assessment, elimination of the daycare program will not reduce general fund by an amount equivalent to the \$41,314 state special revenue reduction. The general fund portion will depend on how the daycare program assessment was funded by state agencies.</p>
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**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding	Base FY 2010	% of Base FY 2010
02000 Total State Special Funds	\$ 41,314	100.0%
02518 State Daycare Program	41,314	100.0%
Grand Total	41,314	100.0%

The majority of funding for the division is proprietary funds. This program has a small HB 2 appropriation for state special revenue that pays part of the rent for a day care program that guarantees slots for state employees and grandchildren of state employees. The executive budget eliminates the state special revenue appropriation and discontinues the program.

Funding for the proprietary functions administered by this program is discussed in greater detail in each section describing the specific activity.

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2012					Fiscal 2013				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 213 - Elimination of the Daycare Program	0.00	0	(41,314)	0	(41,314)	0.00	0	(41,314)	0	(41,314)
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>\$0</b>	<b>(\$41,314)</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$41,314)</b>	<b>\$0</b>	<b>(\$41,314)</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Retirements** - The program identified no employees eligible to retire in the 2013 biennium.

DP 213 - Elimination of the Daycare Program - This proposal eliminates the daycare program and reduces state special revenue by \$82,628 over the biennium. The program funded part of the rent for space within the Ray Bjork building. In return, the daycare provider guaranteed a certain number of slots to state employee children and grandchildren. The state was not able to renew the contract with the school district as this space was needed by the district. The state was not able to find an alternative space to continue the program.

**Proprietary Program Description**

The Health Care and Benefits Division manages two proprietary programs:

- o Employee benefits, which includes the state’s health and other benefit insurance plans, and contract administration of flexible spending accounts
- o State management of workers’ compensation functions

*Group Benefits*

The employee benefits program is charged with providing state employees, retirees, members of the legislature, judges and judicial branch employees, and their families with adequate medical, dental, prescription drug, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health, prescription drug, and dental plan. Life, long-term disability, vision, and long-term care insurance are purchased from private sector vendors on a fully-insured basis. The program contracts with private companies to provide claims processing services, health screenings, flexible spending account administration, and wellness plan administration.

The core service provided by the program is a medical, dental, and life insurance benefit package. Plan members are able to choose between the traditional fee-for-service plan and managed care plans. The traditional (indemnity) plan is

administered by Blue Cross and Blue Shield of Montana, and the managed care plans are administered by Blue Cross and Blue Shield of Montana and New West Health Services, through their provider networks.

The program is funded by the state/employer contribution for group benefits and by premiums and fees paid by plan members. The program supports 13.87 FTE.

Alternate Sources: As an alternative to providing a self-insured health plan, the state could purchase an insured plan from the private sector. Historic studies of comparable insurance plans have shown that this alternative would be more expensive. The state has operated a statewide plan since 1979 and a self-insured plan since 1984. As noted previously, the state plan would lose its grandfathered status under PPACA if it switched to a private insurance coverage.

Customers Served: In excess of 32,000 persons are covered by the benefit plans provided by the division in the following categories; 12,900 regular full-time and part-time executive, legislative, and judicial branch employees; 3,300 retirees; 45 COBRA (certain persons who leave state employment may extend health insurance coverage at their cost) participants; and 16,500 dependents.

No significant changes in service are contemplated and the employer share toward employee benefits (\$733 per month) will remain unchanged in the 2013 biennium.

Figure 4 shows the fund source supporting the cost of the employer share of group benefits from FY 2001 through FY 2010. Direct general fund payments provide about 40% of the total revenue. However, general fund paid to proprietary functions would be included in the other reimbursements for state group benefits, raising the overall general fund contribution.

Cost Drivers

Health and prescription drug utilization and price changes are the primary cost drivers. Medical claim costs are projected to increase 8% to 11% annually. Drug claim costs are projected to be increase 10% to 13% annually during the 2013 biennium.

Claims/Revenue: It is projected that about \$10.6 million per month in claims expenses will be paid in FY 2011 and \$11.5 million per month in FY 2012. Premiums are collected either bimonthly with paycheck processing or at the beginning of the month depending on whether the premium is for active employees, retirees, legislators, or COBRA participants. Retirees are required to pay a premium equal to or slightly more than charged active employees, but the cost of services for participating retirees is subsidized by the state share and other revenues. Employees who cover their dependents pay a portion of the cost to insure their family members while a portion is subsidized by state share and other revenue sources such as investment earnings.

Revenues/Rates: The state share or “rate” for state employee group plans, i.e. the employer share of premium toward health care and benefits coverage, is established in 2-18-703(2), MCA. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as a part of the overall pay package for state employees. There is no increase in the state employer share for the 2013 biennium in the negotiated pay plan proposed in the executive budget. Figure 5 shows the monthly employer share toward employee benefits.

Figure 4

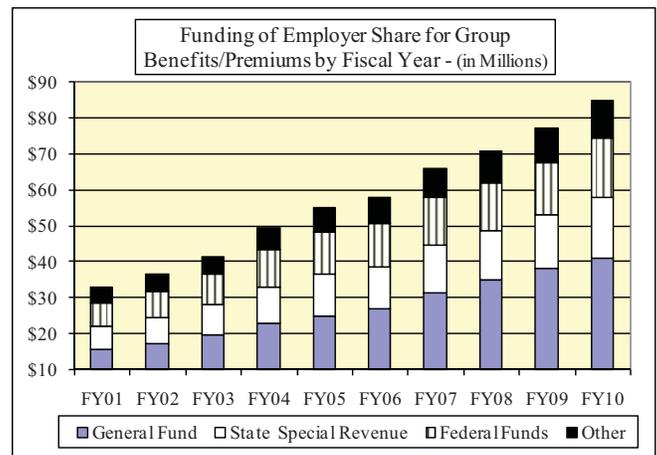
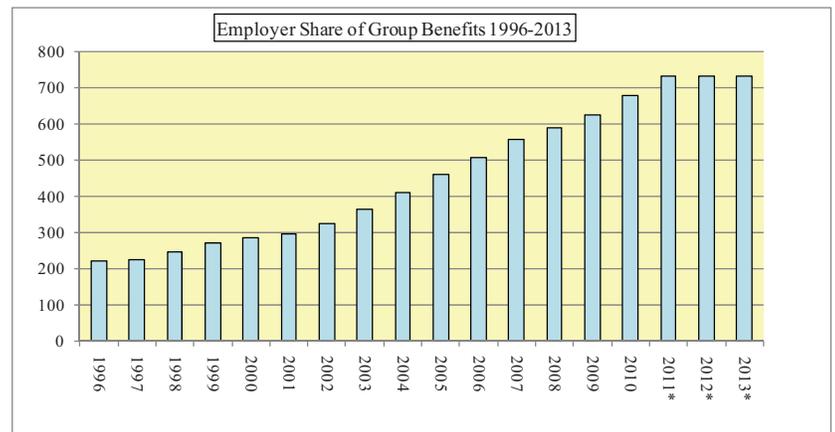


Figure 5

The objective for the state contribution is to underwrite affordable coverage for all participants in the plan, including sufficient dollars to cover the “employee only” cost of providing a core medical, dental, and life insurance benefit. Historically, there have been a few dollars of the state employer contribution in excess of the monthly health premium for “employee only” coverage so that employees can apply toward dependent coverage, additional life insurance, purchase of optional benefits, or to place into a medical or dependent care flexible spending account (FSA).



*June 30, 2010 Actuarial Estimates of Revenues and Costs for Plan Year 2010*

Estimated income for the program in plan year 2010 is about \$138.3 million, with \$115.2 million provided by the state employer share. The remaining income is from participant paid premiums and investment earnings. Total expenses estimated for 2010 are between \$126.4 and \$126.4 million. The state plan actuary is estimating that plan revenues will exceed plan costs by \$10.6 to \$11.9 million. LFD staff will provide an update of plan year 2010 revenues and costs to the legislature based on actuarial evaluations in December 2010.

No significant changes in service are contemplated. The primary cost driver in the fund is the cost of health and prescription drug claims. Medical claim costs are projected to be increasing at a rate of approximately 8% -11% annually. Drug claims are projected to increase approximately 10% -13% annually during the 2013 biennium.

2013 Biennium Report on Internal Service and Enterprise Funds					
Fund	Fund Name	Agency #	Program Name		
06559	Group Benefits Claims A/C	61010	Dept of Administration	Health Care & Benefits Div.	
Revenues/Expenses		Actual FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
<b>Operating Revenues:</b>					
Fee revenue					
Revenue from Fee F		295,515	-	-	-
Net Fee Revenue		295,515	-	-	-
Investment Earnings		2,396,146	1,500,000	2,660,460	2,926,500
Securities Lending Income		40,629	-	-	-
Premiums		130,513,833	159,493,369	143,890,283	161,157,117
Other Operating Revenues		3,647,677	2,460,000	3,247,529	3,502,667
Total Operating Revenue		136,893,800	163,453,369	149,798,272	167,586,284
<b>Operating Expenses:</b>					
Personal Services		914,125	988,127	964,689	964,753
Other Operating Expenses		134,049,626	143,217,479	156,487,739	171,657,754
Total Operating Expenses		134,963,751	144,205,606	157,452,428	172,622,507
Operating Income (Loss)		1,930,049	19,247,763	(7,654,156)	(5,036,223)
Income (Loss) Before Operating Transfers		1,930,049	19,247,763	(7,654,156)	(5,036,223)
Contributed Capital		-	-	-	-
Operating Transfers In (Note 13)		-	-	-	-
Operating Transfers Out (Note 13)		-	-	-	-
Change in net assets		1,930,049	19,247,763	(7,654,156)	(5,036,223)
Total Net Assets- July 1 - As Restated		39,611,849	41,541,898	60,789,661	53,135,505
Prior Period Adjustments		-	-	-	-
Cumulative effect of account change		-	-	-	-
Total Net Assets - July 1 - As Restated		39,611,849	41,541,898	60,789,661	53,135,505
Net Assets- June 30		41,541,898	60,789,661	53,135,505	48,099,282
60 working days of expenses (Total Operating Expenses divided by 6)		22,493,959	24,034,268	26,242,071	28,770,418
<b>Requested Rates for Internal Service Funds</b>					
<b>Fee/Rate Information for Legislative Action</b>					
		Actual FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
Fee Group A					
State share per employee per month		\$653	\$706	\$733	\$733
Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year.					

### *Flexible Spending Accounts*

HCBD contracts to administer a flexible spending account program for state employees, who can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use funds deposited in the accounts for allowable expenses. Employees forfeit any unspent funds. Federal rules govern the use of and the amount that can be contributed to flexible spending accounts.

Alternate Sources: The alternative to contracting for administration of the program is for the division to assume administration and management. It is not clear that division administration would be more efficient than contract administration.

Customers Served: About 5,000 employees participate in the flex account spending program.

**Proprietary Revenues and Expenses**

The flexible spending account program is funded from an administrative fee of \$2.26 per month on each account. There is no change in the fee during the 2013 biennium.

Total revenues for the flexible spending program also include deposits (funds withheld from employee pay checks) made by plan participants. Program expenditures include payments to reimburse employees for eligible dependent care and medical costs as well as the cost of plan administration.

<b>LFD COMMENT</b>	<u>Excess Revenue from Flexible Spending Accounts</u>
	The estimated ending fund balance for the flexible spending account program will exceed a 45 day operating reserve by \$400,000 to \$500,000 each year of the 2013 biennium. LFD staff has asked the division to discuss with the legislature whether administrative fees could be reduced or what other activities could be funded from the excess flexible spending account balances.

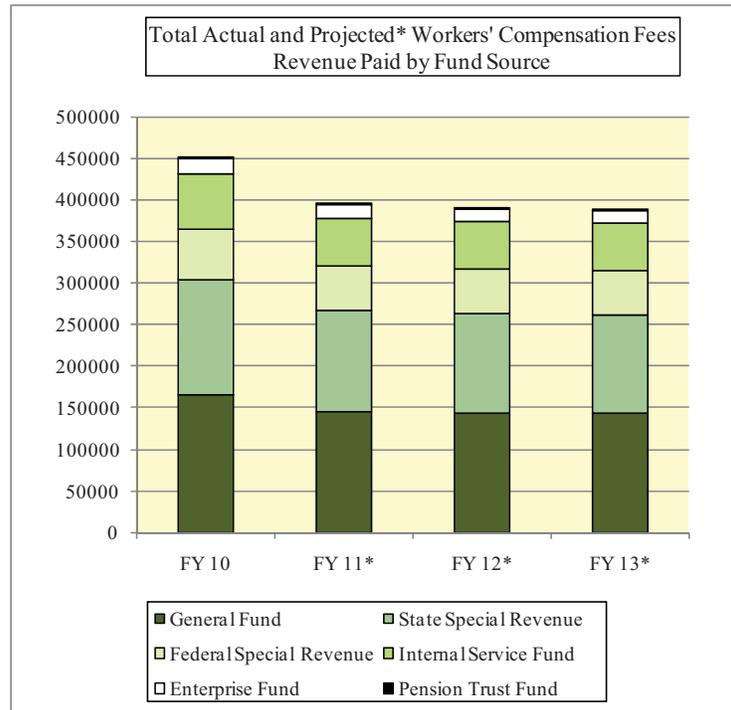
**Proprietary Rates**

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06027	Flexible Spending Funds	61010	Department of Administration	Health Care & Benefits Division		
			Actual	Budgeted	Budgeted	Budgeted
			FY10	FY11	FY12	FY13
Revenue and Costs						
<b>Operating Revenues:</b>						
Fee Revenue						
	Revenue from Administrative Fees		66,701	148,500	143,736	146,448
	Net Fee Revenue		66,701	148,500	143,736	146,448
	Investment Earnings		1,756	25,000	6,000	10,000
	Securities Lending Income		269	-	-	-
	Premiums		7,228,059	8,000,000	8,472,772	9,150,594
	Other Operating Revenues		-	-	-	-
	Total Operating Revenue		7,296,785	8,173,500	8,622,508	9,307,042
<b>Operating Expenses:</b>						
Personal Services						
	Other Operating Expenses		7,518,828	7,583,935	8,571,805	9,249,627
	Total Operating Expenses		7,518,828	7,583,935	8,571,805	9,249,627
	Operating Income (Loss)		<b>(222,043)</b>	<b>589,565</b>	<b>50,703</b>	<b>57,415</b>
<b>Nonoperating Revenues (Expenses):</b>						
Other Nonoperating Revenues (Expenses)						
	Net Nonoperating Revenues (Expenses)		-	-	-	-
	Income (Loss) Before Operating Transfers		(222,043)	589,565	50,703	57,415
	Operating Transfers Out		-	-	-	-
	Change in Net Assets		(222,043)	589,565	50,703	57,415
	Total Net Assets- July 1 - As Restated		1,086,776	864,733	1,454,298	1,505,001
	Prior Period Adjustments		-	-	-	-
	Cumulative effect of account change		-	-	-	-
	Total Net Assets - July 1 - As Restated		1,086,776	864,733	1,454,298	1,505,001
	Net Assets- June 30		<b>864,733</b>	<b>1,454,298</b>	<b>1,505,001</b>	<b>1,562,416</b>
	45 Days of Expenses					
	(Total Operating Expenses Divided by 8)		939,854	947,992	1,071,476	1,156,203
<b>Requested Rates for Enterprise Funds</b>						
<b>Fee/Rate Information</b>						
			Actual	Budgeted	Budgeted	Budgeted
			FY 10	FY 11	FY 12	FY 13
	Fee Group A					
	Administrative Fee (Per Member Per Month)		\$2.26	\$2.26	\$2.26	\$2.26
Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator.						

**Proprietary Program Description**

The division manages the workers' compensation management program. The program, fund 06575, assists employees and agencies in ensuring a safe working environment, reducing on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to meaningful and productive work as possible, even if it is in a different position than was originally held. The program is the central resource in working with the state workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

**Figure 6**



The program is funded through a fixed cost rate charged to state agencies. The program currently supports 3.00 FTE. The program is not anticipating a change in the volume of services provided in the coming biennium. The base year funding, by fund type, for customer payments is shown in Figure 6.

Alternate Sources: As an alternative to providing these services internally, the state could contract with a consultant or outside vendor, which could be more costly.

Customers Served: The State of Montana employs almost 13,000 employees at 33 state agencies and entities attached to agencies for administrative purposes, all of which have access to these program services.

**Proprietary Revenues and Expenses**

Change in Services or Fees: No significant changes in services are contemplated. Fees are reduced slightly over the next biennium. The FY 2011 fee of \$1.12 per payroll warrant would fall to \$1.09 in FY 2012 and to \$1.08 in FY 2013.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06575	Worker's Comp Mgmt	61010	Department of Administration	Health Care and Benefits Division
			Actual FY 10	Budgeted FY 11
			Budgeted FY 12	Budgeted FY 13
<b>Operating Revenues:</b>				
Fee revenue				
	Revenue from Administrative Fees		450,946	395,171
			-	-
	Net Fee Revenue		450,946	395,171
			-	-
	Premiums		-	-
	Other Operating Revenues		42	-
	Total Operating Revenue		450,988	395,171
			390,298	388,298
<b>Operating Expenses:</b>				
	Personal Services		194,314	251,150
	Other Operating Expenses		192,990	144,021
	Total Operating Expenses		387,304	395,171
			414,276	414,596
	Operating Income (Loss)		63,684	-
			(23,978)	(26,298)
<b>Nonoperating Revenues (Expenses):</b>				
	Other Nonoperating Revenues (Expenses)		-	-
	Net Nonoperating Revenues (Expenses)		-	-
	Income (Loss) Before Operating Transfers		63,684	-
			(23,978)	(26,298)
	Contributed Capital		-	-
	Operating Transfers Out (Note 13)		-	-
	Change in net assets		63,684	-
			(23,978)	(26,298)
	Total Net Assets- July 1 - As Restated		(4,766)	58,918
	Prior Period Adjustments		-	-
	Cumulative effect of account change		-	-
	Total Net Assets - July 1 - As Restated		(4,766)	58,918
	Net Assets- June 30		58,918	58,918
			34,940	34,940
			8,642	8,642
	60 days of expenses (Total Operating Expenses divided by 6)		64,551	65,862
			69,046	69,099
<b>Requested Rates for Enterprise Funds</b>				
<b>Fee/Rate Information</b>				
			Actual FY 10	Budgeted FY 11
			Budgeted FY 12	Budgeted FY 13
	Fee Group A			
	Administrative Fee (Per Payroll Warrant Per Pa\$0.00		\$1.12	\$1.09
				\$1.08
Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.				
Note: Prior to fiscal year 2010, the program expenditures were included in the General Fund.				

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	19.53	19.53	19.04	19.04	19.53	19.04	(0.49)	(2.51%)
Personal Services	1,142,900	1,265,850	1,375,637	1,375,186	2,408,750	2,750,823	342,073	14.20%
Operating Expenses	445,307	364,585	472,420	470,211	809,892	942,631	132,739	16.39%
<b>Total Costs</b>	<b>\$1,588,207</b>	<b>\$1,630,435</b>	<b>\$1,848,057</b>	<b>\$1,845,397</b>	<b>\$3,218,642</b>	<b>\$3,693,454</b>	<b>\$474,812</b>	<b>14.75%</b>
General Fund	1,588,207	1,630,435	1,848,057	1,845,397	3,218,642	3,693,454	474,812	14.75%
<b>Total Funds</b>	<b>\$1,588,207</b>	<b>\$1,630,435</b>	<b>\$1,848,057</b>	<b>\$1,845,397</b>	<b>\$3,218,642</b>	<b>\$3,693,454</b>	<b>\$474,812</b>	<b>14.75%</b>

### Program Description

The State Human Resources Division provides the following statewide human resource services and programs:

- o Human resource rules, policies and standards for Executive Branch agencies
- o State labor relations, representing the Governor's office in all matters relating to collective bargaining
- o Training and other professional development services to state agencies and other organizations
- o The human resources information services, supplying payroll and other human resource information systems for all branches of state government

### Program Highlights

<b>State Human Resources Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ The majority of the funding in this program is from non-budgeted proprietary funds that do not show on the HB 2 tables</li> <li>◆ General fund increases \$474,812, or 14.8% for the 2013 biennium compared to the 2011 biennium, primarily for statewide present law adjustments</li> <li>◆ The executive also includes an item on the agency's 5% reduction plan</li> </ul>

### Program Narrative

#### *5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

DP 55400 - 4% Personal Services Reduction would remove funding for a 0.49 FTE public relations specialist. For further discussion on this executive recommended adjustment see the "New Proposals" section for this program. No other items were included on the agency 5% plan for this program. This item would be a 4.6% reduction for this program.

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
State Human Resources Division						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	\$ 1,588,207	100.0%	\$ 1,848,057	100.0%	\$ 1,845,397	100.0%
01100 General Fund	1,588,207	100.0%	1,848,057	100.0%	1,845,397	100.0%
<b>Grand Total</b>	<b>\$ 1,588,207</b>	<b>100.0%</b>	<b>\$ 1,848,057</b>	<b>100.0%</b>	<b>\$ 1,845,397</b>	<b>100.0%</b>

Funding for statewide human resources rules, policies, and standards and labor relations are from the general fund. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. Payroll and other human resources information systems are funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the "Proprietary Rates" section for the division.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	1,588,207	1,588,207	3,176,414	86.00%	1,588,207	1,588,207	3,176,414	86.00%
Statewide PL Adjustments	278,914	276,584	555,498	15.04%	278,914	276,584	555,498	15.04%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(19,064)	(19,394)	(38,458)	(1.04%)	(19,064)	(19,394)	(38,458)	(1.04%)
<b>Total Budget</b>	<b>\$1,848,057</b>	<b>\$1,845,397</b>	<b>\$3,693,454</b>		<b>\$1,848,057</b>	<b>\$1,845,397</b>	<b>\$3,693,454</b>	

**Present Law Adjustments**

The "Present Law Adjustments" table shows the changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					309,915					309,787
Vacancy Savings					(58,114)					(58,107)
Inflation/Deflation					(515)					(429)
Fixed Costs					27,628					25,333
<b>Total Statewide Present Law Adjustments</b>		<b>\$278,914</b>	<b>\$0</b>	<b>\$0</b>	<b>\$278,914</b>		<b>\$276,584</b>	<b>\$0</b>	<b>\$0</b>	<b>\$276,584</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$278,914</b>	<b>\$0</b>	<b>\$0</b>	<b>\$278,914</b>	<b>0.00</b>	<b>\$276,584</b>	<b>\$0</b>	<b>\$0</b>	<b>\$276,584</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** - The obstacles the program faces in hiring and retaining a qualified staff are the same as for the rest of the agency.
- o **Vacancy** – The program experienced a 21.1% vacancy rate when comparing budgeted hours to actual hours, or 11.4% vacancy savings when comparing budget to actual expenditures for FY 2010. The program stated that as a result of these vacancies the program reprioritized and delayed projects and increased workload on existing staff. The highest vacancies were in human resource specialist positions with 3.00 FTE in three positions averaging vacancy rates of 81.3% in hours.
- o **Legislatively Applied Vacancy Savings** - The program achieved the 7.0% applied vacancy savings rate by holding positions open.
- o **Pay/Position Changes** - Performance pay increases were provided for two positions to retain key staff.
- o **Retirements** – Seven employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$88,231.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals											
Program	Fiscal 2012					Fiscal 2013					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 55400 - 4% Personal Services reduction	23	(0.49)	(19,064)	0	0	(19,064)	(0.49)	(19,394)	0	0	(19,394)
<b>Total</b>	<b>(0.49)</b>	<b>(\$19,064)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$19,064)</b>	<b>(0.49)</b>	<b>(\$19,394)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$19,394)</b>	

DP 55400 - 4% Personal Services reduction - The executive recommends a 4% reduction of personal services funded with general fund. For this program general fund would be reduced by reducing funding for 0.49 FTE of a 1.00 FTE position for a public relations specialist.

<b>LFD COMMENT</b>	<p><u>A 5% Reduction Plan Item</u></p> <p>This adjustment is included on the agency’s 5% reduction plan.</p>
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**Proprietary Rates**

The State Human Resources Division provides the following functions funded with proprietary fund. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- o Professional Development Center (PDC)
- o Human Resources Information Services (HRIS) Bureau

**Professional Development Center/Training Program (Intergovernmental Training - 06525)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06525 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds							
Fund	Fund Name	Agency #	Agency Name	Program Name			
06525	Intergovernmental Training	61010	Department of Administration	State Human Resources Division			
				Actual	Projected	Projected	Projected
				FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:							
Fee revenue							
	Revenue from Training Fees			\$281,820	\$261,940	\$395,000	\$397,102
	Net Fee Revenue			\$281,820	\$261,940	\$395,000	\$397,102
	Investment Earnings			0	0	0	0
	Securities Lending Income			0	0	0	0
	Premiums			0	0	0	0
	Other Operating Revenues			191	0	0	0
	Total Operating Revenue			\$282,011	\$261,940	\$395,000	\$397,102
Operating Expenses:							
	Personal Services			104,428	127,975	218,729	218,729
	Other Operating Expenses			143,432	145,486	154,097	154,803
	Total Operating Expenses			\$247,860	\$273,461	\$372,826	\$373,532
	Operating Income (Loss)			\$34,151	(\$11,521)	\$22,174	\$23,570
Nonoperating Revenues (Expenses):							
	Gain (Loss) Sale of Fixed Assets			0	0	0	0
	Federal Indirect Cost Recoveries			0	0	0	0
	Other Nonoperating Revenues (Expenses)			0	0	0	0
	Net Nonoperating Revenues (Expenses)			\$0	\$0	\$0	\$0
	Income (Loss) Before Operating Transfers			\$34,151	(\$11,521)	\$22,174	\$23,570
	Contributed Capital			0	0	0	0
	Operating Transfers In (Note 13)			0	0	0	0
	Operating Transfers Out (Note 13)			0	0	0	0
	Change in net assets			\$34,151	(\$11,521)	\$22,174	\$23,570
	Total Net Assets- July 1 - As Restated			(72,492)	(38,341)	(49,862)	(27,688)
	Prior Period Adjustments			0	0	0	0
	Cumulative effect of account change			0	0	0	0
	Total Net Assets - July 1 - As Restated			<u>(\$72,492)</u>	<u>(\$38,341)</u>	<u>(\$49,862)</u>	<u>(\$27,688)</u>
	Net Assets- June 30			<u>(\$38,341)</u>	<u>(\$49,862)</u>	<u>(\$27,688)</u>	<u>(\$4,118)</u>
	60 days of expenses			\$41,310	\$45,577	\$62,138	\$62,255

*Program Description*

The intergovernmental training fund supports the operation of the Professional Development Center (PDC). The PDC provides training and other services, such as facilitation, mediation, and curriculum design, to state agencies on a fee reimbursement basis. The use of PDC training is not mandatory for agencies that could choose from several available alternatives, such as seminars sponsored by national training firms, conferences and symposia, contracted training consultants, in-house training programs, and courses through post-secondary education institutions.

*Program Narrative*Expenses

Significant FY 2010 costs for the program are for:

- o Personal services for 2.50 FTE, \$167,757 or 55.0% of total costs
- o Operating costs, \$136,008 with 66.7% of these costs due to:
  - Food, \$23,543

- Rent, \$21,535
- Consultant contracting, \$19,876
- Travel, \$14,160
- Printing and publications, \$11,631

<b>LFD COMMENT</b>	<p><u>One-Time Funding Switch in the 2011 Biennium for 1.00 FTE</u></p> <p>The expenses listed above were impacted by the temporary assignment of the program manager on a workforce development project. The legislature funded half of the positions with general fund in FY 2010. This temporary assignment impacted both expenses and revenue of the program. The manager will dedicate 100% of their time to complete the project in FY 2011, so expenses and revenues will be lower from the proprietary fund. The 2009 Legislature approved one time general fund for this project and for the funding switch for the 0.50 FTE in FY 2010 and 1.00 FTE in FY 2011. Because of the one-time funding in the 2011 biennium, 3.00 FTE will support the program in the 2013 biennium.</p>
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Revenues

The PDC provides training services for a fee according to the following practices:

- o Open enrollment trainings in which the PDC schedules, promotes, and conducts courses that are open to students from all state agencies, and other public entities. PDC charges a set fee per student for attendance depending upon the scheduled length of the training
- o Contract courses in which the PDC contracts with individual agencies to provide training for its staff. The agency schedules, promotes, and provides the facility for training. PDC provides the instruction and class materials. PDC charges a flat fee, depending on the length of the training and the number of events the agency has contracted and offers a discount for multiple training events
- o Facilitation, mediation, consulting, and curriculum development. PDC charges on an hourly rate basis
- o Publications and meeting rooms. PCD charges on a fixed schedule

Funding Sources

The funding sources used to pay for the services provided by this program cannot be accurately estimated because the expenditure code used by agencies to record PDC training fees is used for other training costs not related to this program.

*Present Law Adjustments*

The only adjustments for this program are for statewide present law adjustments that increase funding by \$35,546 in FY 2012 and \$34,974 in FY 2013. Personal services adjustments dominate these statewide adjustments.

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

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.

Requested Rates for Intergovernmental Training				
Fee (training services per hour)	Actual FY 2010	Projected FY 2011	Projected FY 2012	Projected FY 2013
<b>Open Enrollment Courses</b>				
Two-day course (per participant)	\$185	\$188	\$188	\$190
One-day course (per participant)	118	120	120	123
Half-day course (per participant)	90	93	93	95
Eight-day management series (per participant)	560	565	565	570
Six-day management series (per participant)	430	435	435	440
Four-day administrative assistant series (per participant)	325	330	330	333
<b>Contract Courses</b>				
Full-day training (flat fee)	820	825	825	830
Half-day training (flat fee)	560	565	565	570



*Program Narrative*Expenses

Significant costs for the program are for:

- o Personal services for 27.97 FTE, \$1.8 million or 50.8% of total costs
- o Operating costs, nearly \$1.8 million with 77.8% of these costs due to:
  - ITSD server and application hosting, \$985,490
  - Repair for multi-user computers and terminals, \$381,936

Revenues

Revenues are derived from charges to all agencies for processing payroll and charged per employee processed per pay period.

Budget authority to pay the rent payment is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for the Human Resources Management System is \$298,975 lower for the 2013 biennium than the funding approved by the 2009 Legislature.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (35.5%)
- o State special revenue (29.6%)
- o Federal special revenue (7.7%)
- o Other (27.1%)

*Present Law Adjustments*

Statewide Present Law Adjustments – Statewide present law adjustments would reduce funding by nearly \$287,000 for the biennium. The largest reduction is for the fixed cost allocation to the Information Technology Services Division (ITSD) of the department, driven largely by computer system hosting cost reductions.

**LFD  
COMMENT**ITSD Fixed Costs

For more information on the ITSD fixed costs, see the “Proprietary Rates” section of the Information Technology Services Division narrative.

DP 2301 - Oracle/PeopleSoft 3% Annual Fee Increase - Increases of \$13,579 in FY 2012 and \$13,986 in FY 2013 would fund an annual 3% increase in the maintenance contract for the human resources module of SABHRS.

DP 2302 - Oracle/PeopleSoft Portal Fee OTO- An increase of \$76,250 for FY 2013 would pay for an increase in the portal licensing and maintenance fees with Oracle/PeopleSoft for SABHRS. The increase assumes a contractual trigger based on the size of the state budget, excluding Office of Public Instruction transfers to local school districts. The adjustment assumes the trigger of \$3.3 billion will be exceeded in FY 2013.

**LFD  
COMMENT**One of Two Adjustments for the Portal License and Maintenance Fee

This adjustment represents half of the fee increase for the portal license and maintenance fee. The other half of the fee increase is funded by DP 0302 in the Statewide Accounting, Budgeting and Human Resources Program proprietary section of the State Accounting Division.

DP 2305 - Electronic Data and Disk Storage Increase - Increases of \$105,600 each year would fund additional data and disk storage costs for 150 gigabytes of additional storage for data of the human resources module of SABHRS.

DP 2306 - Mid Tier Cost Increase - Increases of \$23,573 each year would fund anticipated increases in costs for mid tier payments to the Information Technology Services Division (ITSD) of the agency for increased database and application hosting and database administration in support of the human resources module of SABHRS. These increases are due to data growth and are outside the funding in the ITSD fixed cost allocation.

*New Proposals*

DP 2303 - Web-based ST Employment Application & Job Listings - Increases of \$58,000 each year would fund the administration, hosting, and maintenance of a web-based state employment application and job listing database.

<b>LFD COMMENT</b>	<p><u>Background on the Web Employment Application and Job Listing Database</u></p> <p>A web-based employment application and job listing service was implemented in the 2011 biennium. The services provided via the Internet allow individuals to enter and maintain personal data electronically on the internet, review state job vacancy announcements, and prepare and submit an application for a state job. The system allows applicants to review the current status of where in the process of hiring a state job posting is at any given time.</p> <p>Using the system, state human resource professionals and agency hiring managers can electronically manage all aspects of the process for filling a vacant position.</p> <p>This request would transfer the hosting and maintenance costs of these services to the Human Resources Information System bureau from the Information and Technology Services Division.</p>
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*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Requested Rates for Human Resources Information System				
Fee	Actual FY 2010	Projected FY 2011	Projected FY 2012	Projected FY 2013
HRIS fees (per employee processed per pay period)	\$9.37	\$8.04	\$8.06	\$8.10

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.

The above decision packages would have the following impact on the statewide fixed cost allocation, comparing the FY 2012/2013 rates to the rates approved by the legislature for FY 2010. All fees impact each warrant or advice processed:

- o Statewide present law adjustments (\$1.87/\$2.04 reductions)
- o DP 2301 - Oracle/PeopleSoft 3% Annual Fee Increase (\$0.04 increase both years)
- o DP 2302 - Oracle/PeopleSoft Portal Fee (\$0.21 increase only in FY 2013 )
- o DP 2305 - Electronic Data and Disk Storage Increase (\$0.29 increase both years)
- o DP 2306 - Mid Tier Cost Increase (\$0.07 increase both years)
- o DP 2303 - Web-based ST Employment Application & Job Listings (\$0.16 increase both years)
- o Cumulative impact of all adjustments (\$1.31/\$1.27 reductions)

**Proprietary Rates****Risk Management and Tort Defense (Agency Insurance Int Srv - 06532)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06532 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06532	Agency Insurance Int Srv	61010	Department of Administration	Risk Management & Tort Defense		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
	Investment Earnings		\$76,737	\$500,000	\$100,000	\$100,000
	Securities Lending Income		11,741	0	0	0
	Premiums		11,757,470	12,297,451	12,297,451	12,297,451
	Other Operating Revenues		<u>138</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Total Operating Revenue		\$11,846,086	\$12,797,451	\$12,397,451	\$12,397,451
Operating Expenses:						
	Personal Services		1,000,322	1,079,770	1,096,281	1,093,932
	Other Operating Expenses		<u>10,732,369</u>	<u>13,866,912</u>	<u>9,269,061</u>	<u>9,258,820</u>
	Total Operating Expenses		\$11,732,691	\$14,946,682	\$10,365,342	\$10,352,752
	Operating Income (Loss)		\$113,395	(\$2,149,231)	\$2,032,109	\$2,044,699
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets		0	0	0	0
	Federal Indirect Cost Recoveries		0	0	0	0
	Other Nonoperating Revenues (Expenses)		<u>235,093</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		\$235,093	\$0	\$0	\$0
	Income (Loss) Before Operating Transfers		\$348,488	(\$2,149,231)	\$2,032,109	\$2,044,699
	Contributed Capital		0	0	0	0
	Operating Transfers In (Note 13)		616,046	383,885	616,046	616,046
	Operating Transfers Out (Note 13)		<u>(640,042)</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Change in net assets		\$324,492	(\$1,765,346)	\$2,648,155	\$2,660,745
	Total Net Assets- July 1 - As Restated		8,156,775	8,481,267	6,715,921	9,364,076
	Prior Period Adjustments		0	0	0	0
	Cumulative effect of account change		0	0	0	0
	Total Net Assets - July 1 - As Restated		<u>8,156,775</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Net Assets- June 30		<u>\$8,481,267</u>	<u>\$6,715,921</u>	<u>\$9,364,076</u>	<u>\$12,024,821</u>
	60 days of expenses		\$1,955,449	\$2,491,114	\$1,727,557	\$1,725,459

*Program Description*

The Risk Management and Tort Defense Division administers a comprehensive plan of property and casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers and machinery, bonds (various), crime, fine art, property, professional liability, and miscellaneous. The state self-insures most commercial insurance risks under \$250,000 per occurrence as well as auto, general liability, inland marine, mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss. The division investigates, evaluates, and resolves tort claims, and coordinates the adjudication and settlement of other claims involving property damage.

*Program Highlights*

<b>Risk Management and Tort Defense Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ Insurance rates requested for the 2013 biennium are the same as the legislature approved for the 2011 biennium</li> </ul>

*Program Narrative*Expenses

Significant costs for the program are for:

- o Personal services for 16.00 FTE, \$1.0 million or 8.5% of total costs
- o Operating costs, \$10.7 million with 78.7% of these costs due to:
  - Insurance claims paid, \$3.3 million with the largest paid for: 1) comprehensive general liability (\$1.4 million); and self insurance property deductibles (\$1.0 million)
  - Insurance and bond payments for commercial insurance purchased, \$2.8 million
  - Legal fees and court costs, \$1.8 million

Revenues

Montana self insures its property via this program so all state agencies pay insurance premiums to the Risk Management and Tort Defense Division. Depending upon the type of property owned and the agency's claims history, insurance premiums paid by agencies can vary.

Budget authority to pay insurance premiums is a fixed cost item in agencies' budgets. The statewide fixed cost in the executive budget for insurance does not change for the 2013 biennium from the funding approved by the 2009 Legislature.

Premiums for the 2013 biennium are apportioned based upon exposure and uniform reductions in loss experience as follows:

- o Automobile - comprised of two separate components: 1) comprehensive and collision, based upon total values of reported vehicles; and 2) liability, based upon agency losses and the number of vehicles reported
- o Aviation - allocated to those agencies that have aircraft based upon charges from commercial insurance carriers for each aircraft, depending on the year, make, model, and value of the aircraft, and airport premium based upon the number of airports
- o General Liability - comprised of commercial coverage, which is based on commercial coverage negotiated with commercial insurance carriers and self-insured coverage
- o Property - allocated to each agency based on its percentage of reported exposures (e.g. building replacement cost values, boilers & machinery, etc.)

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (17.7%)
- o State special revenue (23.0%)
- o Federal special revenue (4.7%)
- o Other (54.6%)

**LFD  
COMMENT**Assumptions and Associated Risks

Total annual insurance premiums paid to this program are \$12.3 million and have remained at roughly the same aggregate levels since FY 2008. The FY 2008 levels were down from the peak authorized in FY 2005 of \$15.3 million. With insurance premiums remaining static, no large unexpected claims are assumed. The fund is actuarially funded based on these assumptions. The risk associated with this assumption is if there were large unanticipated claims to become payable, the insurance fund may not be sufficient to pay the claim for any claims that are above commercial insurance or the insurance pools reserves. Since the state is self insured, claims not covered by the insurance fund or commercial insurance would be an obligation of the state general fund to finance. The major risk facing the state is the lawsuit associated with asbestos damages in Libby. The state is mentioned as a defendant in this lawsuit. The risk is that if this lawsuit is resolved for more than the available reserves in the insurance pool the general fund may need to fund the shortage.

*Present Law Adjustments*

The only adjustments for the division are for statewide present law adjustments summarized below:

- o Personal services to fully fund authorized positions of \$155,152 in FY 2012 and \$152,705 in FY 2013
- o Vacancy savings to reduce full funding by 4.0% of (\$45,678) in FY 2012 and (\$45,580) in FY 2013
- o Fixed costs of \$199,915 in FY 2012 and \$189,538 in FY 2103
- o Inflation and deflation adjustments of (\$1,675) in FY 2012 and (\$1,539) in FY 2013

Statewide present law adjustments have no impact on the rates for the division.

*Proprietary Rates*

For the 2013 biennium the following rates are proposed by the executive.

Requested Rates for Insurance (Risk Management and Tort Defense)				
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Premiums:				
Auto/Comp/Collision	\$1,043,146	\$1,135,000	\$1,135,000	\$1,135,000
Aviation	212,450	212,451	212,451	212,451
General Liability	6,749,999	6,750,000	6,750,000	6,750,000
Property/Miscellaneous	<u>3,747,424</u>	<u>4,200,000</u>	<u>4,200,000</u>	<u>4,200,000</u>
Total	<u>\$11,753,019</u>	<u>\$12,297,451</u>	<u>\$12,297,451</u>	<u>\$12,297,451</u>

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.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	7.50	7.50	7.50	7.50	7.50	7.50	0.00	0.00%
Personal Services	391,870	425,167	465,967	461,571	817,037	927,538	110,501	13.52%
Operating Expenses	100,498	75,245	97,615	95,928	175,743	193,543	17,800	10.13%
Local Assistance	2,073	500	6,073	5,073	2,573	11,146	8,573	333.19%
<b>Total Costs</b>	<b>\$494,441</b>	<b>\$500,912</b>	<b>\$569,655</b>	<b>\$562,572</b>	<b>\$995,353</b>	<b>\$1,132,227</b>	<b>\$136,874</b>	<b>13.75%</b>
General Fund	494,441	500,912	569,655	562,572	995,353	1,132,227	136,874	13.75%
<b>Total Funds</b>	<b>\$494,441</b>	<b>\$500,912</b>	<b>\$569,655</b>	<b>\$562,572</b>	<b>\$995,353</b>	<b>\$1,132,227</b>	<b>\$136,874</b>	<b>13.75%</b>

### Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards, primarily involving residential and commercial property valuation, and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally-assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage, and copies, but excluding office equipment.

### Program Highlights

<b>State Tax Appeal Board Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ Expenditures would increase by 13.8% over the previous biennium, primarily due to increases to fully fund personal services</li> <li>◆ The executive recommends the reauthorization of a portion of the OTO funding for reappraisal workload appropriated for the 2011 biennium</li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>◆ An aggregate position that funds compensation for county tax appeals boards has high perpetual levels of vacancy savings and the legislature may want to consider changes in the funding level</li> </ul>

### Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the executive.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000 Total General Fund	\$ 494,441	100.0%	\$ 569,655	100.0%	\$ 562,572	100.0%
01100 General Fund	<u>494,441</u>	<u>100.0%</u>	<u>569,655</u>	<u>100.0%</u>	<u>562,572</u>	<u>100.0%</u>
Grand Total	<u>\$ 494,441</u>	<u>100.0%</u>	<u>\$ 569,655</u>	<u>100.0%</u>	<u>\$ 562,572</u>	<u>100.0%</u>

The State Tax Appeal Board is fully funded with general fund. General fund also funds travel expenses, compensation of \$45 per day, and all other incidental expenses for the county tax appeal boards, except that counties fund office and equipment expenses of their respective county boards.

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	494,441	494,441	988,882	87.34%	494,441	494,441	988,882	87.34%
Statewide PL Adjustments	51,214	50,131	101,345	8.95%	51,214	50,131	101,345	8.95%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	24,000	18,000	42,000	3.71%	24,000	18,000	42,000	3.71%
<b>Total Budget</b>	<b>\$569,655</b>	<b>\$562,572</b>	<b>\$1,132,227</b>		<b>\$569,655</b>	<b>\$562,572</b>	<b>\$1,132,227</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					78,533					78,119
Vacancy Savings					(18,436)					(18,418)
Inflation/Deflation					138					152
Fixed Costs					(9,021)					(9,722)
<b>Total Statewide Present Law Adjustments</b>		<b>\$51,214</b>	<b>\$0</b>	<b>\$0</b>	<b>\$51,214</b>		<b>\$50,131</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,131</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$51,214</b>	<b>\$0</b>	<b>\$0</b>	<b>\$51,214</b>	<b>0.00</b>	<b>\$50,131</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,131</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – No employee groups in this program benefit from exceptions to the agency pay plan rules.
- o **Program Specific Obstacles** – The obstacles the program face in hiring and retaining a qualified staff are the same as for the rest of the agency.

o **Vacancy**

- Besides one aggregate position that funds personal services costs for county tax appeal boards, all other positions were fully utilized in FY 2010
- The 2.25 FTE position that funds the personal services costs for county tax appeals boards used only 544 of the 4,698 funded hours, or 11.6% utilization, due to variations in workloads for the county boards that resulted in low required personal services funding

**LFD  
ISSUE**

Perpetually High Vacancy Rate in Position for County Board Funding

A 2.25 FTE position exists in this program to fund the personal services costs for the county tax appeals boards. This position has perpetually expended only a small proportion of the funds appropriated. Funds freed up from vacancy savings can be used for other purposes not anticipated by the legislature. The legislature may want to reevaluate the funding level or place restrictions on the use of vacancy savings of this position.

Montana law states that members of county tax appeals boards receive compensation of \$45 a day when the county tax appeal board meets to hear taxpayers' appeals from property tax assessments or when they are attending meetings called by the state tax appeal board. Compensation must be paid from the appropriation to the state tax appeal board. The 2.25 FTE position has been established to fund the compensation of the county tax appeals boards. The following figure shows the amounts budgeted, expended, percent of budget expended, and vacancy savings amount for fiscal years 2008 through 2010.

Position for County Tax Appeals Board Funding			
	FY 2008	FY 2009	FY 2010
Amount budgeted	\$55,001	\$55,046	\$70,524
Amount expended	<u>2,096</u>	<u>589</u>	<u>8,133</u>
Amount of budget not expended	<u>\$52,905</u>	<u>\$54,457</u>	<u>\$62,391</u>
% of budget expended	3.8%	1.1%	11.5%

Because of the recent property reappraisal, FY 2010 should have been a busy year for the tax appeals, yet only 11.5% of the funds appropriated were expended. Even at the expenditure rate in FY 2010, funding at 0.25 FTE is more appropriate for this position. The general fund savings that would result from reducing the funding for 2.00 FTE of this position is \$133,766

for the biennium. If vacancy savings is imposed or turnover is low, the program could use carryforward authority, request funding from the Governor's personal services contingency fund, or transfer funding from other areas of the program or agency.

One avenue the legislature might consider when evaluating options for adjusting the funding level for this position and still enabling the program to achieve operational requirements is to exempt the board members or the entire program from any imposed vacancy savings requirements and fully fund the board or all positions of the program.

Options

- o Make no changes to the funding for the county tax appeals board position
- o Make no changes in the level of funding for the county tax appeals board position, but establish a line item appropriation that is restricted only for use in compensating the county board members
- o Reduce the funding for the position without making any other associated changes
- o Reduce the funding for the position, but exempt the 3.00 FTE State Tax Appeals Board members from vacancy savings requirements
- o Reduce the funding for the position, but exempt the program from vacancy saving requirements

- o **Legislatively Applied Vacancy Savings** – The vacancy savings generated by the low utilization of the county board aggregate position was used to fund the 7% applied vacancy saving.
- o **Pay/Position Changes** – The only pay changes made were to raise two positions up to the federal minimum wage.
- o **Retirements** – Four employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$28,315.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals											
Program	FTE	Fiscal 2012				Fiscal 2013					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 3701 - STAB 2009 Statewide Reappraisal of Property OTO	37	0.00	24,000	0	0	24,000	0.00	18,000	0	0	18,000
<b>Total</b>	<b>0.00</b>	<b>\$24,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$24,000</b>	<b>0.00</b>	<b>\$18,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$18,000</b>	

DP 3701 - STAB 2009 Statewide Reappraisal of Property OTO - An increase in general fund is requested for an anticipated increase in tax appeals due to the 2009 statewide reappraisal of property. The executive recommends this funding be designated as one time only.

<b>LFD COMMENT</b>	<p><u>2011 Biennium OTO Funding – Reappraisal Workload</u></p> <p>The 2009 Legislature approved funding to address county tax appeal board workload impacts associated with the 2009 property reappraisal appeals. The 2011 biennium funding was designated as one time only and the FY 2010 funding of \$36,400 was fully expended. This request is for roughly 73% of the amount appropriated for the 2011 biennium.</p>
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