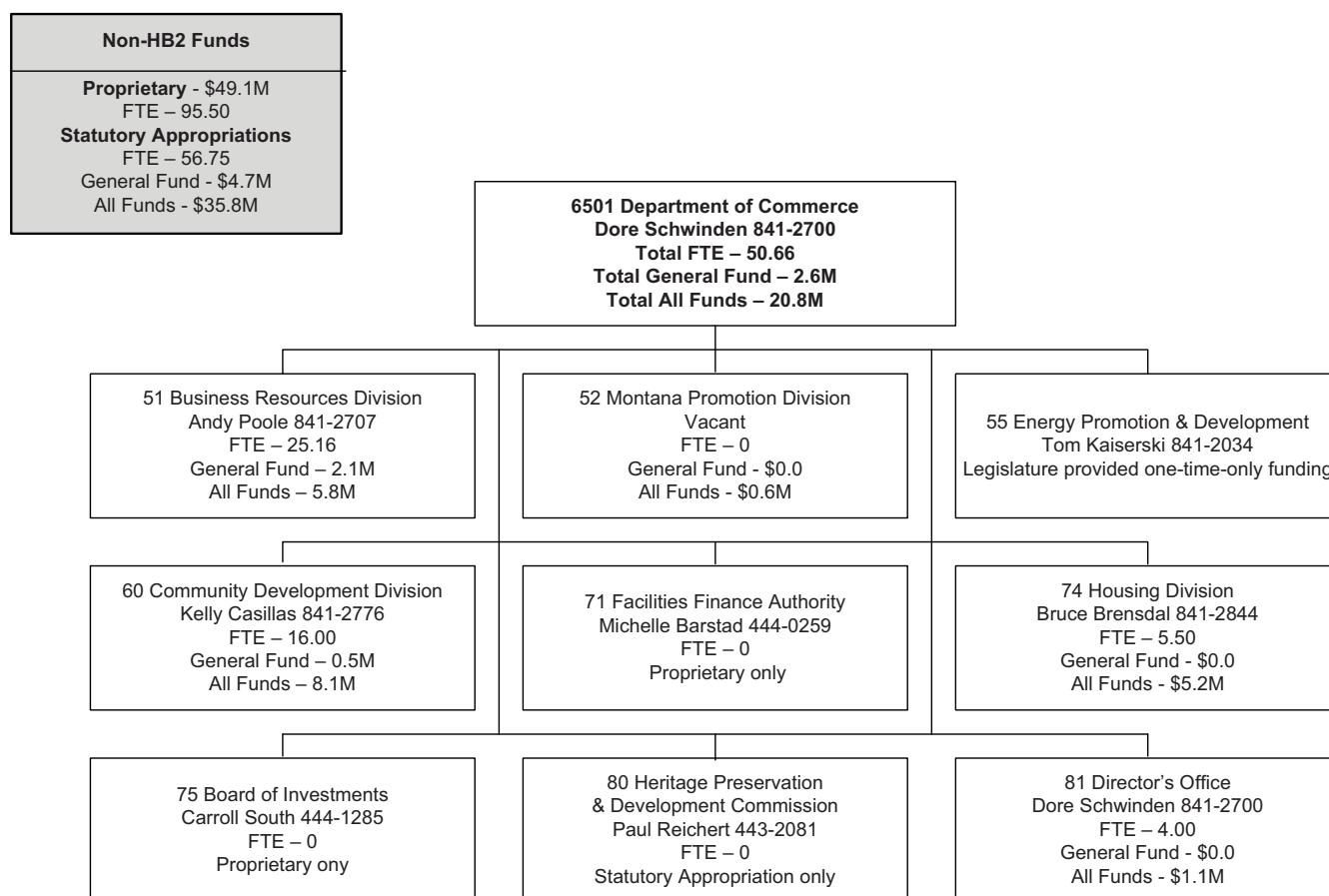


Agency Budget Comparison

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	50.66	50.66	56.00	56.00	50.66	56.00	5.34	10.54%
Personal Services	3,014,479	3,199,829	3,564,807	3,565,264	6,214,308	7,130,071	915,763	14.74%
Operating Expenses	3,310,301	5,178,533	6,463,726	6,754,586	8,488,834	13,218,312	4,729,478	55.71%
Equipment & Intangible Assets	0	97,650	0	0	97,650	0	(97,650)	(100.00%)
Grants	14,505,844	22,354,042	18,382,856	18,756,426	36,859,886	37,139,282	279,396	0.76%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$20,830,624	\$30,830,054	\$28,411,389	\$29,076,276	\$51,660,678	\$57,487,665	\$5,826,987	11.28%
General Fund	2,598,996	2,692,843	5,011,683	5,012,435	5,291,839	10,024,118	4,732,279	89.43%
State Special	4,216,567	6,178,304	7,333,031	7,300,737	10,394,871	14,633,768	4,238,897	40.78%
Federal Special	14,015,061	21,958,907	16,066,675	16,763,104	35,973,968	32,829,779	(3,144,189)	(8.74%)
Total Funds	\$20,830,624	\$30,830,054	\$28,411,389	\$29,076,276	\$51,660,678	\$57,487,665	\$5,826,987	11.28%

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

The Department of Commerce strives to enhance the economic prosperity for all Montanans. The department works its with customers (economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public) to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing and facilities.

The department is composed of nine major divisions as follows:

Business Resources Division

- o Board of Research and Commercialization Technology
- o State Tribal Economic Development Commission
- o Regional Development Bureau
- o Census and Economic Information Center
- o Trade and International Relations Bureau
- o Small Business Development Center Bureau

Montana Promotion Division

- o Tourism Marketing and Promotion
- o Film Marketing and Promotion
- o Tourism Development and Education
- o Industry Services and Operations

Energy Promotion & Development Division**Community Development Division**

- o Community Development Block Grant Program
- o Community Technical Assistance Program
- o Treasure State Endowment Program
- o Neighborhood Stabilization Program
- o Coal Board
- o Hard Rock Mining Impact Board

Montana Facility Finance Authority**Housing Division**

- o Board of Housing
- o Housing Assistance Bureau

Board of Investments**Montana Heritage Commission****Director's Office**

- o Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information
- o Quality Schools Program
- o Montana Council on Developmental Disabilities

The Department of Commerce encompasses a number of programs that provide grant administration, federal program administration, state initiatives, and investment services in order to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of infrastructure, housing and facilities.

Agency Highlights

Department of Commerce Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The general fund would increase over 89% compared to the 2011 biennium due primarily to the Governor's proposed maintenance of three programs, including 4.00 FTE, designated as one-time-only by the previous legislature: <ul style="list-style-type: none"> • Indian country economic development • Montana Main Street • Primary business sector training grants ◆ The Governor would also provide general fund for operating expenses of the supercomputer in Butte ◆ These increases would be partially offset by the elimination of the Regional Development Program, including 3.66 FTE ◆ State special revenues would increase due to: <ul style="list-style-type: none"> • Loans to certified Micro-business development corporations • Increased coal board grants 	
Legislative Action Issues	
<ul style="list-style-type: none"> ◆ Interim Committee Recommendations <ul style="list-style-type: none"> • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5% 	

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

The following provides an update of the goals monitored by the LFC during the 2011 biennium.

The committee heard reports on the goal to increase the number of energy transmission and production projects completed in Montana. The agency submitted information for the current reporting period included a general overview of the projects, publications, studies, grants, and highlights of the division's activities. Also provided were detailed descriptions of significant in-process projects and annual tables detailing the amount of capital investments in energy projects, projected construction jobs, permanent jobs, and estimated power generation capacity increases attributable to the division's activities in accordance to the stated performance measures.

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. The committee did not select a goal for consideration for this agency.

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 by LFD staff as necessary for brevity and/or clarity.

- o **Labor Market Experience** – The agency has seen an increase in hiring pool sizes, with a corresponding increase in minimally qualified applicants, but it has not needed to do multiple recruitment and has not experienced employment offer rejections. There have not been high turnover trends.
- o **Pay Philosophy** – The agency will continue to use the department's broadband pay plan guidelines to appropriately place new hires using the department employee profile and recommended range placement process. No special pay rates or adjustments are used.
- o **Obstacles** – The pay freeze and its public characterization may cause the general public to view state government employment as a career path with limited growth potential.

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 agency.

Total 5% Reduction Plan Identified by the Department of Commerce, 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>Business Resources Division</u>					
<i>Included in Executive Budget</i>					
55004 Eliminate Regional Dev. Program	3.66	\$621,383	100.0%		
<u>Montana Promotion Division</u>					
<i>Not Included in Executive Budget</i>					
Reduce Private Funds				\$325,496	100.0%
<u>Total Reduction Plan</u>					
Included in Executive Budget		\$621,383	100.0%	\$0	0.0%
Not Included in Executive Budget		0	0.0%	325,496	100.0%
Total Agency Reduction Plan		<u>\$621,383</u>		<u>\$325,496</u>	

The elimination of the regional development programs took place in the 2011 biennium. The Montana Promotion Division is requesting an increase in funding for its private funds in HB 2 to \$750,000. Please see DP 5208 in the Montana Promotions Division.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. 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.	Grand Total	Total %
51 Business Resources Division	\$ 8,070,327	\$ 4,408,723	\$ 9,774,990	\$ 22,254,040	38.71%
52 Montana Promotion Division	-	1,529,308	-	1,529,308	2.66%
55 Energy Promotion & Dev Division	910,000	-	-	910,000	1.58%
60 Community Development Division	1,043,791	7,914,764	10,970,079	19,928,634	34.67%
74 Housing Division	-	51,600	10,884,710	10,936,310	19.02%
81 Director'S Office	-	729,373	1,200,000	1,929,373	3.36%
Grand Total	<u>\$ 10,024,118</u>	<u>\$ 14,633,768</u>	<u>\$ 32,829,779</u>	<u>\$ 57,487,665</u>	<u>100.00%</u>

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 Commerce					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
<u>No Direct Bearing on Agency Operations</u>					
Debt service payments and issuing costs	17-7-502	Enterprise Funds	\$1,828,551	\$1,320,878	\$1,559,878
Hard Rock Mining to Counties	90-6-331	SSR	227,801	600,000	600,000
<u>Direct Bearing on Agency Operations</u>					
Business research and development	15-35-108	GF /SSR	\$1,070,155	\$1,100,000	\$1,100,000
Tourism promotion and related activities	15-65-121	SSR	17,144,519	17,537,609	17,212,559
Purchase, maintain and operate historic properties	22-3-1004	SSR & FSR	1,015,343	1,362,422	1,361,829
Assist economic development in Montana	90-1-205	SSR/FSR	7,871,616	5,170,539	5,747,846
Fund research and commercialization projects	90-3-1003	GF & SSR	6,633,980	2,726,160	2,724,069

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 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	2,598,996	2,598,996	5,197,992	51.85%	20,830,624	20,830,624	41,661,248	72.47%
Statewide PL Adjustments	98,506	100,044	198,550	1.98%	272,912	225,435	498,347	0.87%
Other PL Adjustments	1,433	1,848	3,281	0.03%	4,995,105	5,708,670	10,703,775	18.62%
New Proposals	2,312,748	2,311,547	4,624,295	46.13%	2,312,748	2,311,547	4,624,295	8.04%
Total Budget	\$5,011,683	\$5,012,435	\$10,024,118		\$28,411,389	\$29,076,276	\$57,487,665	

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	25.16	25.16	25.50	25.50	25.16	25.50	0.34	1.35%
Personal Services	1,515,117	1,667,729	1,672,922	1,672,355	3,182,846	3,345,277	162,431	5.10%
Operating Expenses	1,808,937	3,407,304	4,537,923	4,868,222	5,216,241	9,406,145	4,189,904	80.32%
Grants	2,448,507	3,520,966	4,751,167	4,751,451	5,969,473	9,502,618	3,533,145	59.19%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$5,772,561	\$8,595,999	\$10,962,012	\$11,292,028	\$14,368,560	\$22,254,040	\$7,885,480	54.88%
General Fund	2,068,846	2,153,892	4,033,725	4,036,602	4,222,738	8,070,327	3,847,589	91.12%
State Special	112,474	2,342,470	2,204,848	2,203,875	2,454,944	4,408,723	1,953,779	79.59%
Federal Special	3,591,241	4,099,637	4,723,439	5,051,551	7,690,878	9,774,990	2,084,112	27.10%
Total Funds	\$5,772,561	\$8,595,999	\$10,962,012	\$11,292,028	\$14,368,560	\$22,254,040	\$7,885,480	54.88%

Program Description

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

The mission of the Business Resources Division is to deliver information, technical assistance, and financial resources to communities and businesses in Montana resulting in the development and prosperity of our state.

Program Highlights

Business Resources Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ General fund increases \$3.9 million, or 91.1%, from the 2011 biennium to the 2013 biennium due to the provision of funding for programs, including a total 4.00 FTE, that had been made one-time-only by the previous legislature: <ul style="list-style-type: none"> • Indian country economic development • Montana Main Street Program • Primary business sector training grants • High performance computing operating costs ◆ These increases are partially offset by the proposed elimination of the Regional Development Program, including 3.66 FTE ◆ State special funds increase \$2.0 million, or 79.6%, due to loans to certified Micro-business development corporations ◆ Federal special funds increase \$2.1 million, or 27.1%, due to increased funding for loans to small business development centers 	

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 of two items on the agency's 5% reduction plan applies to this program. DP 55004 to eliminate the regional development program and funding for 3.66 FTE was included in the Governor's request. Further discussion of this request can be found 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 Business 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	\$ 2,068,846	35.8%	\$ 4,033,725	36.8%	\$ 4,036,602	35.7%
01100 General Fund	2,068,846	35.8%	4,033,725	36.8%	4,036,602	35.7%
02000 Total State Special Funds	112,474	1.9%	2,204,848	20.1%	2,203,875	19.5%
02090 Business Asst-Private	5,820	0.1%	75,820	0.7%	75,820	0.7%
02210 Microbusiness Admin Acct	93,987	1.6%	116,361	1.1%	115,388	1.0%
02212 Microbusiness Loan Acct	-	-	2,000,000	18.2%	2,000,000	17.7%
02791 Sbir Private Funds	12,667	0.2%	12,667	0.1%	12,667	0.1%
03000 Total Federal Special Funds	3,591,241	62.2%	4,723,439	43.1%	5,051,551	44.7%
03059 Community Development Block	2,549,514	44.2%	3,514,162	32.1%	3,504,714	31.0%
03061 Eda Revolving Loan Fund	77,071	1.3%	231,071	2.1%	377,071	3.3%
03172 Sbir Outreach	3,407	0.1%	3,407	0.0%	3,407	0.0%
03207 Small Business Dev. Centers	624,276	10.8%	637,826	5.8%	636,386	5.6%
03233 Instep/Epscor Funds	29,973	0.5%	29,973	0.3%	29,973	0.3%
03932 Cdbg Rlf	307,000	5.3%	307,000	2.8%	500,000	4.4%
Grand Total	<u>\$ 5,772,561</u>	<u>100.0%</u>	<u>\$ 10,962,012</u>	<u>100.0%</u>	<u>\$ 11,292,028</u>	<u>100.0%</u>

General fund would increase by \$3.9 million, or 91%, from the 2011 biennium. General fund increases are due largely to funding requests for programs funded for the 2011 biennium in HB 645 of the 2009 Legislature, which appropriated general fund freed up due to the federal American Recovery and Reinvestment Act of 2009 (ARRA): Indian country economic development and the Montana Main Street Program. An increase is also requested for primary business sector training grants and high performance computing operating expenses. General fund supports a number of functions including technology and biomedical research programs, the Montana Main Street Program, workforce training grants, the Montana capital investment board, census and economic information center, tribal economic development, the Made in Montana program, regional development programs, and international relations programs.

State special revenue funding supports several projects, including small business research, micro-business loan administration, the Big Sky Trust Program, and trade and international relations programs. Requested funding from state special revenue sources increased by \$2.0 million, or 80%, from the 2011 biennium. The increase is primarily due to the addition of \$2.0 million in funding to record the micro-business loans made through the Small Business Development Center to certified micro-business development corporations.

Federal special revenue that primarily supports the WIRED and Community Development Block Grant programs increases \$2.1 million, or 27.1%, from the 2011 to the 2013 biennium to increase federal funding for loans to small business development centers to the level available for the 2013 biennium.

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	2,068,846	2,068,846	4,137,692	51.27%	5,772,561	5,772,561	11,545,122	51.88%
Statewide PL Adjustments	98,752	101,615	200,367	2.48%	186,925	178,132	365,057	1.64%
Other PL Adjustments	1,114	2,537	3,651	0.05%	3,137,513	3,477,731	6,615,244	29.73%
New Proposals	1,865,013	1,863,604	3,728,617	46.20%	1,865,013	1,863,604	3,728,617	16.75%
Total Budget	\$4,033,725	\$4,036,602	\$8,070,327		\$10,962,012	\$11,292,028	\$22,254,040	

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					243,504					242,838
Vacancy Savings					(70,339)					(70,313)
Inflation/Deflation					(826)					(667)
Fixed Costs					14,586					6,274
Total Statewide Present Law Adjustments		\$98,752	\$15,857	\$72,316	\$186,925		\$101,615	\$14,935	\$61,582	\$178,132
DP 5108 - BRD ADMINISTRATIVE COSTS ADJUSTMENTS HB 2	0.00	1,114	2,076,517	159,882	2,237,513	0.00	2,537	2,076,466	498,728	2,577,731
DP 5109 - BRD FEDERAL GRANTS ADJUSTMENTS HB 2	0.00	0	0	900,000	900,000	0.00	0	0	900,000	900,000
Total Other Present Law Adjustments	0.00	\$1,114	\$2,076,517	\$1,059,882	\$3,137,513	0.00	\$2,537	\$2,076,466	\$1,398,728	\$3,477,731
Grand Total All Present Law Adjustments	0.00	\$99,866	\$2,092,374	\$1,132,198	\$3,324,438	0.00	\$104,152	\$2,091,401	\$1,460,310	\$3,655,863

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 occupational groups in this program have exceptions from the agency's pay plan rules.
- o **Program Specific Obstacles** – The program does not anticipate difficulties attracting and retaining qualified workers to achieve its mission.
- o **Vacancy** – No positions with high turnover rates have been identified for this program.
- o **Legislatively Applied Vacancy Savings** – The program held specific positions open to achieve the applied vacancy savings.
- o **Pay/Position Changes** – Two pay increases were given to individuals in order to keep them from leaving for other opportunities.
- 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 \$86,544.

DP 5108 - BRD Administrative Costs Adjustments HB 2 - This request for additional operating costs includes travel, communications, rent, training costs, indirect costs, and software for reporting to the federal government in the Small Business Development Center (SBDC) bureau. In addition, the request includes \$2.0 million state special revenue each year to record loans to certified micro-business development corporations on the state accounting system. Included are plans for offering National Development Council courses in Montana in FY 2012 and FY 2013 for economic developers to become Certified Economic Development Finance Professionals.

DP 5109 - BRD Federal Grants Adjustments HB 2 - This request would adjust federal funds for the amount of federal funds available in the 2013 biennium.

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				FTE	Fiscal 2013			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5101 - BRD Primary Business Sector Training HB 2 OTO										
51	2.00	1,000,000	0	0	1,000,000	2.00	1,000,000	0	0	1,000,000
DP 5102 - BRD Indian Country Economic Development HB 2 OTO										
51	1.00	800,000	0	0	800,000	1.00	800,000	0	0	800,000
DP 5103 - BRD Main Street Program HB 2 OTO										
51	1.00	125,000	0	0	125,000	1.00	125,000	0	0	125,000
DP 5112 - High Performance Computing - OTO										
51	0.00	250,000	0	0	250,000	0.00	250,000	0	0	250,000
DP 55004 - 4% PERSONAL SERVICES REDUCTION										
51	(3.66)	(309,987)	0	0	(309,987)	(3.66)	(311,396)	0	0	(311,396)
Total	0.34	\$1,865,013	\$0	\$0	\$1,865,013	0.34	\$1,863,604	\$0	\$0	\$1,863,604

DP 5101 - BRD Primary Business Sector Training HB 2 OTO - This general fund increase would fund grant funds to new and existing Montana businesses to train new employees. The executive recommends designating funding for this request as one time only.

LFD COMMENT

A seven member Grant Review Committee consisting of both public and private members review applications and allocate funding through the Department of Commerce. This program has been funded in previous biennia as a one-time-only appropriation.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification - The Primary Sector Business Training Program provides grant funds to new and existing Montana businesses to train new employees. This economic development tool is a catalyst for creating new, good jobs in Montana that pay benefits. A seven member Grant Review Committee consisting of both public and private members review applications and allocate funding through the Department of Commerce. Montana continues to struggle with low wages and under-trained workers.

The Primary Sector Business Training Program is needed to:

- o Provide an essential incentive for new businesses to locate to Montana. State-supported worker training programs are among the incentives most important to expanding or relocating businesses
- o Provide existing businesses with essential support to train new employees that allows them to expand their business in Montana without needing to leave the state

Goals - The Primary Sector Business Training Program will continue to:

- o Attract new businesses to Montana by providing state support to train new employees as a major incentive to relocation
- o Assist new and existing businesses to create new jobs that pay a minimum of the state or county average wage thereby raising wages across Montana

Performance Criteria – The following will be tracked and reported to measure its success:

- o The creation of eligible new jobs and the hiring of employees for those jobs
- o The salaries of trainees and changes to salaries through the project
- o Summaries of the training program as planned and as delivered
- o Amount expended for each trainee

Risks – The risks if the program is not funded are:

- o The loss of an essential incentive for new businesses to relocate to Montana
- o The loss of support for a primary sector business training program that has already generated nearly 3,250 new jobs
- o The loss of a competitive recruitment and retention tool that almost all other states employ and thereby placing Montana at a significant competitive disadvantage for expanded jobs and businesses

DP 5102 - BRD Indian Country Economic Development HB 2 OTO - The Tribal Economic Development Program provides resources to existing and new Tribal businesses to expand operations and facilities, and train and employ new workers. The Tribal Economic Development Program assists by helping tribal members in Montana get hired into permanent full-time jobs, start their own businesses, and improve their economic circumstance. Projects funded would allow the Tribal Governments over the long term to provide more employment opportunities and greater wages to their citizens. The executive recommends designating funding for this request as one time only.

LFD COMMENT

HB 645 Funding for the 2011 Biennium

The 2009 Legislature funded Indian country economic development with general fund freed up by ARRA. For the 2011 biennium, \$1.6 million was funded in HB 645, the appropriations act for the ARRA funds, for the Indian country economic development. As such, there is no base for this function.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification - One of the greatest economic development challenges that Montana faces is capitalizing on or creating opportunities for job creation and economic prosperity on Montana's Indian Reservations and with non-reservation tribal members.

According to the 2000 census, there were 65,945 self identified American Indians in Montana, or about 7.3% of the total population. Approximately 37,871 American Indians, or about 57.4%, lived on one of the seven reservations in the state. The Blackfeet and the Flathead reservations were the largest, with 8,665 and 7,853 American Indian residents, respectively. Rocky Boy's (2,598) and the Fort Belknap (2,805) reservations had the smallest number of American Indians residents.

American Indians are, on average, much younger than other Montanans. The median age for American Indians was 24.1 years, as compared for 37.5 years for the total populations in the state. The youngest American Indians were on the Northern Cheyenne and Rocky Boy's reservations, with medians of 20.2 and 20.1 years, respectively. The oldest were on the Fort Peck Reservation, where the median age was 30.2 years. The American Indian population will continue to grow at a faster rate than the rest of Montana.

The median household income for American Indians was \$22,824, more than ten thousand dollars less than the \$33,024 reported for all Montanan households.

Based upon the methodology used, the unemployment rate for reservations in Montana has historically ranged from 15% to 30% using the Bureau of Labor Statistics methodology and from 25% to 75% using Bureau of Indian Affairs methodology. Whichever methodology is used, these rates are astronomically higher than the rest of the state, even in an economic downturn.

Poverty status on the reservations, according to 1999 Census Bureau statistics, estimate 30.6% of families below the poverty level on reservations in Montana. A more recent 2008 survey of poverty in school districts (whose boundaries are on the reservations) estimate American Indian children ages 5-17 in poverty at:

- o 30.5% poverty of which 76.6% are Blackfeet families
- o 27.5% poverty of which 82.9% are Crow families
- o 21.2% poverty of which 23.6% are Confederated Salish & Kootenai Tribes families
- o 28% of which 59.8% are Fort Belknap Indian Community families
- o 28.2% of which 48% are Fort Peck Assiniboine & Sioux families
- o 33.5% of which 63% are Northern Cheyenne families
- o 22% of which 42.8% are Chippewa Cree families

Goals - The Tribal Economic Development Program will continue to:

- o Assist tribal members in Montana get hired into permanent full-time jobs, start their own businesses, and improve their economic circumstance
- o Fund priority economic development projects identified by the Tribal Governments that will allow the Tribal Governments over the long term to provide more employment opportunities and greater wages to their citizens
- o Fund individual private businesses that are starting-up or expanding with small grants and technical assistance that helps to develop the private sector economy on the reservations in Montana and with the Little Shell Tribe
- o Provide funding for entrepreneurial training to tribal members so that they have a better chance of success in starting and growing their own businesses

Performance Criteria – The following will be tracked and reported to measure its success:

- o Number of jobs created and/or retained as a result of ICED investment
- o Number of tribal member businesses created or expanded as a result of ICED investment
- o Number of tribal members signed up and graduating from training entrepreneurship training
- o Amount of matching funds
- o Leverage ratio with other funds
- o Number of projects that met or exceeded their proposed goals

Risks - The risks if the program is not funded are:

- o The loss of support for new business and existing development on Montana's Reservations that have begun to show results in improving the economies of tribal communities
- o Continuing issues with high under employment, unemployment, poverty, and lack of economic opportunities on Montana's Reservations

Milestone - Since the Montana Department of Commerce has been operating the Indian Country Economic Development Program since 2006, the key activities of the program have become well-established. An application process and guidelines have been developed and refined. The Grant Review Committee has been established and has met to adopt the guidelines and to review and make grant awards. Contracts with the current grantees are in place.

FTE - The work is being performed by existing staff for the Montana Department of Commerce.

Funding – General fund is requested for this program. The Indian Country Economic Development Program is designed to promote progress in business and employment opportunities in Montana's reservation communities. The grant review

committee may award grants to tribal governments and individual small business tribal members for proposals that start or expand businesses, assess business feasibility and needs, provide entrepreneurial and other necessary business training, or other projects that will have a systemic effect on the economic development opportunities for a specified reservation. A tribal government proposal is encouraged to provide a match of \$1 for every \$1 awarded. Match includes:

- o Direct project-related costs such as new equipment, fixed assets, and buildings
- o In-kind tribal government and administrative time dedicated to proposal development
- o For individual tribal member businesses, the business owner must provide a 1:1 match including firm loan commitments and collateral (cash or in-kind)

Obstacles – No obstacles have been identified as this program has been implemented since 2006.

DP 5103 - BRD Main Street Program HB 2 OTO - This program helps communities strengthen and preserve their historic downtowns by focusing on economic development through organization, design, and promotion. It also provides downtown development and historic preservation technical assistance and expertise to communities of all sizes, based on their individual needs, without a requirement for paid staff.

LFD COMMENT

HB 645 Funding for the 2011 Biennium

The 2009 Legislature funded the Montana Main Street Program with general fund freed up from the federal American Recovery and Reinvestment Act of 2009 (ARRA). For the 2011 biennium, \$250,000 was funded in HB 645, the appropriations act for the ARRA funds, for the Montana Main Street Program. As such, there is no base for this function.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification - The Montana Main Street program:

- o Helps communities strengthen and preserve their historic downtowns by focusing on economic development through organization, design, and promotion
- o Serves as a coordinating resource for communities seeking to revitalize their historic downtown commercial districts
- o Provides downtown development and historic preservation technical assistance and expertise to communities of all sizes, based on their individual needs, without a requirement for paid staff
- o Provides networking and advocacy to local communities that are interested in downtown renewal

Goals - The Main Street program will:

- o Make the program more accessible by eliminating the requirement for paid staff and thereby provide the downtown development and historic preservation services communities with what they want most. Communities of all sizes are encouraged to participate
- o Apprise communities of funding opportunities through the Department of Commerce, other state and federal agencies, and from private sources
- o Measure success by tracking and reporting annual net job gains and losses; net gains in new businesses; and, the dollar value of all private and public investment spent on new construction in the downtown, building rehabilitation projects, and public improvements
- o Track the number and dollar value of annual volunteer hours in each community donated

Risks - The risks if the program is not funded are:

- o Fewer independently owned businesses and fewer employees
- o Lower tax base for municipal governments

- o Decreased property values in the downtown areas
- o Decreased ability of local residents to maintain their community's historic integrity and residents' sense of place and belonging
- o Decreased ability of small communities to build capacity for economic development
- o Small communities may not be able to afford to pay for the technical services that main street communities currently receive
- o Lower ability to network about downtown renewal issues with peers statewide

DP 5112 - High Performance Computing - OTO - This request is for general fund in each year to provide operational support to high performance computing. The Governor recommends designating funding for this request as one time only.

**LFD
COMMENT**
Startup Costs Funded in HB 645 for the 2011 Biennium

The 2009 Legislature included \$2.0 million freed up general fund to subsidize the startup costs for the high performance computing center located in Butte. Since these funds were in HB 645, they are not in the base. This request is for operating support for the center.

DP 55004 - 4% Personal Services Reduction - The Governor has included a 4% reduction in general fund personal services budgets as a part of his budget recommendations. This request reduces the Business Resources Division by \$309,987 in FY 2012 and \$311,396 in FY 2013 to implement the budget reduction. The reduction includes the elimination of 3.66 FTE. This would eliminate the Regional Development Program.

**LFD
COMMENT**
5% Reduction Plan Item

This request is one of two items included in the 5% reduction plan for this agency. For a summary of all 5% plan items identified for the agency refer to the "5% Reduction Plan" table in the agency summary section.

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
Operating Expenses	621,696	750,000	779,308	750,000	1,371,696	1,529,308	157,612	11.49%
Total Costs	\$621,696	\$750,000	\$779,308	\$750,000	\$1,371,696	\$1,529,308	\$157,612	11.49%
State Special	621,696	750,000	779,308	750,000	1,371,696	1,529,308	157,612	11.49%
Total Funds	\$621,696	\$750,000	\$779,308	\$750,000	\$1,371,696	\$1,529,308	\$157,612	11.49%

Program Description

Mission: To strengthen Montana's economy through the promotion of the state as a vacation destination and film location; by maximizing the combined talents and abilities of its staff; and with guidance from the Governor's Tourism Advisory Council, the Montana Promotion Division strives to promote a quality experience to visitors while encouraging preservation of Montana's environment and quality of life.

The Montana Promotion Division functions to increase visitor travel, visitor expenditures, and film production in the state. This is accomplished through various marketing efforts, networking with the state's public and private sector tourism and recreation industry and agencies, and providing education and development assistance. The division works to project a positive image of the state through consumer advertising, electronic marketing, public relations efforts, international and domestic group travel marketing, printing and distribution of literature, assisting in the development of tourism infrastructure, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers and distributes infrastructure grants, and oversees expenditures of six regional non-profit corporations and the eleven qualified convention and visitors bureaus.

Montana Promotion Division responsibilities are mandated primarily in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Program Highlights

Montana Promotion Division Major Budget Highlights	
◆	95.8% of the Montana Promotion Division budget, including 28.5 FTE, is supported by statutory appropriations
◆	The increase of 11.5% from the 2011 biennium to the 2013 biennium is due to statewide present law adjustments and an increase in private funds

Program Narrative

The Montana Promotion Division budget increases by 11.5% when compared to the 2011 biennium due to a request to increase private funds to the prior appropriated level of \$750,000. \$0.28 million in state special revenue funds is requested for national advertising over the biennium. Adjustments related to audit costs in FY 2012 are also added.

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 department included in its plan a reduction in the private funds matched by the state for targeted advertising campaigns by \$162,748 each year (\$325,496 over the biennium), which is a 27% reduction from base expenditures. This reduction is not included in the executive budget.

DP 5208 below would increase the base appropriation by \$139,825 each year for a total appropriation of \$750,000 each year. If both the 5% plan reduction and this DP are approved by the legislature, the total appropriation would be \$587,252 each year.

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 Promotion Division							
Program Funding		Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
02000	Total State Special Funds	\$ 621,696	100.0%	\$ 779,308	100.0%	\$ 750,000	100.0%
	02116 Accommodation Tax Account	11,774	1.9%	29,308	3.8%	-	-
	02154 Mt Promotion-Private	<u>609,922</u>	<u>98.1%</u>	<u>750,000</u>	<u>96.2%</u>	<u>750,000</u>	<u>100.0%</u>
Grand	Total	<u>\$ 621,696</u>	<u>100.0%</u>	<u>\$ 779,308</u>	<u>100.0%</u>	<u>\$ 750,000</u>	<u>100.0%</u>

The Montana Promotion Division is funded entirely by state special revenues. The funding table above denotes that portion of the total division funding that is appropriated in HB 2. Of these funds, \$750,000 annually is from private contributions to joint private/state targeted advertising campaigns. The remaining funding is appropriated from a portion of the 4% Montana lodging facility use tax “remaining after statutory deductions”, and the only portion of these funded in HB 2 is requested in the first year of the biennium for legislative audit costs.

The portion of the division’s budget that is considered by the legislature in HB 2 is approximately 4.25% of the division’s total budget for the 2013 biennium. The remaining \$34.5 million biennium budget is funded by the statutorily appropriated lodging facility use tax. The following brief description of how these funds are apportioned to the Montana Promotion Division is for informational purposes so that the division’s entire funding can be clearly understood.

Montana has a 7% tax on lodging facilities in the state. The total tax is divided into two parts:

- The 1987 Legislature enacted a 4% lodging facility use tax. This tax equals 4% of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.
- The 2003 Legislature enacted a 3% lodging sales & use tax. This tax, imposed for the “privilege of using property or services within this state”, is equal to 3% of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the 4% lodging facility use tax, all proceeds are to be dedicated to the promotion of Montana’s travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana heritage preservation and development account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any lodging facility use tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on costs of collecting and disbursing the proceeds from the tax (approximately 1% of collections). The remaining tax proceeds are statutorily allocated as follows:

- 67.5% to the Department of Commerce for promotion and tourism
- 22.5% to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101(6), MCA

- 6.5% to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parks that have both resident and nonresident use
- 2.5% to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- 1% to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historic sites

Revenue estimates for the 67.5% are \$25.1 million over the biennium. Revenue estimates for the 22.5% are \$8.4 million over the biennium. Allocations from the statutory appropriations are used by the department to operate the Montana Promotion Division and to provide grants to regional nonprofit tourism corporations. The division uses this funding in addition to the state special revenue appropriated in HB 2 to promote the travel and tourism industry in Montana.

The following table shows the proposed statutory appropriation uses for the division in the 2013 biennium.

Montana Promotion Division 2013 Biennium Proposed Uses of Statutory Appropriations			
Account Name	Actual FY 2010	Budgeted FY 2012	Budgeted FY 2013
FTE	28.50	28.50	28.50
61000 Personal Services	\$1,695,306	\$1,741,431	\$1,722,545
62000 Operating Expenses	10,344,220	10,579,319	10,329,055
63000 Equipment & Intangible Assets	22,063	114,763	58,863
65000 Local Assistance	3,909,131	3,928,255	3,928,255
66000 Grants	555,230	555,230	555,230
68000 Transfers	<u>468,611</u>	<u>468,611</u>	<u>468,611</u>
Total Costs:	<u>\$16,994,561</u>	<u>\$17,387,609</u>	<u>\$17,062,559</u>
Funding Source			
02116 Accommodation Tax Account	13,000,212	13,393,085	13,068,035
02254 Regional Accommodation Tax	3,928,080	3,928,255	3,928,255
02271 L&C Bicentennial Plate Fund	<u>66,269</u>	<u>66,269</u>	<u>66,269</u>
Total Revenue:	<u>\$16,994,561</u>	<u>\$17,387,609</u>	<u>\$17,062,559</u>

As proposed by the division, costs exceeds estimated revenues by about \$1.0 million. However, the state special revenue fund for this purpose had an ending fund balance of \$2.7 million in FY 2010. The fund balances allows the division to incur costs above the revenues for this statutory appropriation in the 2013 biennium.

New or increased costs in the 2013 biennium include:

- \$0.35 million for an online application to allow Montana businesses to update part of their records
- \$0.1 million for increased administrative costs including overtime, consulting and professional services, and indirect costs
- \$0.1 million for server replacements

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%	621,696	621,696	1,243,392	81.30%
Statewide PL Adjustments	0	0	0	0.00%	17,787	(11,521)	6,266	0.41%
Other PL Adjustments	0	0	0	0.00%	139,825	139,825	279,650	18.29%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$779,308	\$750,000	\$1,529,308	

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
Inflation/Deflation					253					253
Fixed Costs					17,534					(11,774)
Total Statewide Present Law Adjustments		\$0	\$17,787	\$0	\$17,787		\$0	(\$11,521)	\$0	(\$11,521)
DP 5208 - MPD PRIVATE FUNDS & AUDIT ADJUSTMENTS HB 2	0.00	0	139,825	0	139,825	0.00	0	139,825	0	139,825
Total Other Present Law Adjustments	0.00	\$0	\$139,825	\$0	\$139,825	0.00	\$0	\$139,825	\$0	\$139,825
Grand Total All Present Law Adjustments	0.00	\$0	\$157,612	\$0	\$157,612	0.00	\$0	\$128,304	\$0	\$128,304

DP 5208 - MPD Private Funds & Audit Adjustments HB 2 - The executive proposes to adjust Montana Promotion Division the HB 2 private funds appropriation to \$750,000 for each year of the biennium. This proposal continues the historically established trend.

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	0.00	0.00	5.00	5.00	0.00	5.00	5.00	n/a
Personal Services	0	0	332,164	332,393	0	664,557	664,557	n/a
Operating Expenses	0	0	122,836	122,607	0	245,443	245,443	n/a
Total Costs	\$0	\$0	\$455,000	\$455,000	\$0	\$910,000	\$910,000	n/a
General Fund	0	0	455,000	455,000	0	910,000	910,000	n/a
Total Funds	\$0	\$0	\$455,000	\$455,000	\$0	\$910,000	\$910,000	n/a

Program Description

The Energy Promotion and Development Division (EPDD) works directly with private industry, local and regional economic development organizations, and state, federal, and tribal governments to facilitate, promote, and develop clean and green energy projects throughout Montana.

Program Highlights

Energy Promotion and Development Major Budget Highlights	
◆	This division was funded with one-time-only funds in the 2009 and 2011 biennia and the Governor is proposing to permanently fund the division
Major LFD Issues	
◆	The issue for the legislature is whether the program should be a part of state government

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 Energy Promotion & Dev Division					
Program Funding		Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013
01000 Total General Fund		\$ -	\$ 455,000	100.0%	\$ 455,000
01100 General Fund		-	455,000	100.0%	455,000
Grand Total		-	\$ 455,000	100.0%	\$ 455,000

The program is entirely funded with general fund.

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%	0	0	0	0.00%
Statewide PL Adjustments	7,265	7,057	14,322	1.57%	7,265	7,057	14,322	1.57%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	447,735	447,943	895,678	98.43%	447,735	447,943	895,678	98.43%
Total Budget	\$455,000	\$455,000	\$910,000		\$455,000	\$455,000	\$910,000	

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
Fixed Costs					7,265					7,057
Total Statewide Present Law Adjustments		\$7,265	\$0	\$0	\$7,265		\$7,057	\$0	\$0	\$7,057
Grand Total All Present Law Adjustments	0.00	\$7,265	\$0	\$0	\$7,265	0.00	\$7,057	\$0	\$0	\$7,057

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 55001 - ENERGY PROMOTION AND DEVELOPMENT HB 2										
55	5.00	447,735	0	0	447,735	5.00	447,943	0	0	447,943
Total	5.00	\$447,735	\$0	\$0	\$447,735	5.00	\$447,943	\$0	\$0	\$447,943

DP 55001 – Energy Promotion and Development HB 2 - The executive is requesting funds to establish EPDD as a permanent program of state government. The program has been funded with one-time-only monies since its inception in 2007. This request includes 5.00 FTE.

LFD ISSUE

Do Program Outcomes Warrant Ongoing Funding?

As stated, this division has been funded on a one-time-only basis for the last two biennia. In the 2009 biennium, it was funded from both HB 2 and with general fund available due to the provision of federal stimulus funds. In total, the division received \$917,460 general fund over the biennium.

**LFD
ISSUE CONT.**

Total general fund expenditures in FY 2010 were \$404,317, with additional funding of \$21,432 from federal sources and \$30,854 from the National Governor's Association. The Governor is proposing \$910,000 in the 2013 biennium, with no one-time-only designation.

One way to determine if this program should be provided ongoing funding is to examine the outcomes as reported by the program. As part of the Legislative Finance Committee's performance measurement project the goals and objectives of this program were monitored during the interim. The program provided a report detailing its involvement in three major projects. The report is inserted below for the legislature's review.

Montana Alberta Tie Line (MATL)

MATL is a 230 kV transmission line with a capacity of 600 MW. The line's capacity is contracted to wind farms and Naturener's construction of its Rim Wind Farm will occur simultaneously with the construction of the transmission line. The project has all permits in hand, financing is in place and construction of the Marias Substation the formal ground breaking / first transmission pole placement took place on September 15, 2010. It will be the first "merchant" transmission line developed in the Western Interconnection. MATL is one of EPDD's greatest successes. MATL officials agree that this project came together under EPDD leadership.

The following table provides estimates of the immense positive economic impact from construction of the MATL line:

MATL	Total Investment	Construction Jobs	Permanent Jobs	Annual Property taxes
230 kV	\$110 million	55	10	\$730,000

Potential wind farm development resulting from construction of MATL will provide the following economic benefits:

MATL Associated Wind Farms	Total Investment	Construction Jobs	Permanent Jobs	Annual Property taxes
300 – 800 MW	\$675 million - \$1.8 billion	530 -1400	25-80	\$2.3 - \$8.0 million

Keystone XL Pipeline

This 36" oil pipeline will cross 281 miles of Montana, is in permitting and could be under construction by 2010. EPDD has worked closely with TransCanada on this major project particularly during the permitting scoping process as well as facilitating meetings to explore the possibility of providing a Montana interconnection to the pipeline. TransCanada announced on September 13, 2010 the commencement of an "open season" to obtain binding commitments for interconnection capacity from area oil producers.

Keystone XL Pipeline	Total Investment	Construction Jobs	Permanent Jobs	Annual Property taxes
36" Pipeline	\$1 billion	790	10	\$60 million

Mountain States Transmission Intertie (MSTI)

NorthWestern Energy (NWE) proposes to construct, operate and maintain the Mountain States Transmission Intertie (MSTI) 500 kilovolt (kV) transmission line to address the requests for transmission service from customers and to relieve constraints on the high-voltage transmission system in the region. The transmission line would begin at the new Townsend Substation, which would be constructed in southwestern Montana about five miles south of the town of Townsend. EPDD has worked promoting MSTI to West Coast Utilities, on siting issues, participated in public meetings and is developing the Montana Transmission Scenario of which the MSTI project is an important component.

**LFD
ISSUE CONT.**

MSTI Transmission Line	Total Investment	Construction Jobs	Permanent Jobs	Annual Property taxes
500 kV	\$600 million	336	42	\$12 - \$37 million

There are a few issues to consider with this report:

1. How does the legislature wish to define success of this program? The program claims that it is an integral part of energy development via the calculation of potential jobs, investments, and property taxes. How does this type of information translate to success? And under that definition, would this program be successful?
2. The projects highlighted may have been aided by EPDD, but success of these projects cannot be tied to EPDD. For example, EPDD may have aided MATL's progress, but MATL had been in development long before the creation of EPDD. In addition, the two other projects listed both have issues in court and permitting issues. MSTI was recently court ordered to have the permitting redone based on issues raised from the agricultural community. Do these interactions with the court system indicate that EPDD was not effective in getting the job done? How are delays in project development accounted for in outcomes?
3. The program provides an advocacy role in that they aid developers with getting through a state regulated process to get an energy project built and producing. Would this function be better managed through industry rather than a state funded process? Should the state continue to bear the cost to navigate the system to potentially bring large projects to Montana?

The executive is requesting that this become a permanently funded program of the state. The question for the legislature is whether the outcomes of this program are adequate, what the legislature intended, and beneficial to the state. If the legislature chooses to continue to fund this program, the legislature could maintain the funding as one-time-only and direct the program to provide the legislature with goals and objectives that can be measured in the short term as well as the long term.

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	16.00	16.00	16.00	16.00	16.00	16.00	0.00	0.00%
Personal Services	997,112	1,026,982	1,046,881	1,048,316	2,024,094	2,095,197	71,103	3.51%
Operating Expenses	399,737	569,346	515,804	507,683	969,083	1,023,487	54,404	5.61%
Grants	6,704,975	9,490,454	8,404,975	8,404,975	16,195,429	16,809,950	614,521	3.79%
Total Costs	\$8,101,824	\$11,086,782	\$9,967,660	\$9,960,974	\$19,188,606	\$19,928,634	\$740,028	3.86%
General Fund	530,150	538,951	522,958	520,833	1,069,101	1,043,791	(25,310)	(2.37%)
State Special	3,085,910	2,642,098	3,958,412	3,956,352	5,728,008	7,914,764	2,186,756	38.18%
Federal Special	4,485,764	7,905,733	5,486,290	5,483,789	12,391,497	10,970,079	(1,421,418)	(11.47%)
Total Funds	\$8,101,824	\$11,086,782	\$9,967,660	\$9,960,974	\$19,188,606	\$19,928,634	\$740,028	3.86%

Program Description

The missions of the Community Development Division (CDD) are set forth in Title 90, Chapters 1 and 6, MCA. CDD is funded primarily through federal funds and state-special revenue grant programs with additional direct appropriations provided in HB 2.

The division administers four programs directly:

- o Community Development Block Grant Program (CDBG)
- o Community Technical Assistance Program (CTAP)
- o Neighborhood Stabilization Program (NSP - Budget Amendment)
- o Treasure State Endowment Program (TSEP)

Two citizen boards, appointed by the Governor, are attached to the division for administrative purposes. The division provides office facilities, staff, and administrative support for the:

- o Montana Coal Board
- o Montana Hard Rock Mining Impact Board

The six programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, state and federally-recognized Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

Program Highlights

Community Development Division Major Budget Highlights	
◆	Funding for the division increases 3.9% or \$740,000 between the two biennia primarily due to a request for \$1.4 million for coal board grants
◆	Increases in state special revenue are partially offset by decreases in federal funds and a small decrease in general fund support

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						
Community Development 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	\$ 530,150	6.5%	\$ 522,958	5.2%	\$ 520,833	5.2%
01100 General Fund	530,150	6.5%	522,958	5.2%	520,833	5.2%
02000 Total State Special Funds	3,085,910	38.1%	3,958,412	39.7%	3,956,352	39.7%
02049 Hard Rock Mining	90,597	1.1%	193,304	1.9%	194,928	2.0%
02270 Treasure State Endowment	503,615	6.2%	564,944	5.7%	562,078	5.6%
02445 Coal Board	2,491,698	30.8%	3,200,164	32.1%	3,199,346	32.1%
03000 Total Federal Special Funds	4,485,764	55.4%	5,486,290	55.0%	5,483,789	55.1%
03059 Community Development Block	4,485,764	55.4%	5,486,290	55.0%	5,483,789	55.1%
Grand Total	<u>\$ 8,101,824</u>	<u>100.0%</u>	<u>\$ 9,967,660</u>	<u>100.0%</u>	<u>\$ 9,960,974</u>	<u>100.0%</u>

The program is funded by a combination of general fund, state special revenue, and federal special revenue.

Federal special revenue is the program's largest funding component (55.1%) and includes the federal Community Development Block Grant (CDBG). The CDBG funds support local economic development, public facilities projects, housing and neighborhood renewal, and grant proposal planning assistance.

State special revenue funding comprises 39.7% of the total funding and is dominated by grant funding for Coal Board programs that fund a variety of local governmental economic and quality of life initiatives. The Coal Board account receives revenue from a 2.9% allocation from the coal severance tax and an allocation from oil and gas production taxes. The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 23-year period, which began in 1993.

LFD COMMENT

The executive is recommending that treasure state endowment grants be suspended in the 2013 biennium and the funding diverted to other uses. For a complete discussion, please see Section F of 2013 biennium LFD budget analysis.

General fund comprises 5.2% of the total funding. Along with a component of state special revenue, the general fund supports the remaining administrative and operational costs of the program. The required state matching funds for the federal CDBG are provided by the general fund as well.

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	530,150	530,150	1,060,300	101.58%	8,101,824	8,101,824	16,203,648	81.31%
Statewide PL Adjustments	(7,511)	(8,628)	(16,139)	(1.55%)	43,608	39,185	82,793	0.42%
Other PL Adjustments	319	(689)	(370)	(0.04%)	1,822,228	1,819,965	3,642,193	18.28%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$522,958	\$520,833	\$1,043,791		\$9,967,660	\$9,960,974	\$19,928,634	

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				87,022						88,516
Vacancy Savings				(43,324)						(43,383)
Inflation/Deflation				(1,437)						(1,397)
Fixed Costs				1,347						(4,551)
Total Statewide Present Law Adjustments										
	(\$7,511)	\$52,224	(\$1,105)	\$43,608			(\$8,628)	\$50,175	(\$2,362)	\$39,185
DP 6008 - CDD ADMINISTRATIVE COSTS ADJUSTMENTS HB 2										
	0.00	319	820,278	1,631	822,228	0.00	(689)	820,267	387	819,965
DP 6009 - CDD FEDERAL GRANTS ADJUSTMENTS HB 2										
	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
Total Other Present Law Adjustments										
	0.00	\$319	\$820,278	\$1,001,631	\$1,822,228	0.00	(\$689)	\$820,267	\$1,000,387	\$1,819,965
Grand Total All Present Law Adjustments										
	0.00	(\$7,192)	\$872,502	\$1,000,526	\$1,865,836	0.00	(\$9,317)	\$870,442	\$998,025	\$1,859,150

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** - None
- o **Program Specific Obstacles** - The program does not anticipate difficulties attracting and retaining qualified workers to achieve its mission.
- o **Vacancy** - Programs within the Community Development Division do not have high turnover rates. Managers work with employees when challenges arise to ensure program work is completed and employees have needed flexibility. Programs and staff have increased workloads during periods when a position becomes vacant. On occasion temporary staff is hired to fill in.
- o **Legislatively Applied Vacancy Savings** - Vacant program positions were held open and the division shifted funding from other operational areas as necessary.
- o **Pay/Position Changes** - The division made the following pay adjustments funded by the personal services budget: one strategic (administrative specialist), one end of temporary promotion (division administrator).
- o **Retirements** - The division has six employees eligible for retirement with an estimated liability of \$74,500. The division works as a team both within and across programs. A variety of employees are poised to take on advanced positions both laterally across programs or within each programs as necessary to minimize disruption to program operations.

DP 6008 - CDD Administrative Costs Adjustments HB 2 - This decision package includes funding for per diem for the Hard Rock Mining Impact Board and Coal Board, the maintenance of a reserve account for the Hard Rock Mining Impact Board, rent, minor equipment, local impact grants for the Coal Board, and authority to disperse funds to the counties from the hard-rock mining impact trust account. The majority of the funding requested in this decision package (\$700,000 per year) is requested as a biennial appropriation and supports state special revenue grants through the Coal Board.

DP 6009 - CDD Federal Grants Adjustments HB 2 - This decision package requests increased federal funding to adjust appropriations to the level of funding the division anticipates will be available for the 2013 biennium.

Proprietary Rates**Facility Finance Authority (Funds 06012 and 06015)**

Mission: To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings for eligible non-profit private and public institutions as well as for-profit small manufacturing facilities. Facility Finance Authority (MFFA) financing programs will promote affordable access to and availability of goods and services for the consumer.

The MFFA was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers and for-profit manufacturing facilities. Cost savings are shared with consumers in the form of lower fees.

The ability to issue Industrial Development Revenue Bonds for small manufacturing facilities was added in the 61st Legislative Session, effective July 1, 2009.

The MFFA is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Proprietary Proposed Budget

The 2013 biennium report on internal service and enterprise funds for fund 06012 and 06015 Healthcare Financing Authority loan program and Facility Finance Authority, 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 2013						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority		
06015	Facilities Finance Authority					
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
Administrative Fees			\$613,161	\$502,000	\$475,000	\$475,000
Investment Earnings			74,960	154,000	40	40
Securities Lending Income			620	750	80	80
Premiums			0	0	0	0
Other Operating Revenues			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenue			\$688,742	\$656,750	\$475,120	\$475,120
Operating Expenses:						
Personal Services			194,679	196,798	197,920	197,984
Other Operating Expenses			<u>221,889</u>	<u>257,841</u>	<u>222,310</u>	<u>211,225</u>
Total Operating Expenses			\$416,569	\$454,639	\$420,230	\$409,209
Operating Income (Loss)			\$272,173	\$202,111	\$54,890	\$65,911
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			272,173	202,111	54,890	65,911
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			\$272,173	\$202,111	\$54,890	\$65,911
Total Net Assets- July 1			3,478,010	3,750,183	3,952,294	4,007,184
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			<u>\$3,478,010</u>	<u>\$3,750,183</u>	<u>\$3,952,294</u>	<u>\$4,007,184</u>
Net Assets - June 30 (Fund Balance)			<u>\$3,750,183</u>	<u>\$3,952,294</u>	<u>\$4,007,184</u>	<u>\$4,073,095</u>
60 days of expenses			\$69,428	\$75,773	\$70,038	\$68,202

Proprietary Program Description

The Facility Finance Authority issues bonds and then uses the proceeds of those bonds to provide debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease/methamphetamine treatment centers.

The 60 day working capital calculation is not applicable to the authority because national bond rating agencies, national bond insurers, and institutional investors expect the authority to reserve two years operating capital (approximately \$909,278) to assure that the authority can financially operate between legislative sessions. The total fund equity requirement for the 2013 biennium (\$13,650,111) is derived from the following reserve mandates:

- o Biennial working capital reserve - \$909,278
- o Capital reserve account (loan loss reserve) - \$10,986,171
- o Facility direct loan program reserve - \$1,754,662

Expense

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment. There is little uncertainty in forecasting future costs of major cost drivers, unless the agency were to become involved in litigation related to the issuance and maintenance of bonds. For the purposes of this budget cycle, it is assumed that the ongoing work and customer levels remain constant.

Revenue

The Facility Finance Authority is funded entirely by proprietary funds with revenues collected from interest, fees, and charges from participating institutions. The program application and annual administrative fee assessments are contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2013 biennium.

Funding Sources

The program is funded with a fee charged to the entities (non state agencies) that obtain financing through the program.

Proprietary Rate Explanation

The fee structure that is proposed does not materially vary from the current structure.

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.

Rates for Facilities Finance Authority		
Application Fee:		
Loan Amount	Fee	
Up to \$5,000,000	30 basis points (bp) (.0030)	
Up to \$10,000,000	the > of 25 bp or \$ 15,000	
Up to \$25,000,000	the > of 15 bp or \$ 25,000	
Up to \$50,000,000	the > of 12.5 bp or \$ 37,500	
Up to \$100,000,000	the > of 7.5 bp or \$ 62,500	
Over \$100,000,000	the > of 6.5 bp or \$ 75,000	
Annual Fee:		
	Fee	
Stand Alone Bond Issues	5 bp X the outstanding principal amount	
Private Placement bond issues	5 bp X the outstanding principal amount	
Trust Fund Loan Program	5 bp X the outstanding principal amount	
Master Loan Program	10 bp X the outstanding principal amount	

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	5.50	5.50	5.50	5.50	5.50	5.50	0.00	0.00%
Personal Services	278,480	306,393	309,747	309,014	584,873	618,761	33,888	5.79%
Operating Expenses	333,014	356,872	346,285	344,550	689,886	690,835	949	0.14%
Equipment & Intangible Assets	0	97,650	0	0	97,650	0	(97,650)	(100.00%)
Grants	4,626,714	8,616,974	4,626,714	5,000,000	13,243,688	9,626,714	(3,616,974)	(27.31%)
Total Costs	\$5,238,208	\$9,377,889	\$5,282,746	\$5,653,564	\$14,616,097	\$10,936,310	(\$3,679,787)	(25.18%)
State Special	25,800	150,000	25,800	25,800	175,800	51,600	(124,200)	(70.65%)
Federal Special	5,212,408	9,227,889	5,256,946	5,627,764	14,440,297	10,884,710	(3,555,587)	(24.62%)
Total Funds	\$5,238,208	\$9,377,889	\$5,282,746	\$5,653,564	\$14,616,097	\$10,936,310	(\$3,679,787)	(25.18%)

Program Description

Mission: To provide mechanisms that enable Montanans to own or rent decent, safe, and sanitary housing that is within their financial capability.

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The programs that are administrated within the Housing Division are:

- The Housing Assistance Bureau, consisting of three programs:
 1. The Housing and Urban Development (HUD) Section 8 rental assistance program. This program is segregated into two functional operations:
 2. The HUD Tenant Based Section 8 housing program whereby leases are entered on the open rental market between tenants and private landlords and the program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30 percent of their income toward rent and utilities.
 3. The HUD Project Based Section 8 housing program whereby the program performs annual property reviews, oversees property management, and makes rent subsidy payments to owners.
 - The Housing and Urban Development (HUD) HOME Investment Partnerships program. The HOME program provides grant funds to eligible local government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual home or rental units, tenant based rental assistance, and other eligible activities.
 - Montana's Manufactured Home Replacement (MHR) program. This program administers a revolving loan fund to finance the replacement of substandard manufactured homes with newer, energy-efficient manufactured homes.
- The Board of Housing (BOH). The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, and subject to the confirmation of the State Senate. The BOH is funded by enterprise funds with revenue derived from administrative charges applied to projects and mortgages financed. The board's programs include:
 - The Homeownership Program
 - Multifamily Loan Program
 - Low Income Housing Tax Credit Program
 - Housing Montana Fund
 - The Reverse Annuity Mortgage (RAM) Program

Program Highlights

Housing Division Major Budget Highlights	
♦	State special and federal revenue is reduced from the 2011 biennium level because FY 2011 appropriations reflect anticipated expenditures that did not occur in FY 2010 and are not anticipated in the 2013 biennium
•	FY 2011 state special revenue reflects the manufactured home renovation program not continued by the legislature
♦	Non-budgeted proprietary funds are enterprise type in which the legislature has no rate setting action and comprise 89.6% of the funding 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 Housing Division						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
02000 Total State Special Funds	\$ 25,800	0.5%	\$ 25,800	0.5%	\$ 25,800	0.5%
02575 Mobile Home Revolving Loan Fund	25,800	0.5%	25,800	0.5%	25,800	0.5%
03000 Total Federal Special Funds	5,212,408	99.5%	5,256,946	99.5%	5,627,764	99.5%
03110 Hud Comprehensive Counseling	166,866	3.2%	166,866	3.2%	166,866	3.0%
03300 Home Grants	<u>5,045,542</u>	<u>96.3%</u>	<u>5,090,080</u>	<u>96.4%</u>	<u>5,460,898</u>	<u>96.6%</u>
Grand Total	<u>\$ 5,238,208</u>	<u>100.0%</u>	<u>\$ 5,282,746</u>	<u>100.0%</u>	<u>\$ 5,653,564</u>	<u>100.0%</u>

The programs funded through HB2 within the Housing Division are the Housing and Urban Development HOME Investment Partnerships program and Montana's Manufactured Home Replacement (MHR) program. The HUD HOME program is 100% federally funded. Federal funds comprise 99.5% of the HB 2 funding for the Housing Division.

Montana's MHR program provided loans to remodel manufactured homes. The program is not being continued. The 2013 biennium includes funding in the event that any prior loans are paid back and can be reloaned.

The Board of Housing is funded by four enterprise funds with revenues derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Non-budgeted proprietary funds comprise 89.6% of the funding for this 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%	5,238,208	5,238,208	10,476,416	95.79%
Statewide PL Adjustments	0	0	0	0.00%	33,926	29,776	63,702	0.58%
Other PL Adjustments	0	0	0	0.00%	10,612	385,580	396,192	3.62%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$5,282,746	\$5,653,564	\$10,936,310	

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					40,485					39,721
Vacancy Savings					(12,759)					(12,728)
Inflation/Deflation					(84)					(76)
Fixed Costs					6,284					2,859
Total Statewide Present Law Adjustments										
		\$0	\$0	\$33,926	\$33,926		\$0	\$0	\$29,776	\$29,776
DP 7406 - HD ADMINISTRATIVE COSTS ADJUSTMENTS HB 2										
	0.00	0	0	10,612	10,612	0.00	0	0	12,294	12,294
DP 7407 - HD FEDERAL GRANTS ADJUSTMENTS HB 2										
	0.00	0	0	0	0	0.00	0	0	373,286	373,286
Total Other Present Law Adjustments										
	0.00	\$0	\$0	\$10,612	\$10,612	0.00	\$0	\$0	\$385,580	\$385,580
Grand Total All Present Law Adjustments										
	0.00	\$0	\$0	\$44,538	\$44,538	0.00	\$0	\$0	\$415,356	\$415,356

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 occupational groups in this program have exceptions from the agency's pay plan rules.
- o **Program Specific Obstacles** – The program does not anticipate difficulties attracting and retaining qualified workers to achieve its mission.
- o **Vacancy** – No positions with high turnover rates have been identified for this program.
- o **Legislatively Applied Vacancy Savings** – The applied vacancy savings was achieved with normal turnover.
- o **Pay/Position Changes** – No pay increases were given in this program.
- o **Retirements** - One employee in this program is eligible for retirement in the 2013 biennium and if this employee were to retire, the estimated compensated absence liabilities liability is \$1,057.

DP 7406 - HD Administrative Costs Adjustments HB 2 - This request annualizes the charges for annual maintenance fees for HOME programs, lease agreements, and indirect costs to the Director's Office.

DP 7407 - HD FEDERAL GRANTS ADJUSTMENTS HB 2 - This request adjusts ongoing federal appropriations for grants received by the Housing Assistance Bureau's HOME Program to match available federal funds for the 2013 biennium.

Proprietary Rates

Proprietary Program Description

Board of Housing (Funds 06030, 06031, 06078, and 06079)

Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for funds 06030, 06031, 06078, and 06079 show 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 2013						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06030	BOH Financial Program Fund	65010	Dept. of Commerce	Housing Division - Board of		
06031	Housing Trust Fund			Housing		
06078	Affordable House Revolving Ln					
06079	Revolving Loan Fund - TANF					
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
	Fee revenue					
	Administrative Fees		\$223,565	\$226,387	\$252,979	\$275,854
	Investment Earnings		8,570,449	8,678,652	9,698,073	10,574,988
	Securities Lending Income		1,205	1,220	1,364	1,487
	Premiums		0	0	0	0
	Other Operating Revenues		<u>39,057,822</u>	<u>39,550,931</u>	<u>44,196,704</u>	<u>48,193,041</u>
	Total Operating Revenue		\$47,853,041	\$48,457,190	\$54,149,120	\$59,045,370
Operating Expenses:						
	Personal Services		1,125,272	1,284,945	1,155,883	1,156,098
	Other Operating Expenses		4,602,070	6,352,466	6,009,692	6,269,706
	Debt Service Expenses		<u>40,409,873</u>	<u>40,623,852</u>	<u>44,144,765</u>	<u>48,660,815</u>
	Total Operating Expenses		\$46,137,215	\$48,261,263	\$51,310,340	\$56,086,619
	Operating Income (Loss)		\$1,715,826	\$195,927	\$2,838,780	\$2,958,751
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		\$1,715,826	\$195,927	\$2,838,780	\$2,958,751
	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		\$1,715,826	\$195,927	\$2,838,780	\$2,958,751
	Total Net Assets - July 1 - As Restated		155,486,686	157,202,511	157,398,439	160,237,219
	Prior Period Adjustments		0	0	0	0
	Depreciation adjustment		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Total Net Assets - July 1 - As Restated		<u>\$155,486,686</u>	<u>\$157,202,511</u>	<u>\$157,398,439</u>	<u>\$160,237,219</u>
	Net Assets - June 30 (Fund Balance)		<u>\$157,202,511</u>	<u>\$157,398,439</u>	<u>\$160,237,219</u>	<u>\$163,195,970</u>
	60 days of expenses		\$7,689,536	\$8,043,544	\$8,551,723	\$9,347,770

Program Description

The Montana Board of Housing provides direction to the agency staff for its programs that include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Montana Fund, and the Reverse Annuity Mortgage (RAM) Program.

*Program Narrative*Expenses

Significant costs for the program are for:

- o Personal services for 21.50 FTE, \$1.1 million or 33.3% of total costs
- o Operating costs, \$2.2 million or 66.7% of total costs, with the following making up a significant portion of the costs:
 - Foreclosure fees
 - Consultant and professional services

Revenues

The revenues for this program are derived from an administrative charge applied to projects and mortgages financed.

Funding Sources

The funding for this program is from non-state sources.

Present Law Adjustments

Statewide adjustments would add nearly \$41,000 for the biennium. The largest contributors are increases for personal services adjustments, ITSD allocations, and statewide indirect costs. Reductions of SABHRS fixed costs and legislative audit fees offset a portion of the increases.

DP 7408 - HD Administrative Costs Adjustments HB 576 – This request for about \$1.9 million for the biennium would annualize costs such as travel for attending meetings and for other financial and legal fees, such as consultants, foreclosures, and property fees. Also included is an addition for minor equipment replacement.

DP 7410 - HD Software & Software Maintenance HB 576 – This request for about \$105,000 for the biennium would fund the purchase of an additional module of software currently in use by the Housing Division. The software allows audit compliance checklists to be downloaded to a mobile device that is then used at the client's site to record audit information. Once connectivity to the network is re-established, the audit information is up-loaded to the system. This saves time and reduces errors in transcribing audit information and inputting it into the system.

DP 7411 - HD Server Replacements HB 576 – This request for \$4,250 for FY 2013 would establish a 5-year replacement schedule for information technology servers.

Proprietary Rates

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.

For the 2013 biennium the following rates are presented for information.

Fees of the Board of Housing - For Information Only				
Fee	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Cancellation fees-Single Family Program	1/2 of 1 % of the loan amount reserved	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change
Reservation fees-Low Income Tax Credit Program (LITC)	4 1/2% of the tax credit amount reserved	No Change	No Change	No Change
Compliance monitoring fee-Low Income Tax Credit Program	\$30 per unit	\$35 per unit	No Change	No Change
Interest income on reverse annuity mortgage loans (RAM)	5% (new) 7% (old) loans	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)	variable rates ranging from 2% to 6%	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change

Section 8 Housing HB 576 (Funds 06074, 06075, and 06085)

Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for funds 06074, 06075, and 06085 show the financial information for the fund from FY 2010 through FY 2013. The reports are provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

Project Based

2013 Biennium Report on Internal Service and Enterprise Funds 2013						
Fund 06074	Fund Name SEC 8 Project Based	Agency # 65010	Agency Name Dept. of Commerce	Program Name Housing Division - PB Section 8		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
Administration Fees			\$0	\$0	\$0	\$0
Investment Earnings			32,654	37,650	37,650	37,650
Securities Lending Income			1,032	1,100	1,100	1,100
Premiums			0	0	0	0
Other Operating Revenues			<u>19,149,479</u>	<u>22,896,750</u>	<u>21,508,180</u>	<u>22,131,537</u>
Total Operating Revenue			\$19,183,166	\$22,935,500	\$21,546,930	\$22,170,287
Operating Expenses:						
Personal Services			421,378	379,119	442,062	441,819
Other Operating Expenses			<u>18,426,207</u>	<u>21,869,813</u>	<u>19,926,165</u>	<u>20,521,013</u>
Total Operating Expenses			\$18,847,584	\$22,248,932	\$20,368,227	\$20,962,832
Operating Income (Loss)			\$335,581	\$686,568	\$1,178,703	\$1,207,455
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			\$335,581	\$686,568	\$1,178,703	\$1,207,455
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			\$335,581	\$686,568	\$1,178,703	\$1,207,455
Total Net Assets- July 1			2,934,621	3,270,202	3,956,770	5,135,473
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Assets - July 1 - As Restated			<u>2,934,621</u>	<u>3,270,202</u>	<u>3,956,770</u>	<u>5,135,473</u>
Net Assets- June 30 (Fund Balance)			<u>3,270,202</u>	<u>3,956,770</u>	<u>5,135,473</u>	<u>6,342,928</u>
60 days of expenses			\$3,141,264	\$3,708,155	\$3,394,705	\$3,493,805

Tenant Based

2013 Biennium Report on Internal Service and Enterprise Funds 2013						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06075	HUD Section 8 Housing Program	65010	Dept. of Commerce	Housing Division - TB Section 8		
06085	HUD Section 8 Mod Rehab	65010		Housing Division - TB Section 8		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
Administration Fees			\$0	\$0	\$0	\$0
Investment Earnings			11,016	11,680	11,680	11,680
Securities Lending Income			1,116	2,050	2,050	2,050
Premiums			0	0	0	0
Other Operating Revenues			<u>20,501,276</u>	<u>23,402,603</u>	<u>23,402,603</u>	<u>24,089,737</u>
Total Operating Revenue			\$20,513,408	\$23,416,333	\$23,416,333	\$24,103,467
Operating Expenses:						
Personal Services			589,949	598,411	602,628	603,354
Other Operating Expenses			<u>19,901,263</u>	<u>21,453,487</u>	<u>21,378,774</u>	<u>21,967,254</u>
Total Operating Expenses			\$20,491,212	\$22,051,898	\$21,981,402	\$22,570,608
Operating Income (Loss)			\$22,196	\$1,364,435	\$1,434,931	\$1,532,859
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			\$22,196	\$1,364,435	\$1,434,931	\$1,532,859
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			\$22,196	\$1,364,435	\$1,434,931	\$1,532,859
Total Net Assets- July 1			4,643,446	4,665,642	6,030,077	7,465,008
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Assets - July 1 - As Restated			<u>\$4,643,446</u>	<u>\$4,665,642</u>	<u>\$6,030,077</u>	<u>\$7,465,008</u>
Net Assets- June 30 (Fund Balance)			<u>\$4,665,642</u>	<u>\$6,030,077</u>	<u>\$7,465,008</u>	<u>\$8,997,867</u>
60 days of expenses			\$3,415,202	\$3,675,316	\$3,663,567	\$3,761,768

Program Description

The project based Section 8 program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations instead of the tenants. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The project based program renews rent contracts to project owners as they expire. Contract managers prepare special damage claims, annual rent increases, respond to emergencies, check compliance for fair housing and waiting lists, on-site management reviews, follow-up to physical inspections, review of management decisions, and budget assistance to local property owners.

The tenant based Section 8 program provides rent assisted units for very low income families (including elderly and disabled) to ensure they have decent, safe, and sanitary housing, using the HUD Section 8 Housing Choice Vouchers and Moderate Rehabilitation programs. The program operates on a first come, first serve basis statewide, through a network of field agencies the department contracts with for administration of local operations in the program. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30% of their income towards rent and utilities.

*Program Narrative*Expenses

Significant costs for the program are for:

- Personal services for 20.00 FTE, \$1.1 million or 2.6% of total costs
- Operating costs, \$1.9 million or 4.9% of total costs
- Operating costs, \$36.3 million or 92.5% of total costs

Revenues

The project based Section 8 program is funded with revenues derived from a performance based annual contribution contract with HUD.

The tenant based Section 8 program is funded with revenues derived from a performance based annual contribution contract with HUD.

Present Law Adjustments

Statewide Adjustments would add nearly \$70,000 for the biennium. The largest contributors are increases for personal services adjustments, legislative audit fees, ITSD allocations, and statewide indirect costs. Reductions of SABHRS fixed costs offset a portion of the increases.

DP 7408 - HD Administrative Costs Adjustments HB 576 – This request for about \$0.9 million for the biennium would annualize costs such as travel for attending meetings and for other financial and legal fees, such as consultants, foreclosures, and property fees. Also included is an addition for minor equipment replacement.

DP 7409 - HD Section 8 Housing Assistance Adjustments - HB 576 – This request for \$6.4 million for the biennium would adjusted the amount of rental assistance payments to match costs necessary to assure full payment for leased units in the HUD Tenant and Project Based Section 8 rental assistance programs in the 2013 biennium.

DP 7410 - HD Software & Software Maintenance HB 576 – This request for about \$22,000 for the biennium would fund the purchase of an additional module of software currently in use by the Housing Division. The software allows audit compliance checklists to be downloaded to a mobile device that is then used at the client's site to record audit information. Once connectivity to the network is re-established, the audit information is up-loaded to the system. This saves time and reduces errors in transcribing audit information and inputting it into the system.

DP 7411 - HD Server Replacements HB 576 – This request for \$4,250 for FY 2013 would establish a 5-year replacement schedule for information technology servers.

Proprietary Rates

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.

For the 2013 biennium the following rates are presented for information.

Project Based

Requested Rates for SEC 8 Project Based				
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Administration Contract	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly, and annually.				
Administration Contract	1.00%	1.00%	1.00%	1.00%
Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD. Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards. Rate 3 (per unit)				
Rents Contract	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

Tenant Based

Rates for Housing Section 8 - For Information Only				
	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Administration Contract	\$54.85	\$63.44	\$64.07	\$64.72
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAP contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2012 and FY 2013.				
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00.				
Homeownership Start-up Fee	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000.				
Project Based Section 8 Opt-Out Start-up Fee	\$250.00	\$250.00	\$250.00	\$250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.				
Rents Contract	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.				

Program Description

Mission: To provide prudent investment management of state and local government funds; work with financial institutions, state agencies, and local governments to enhance and expand Montana's economy and assist new and expanding Montana businesses; and to lend low-interest funds to eligible governments for a variety of projects.

Article VIII, Section 13 of the Montana Constitution created the Unified Investment Program, which includes all state agency funds. The Board of Investments (Board), by law, invests the Unified Investment Program. Local governments may also invest with the Board. To facilitate management of the Unified Investment Program, the Board created seven investment pools, which operate like mutual funds. Investments not managed in pools are included in "All Other Funds."

1. Retirement Funds Bond Pool
2. Trust Funds Bond Pool

3. Short Term Investment Pool
4. Montana Domestic Stock Pool
5. Montana International Equity Pool
6. Montana Private Equity Pool
7. Montana Real Estate Pool
8. All Other Funds – investments not managed in pools are included in All Other Funds

The In-State Investment Program consists of Montana residential mortgages purchased by the state's two large pension funds, and commercial loans funded by the Coal Tax Trust. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the board administers a number of different loan programs that can be specifically tailored to meet an individual business or local government's needs.

Proprietary Rates

Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for funds 06527 and 06014 show the financial information for the funds from FY 2010 through FY 2013. The reports are provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

Investment Programs

2013 Biennium Report on Internal Service and Enterprise Funds 2013						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06527	Investment Division	65010	Dept. of Commerce	Board of Investments		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
	Administrative Fees		\$4,869,468	\$4,417,089	\$4,831,041	\$4,831,041
	Investment Earnings		0	0	0	0
	Securities Lending Income		0	0	0	0
	Premiums		0	0	0	0
	Other Operating Revenues		0	0	0	0
	Total Operating Revenue		\$4,869,468	\$4,417,089	\$4,831,041	\$4,831,041
Operating Expenses:						
	Personal Services		2,369,344	2,557,064	2,627,135	2,620,183
	Other Operating Expenses		1,967,820	2,286,341	1,937,743	1,949,718
	Total Operating Expenses		\$4,337,163	\$4,843,405	\$4,564,878	\$4,569,901
Operating Income (Loss)			\$532,305	(\$426,316)	\$266,163	\$261,140
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			\$532,305	(\$426,316)	\$266,163	\$261,140
Contributed Capital			0	0	0	0
Operating Transfers In (Note 13)			0	0	0	0
Operating Transfers Out (Note 13)			(472,340)	0	0	0
Change in net assets			\$59,965	(\$426,316)	\$266,163	\$261,140
Total Net Assets- July 1			213,850	273,815	(152,501)	113,662
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			213,850	273,815	(152,501)	113,662
Net Assets- June 30 (Fund Balance)			\$273,815	(\$152,501)	\$113,662	\$374,802
60 days of expenses			\$722,861	\$807,234	\$760,813	\$761,650

2013 Biennium Report on Internal Service and Enterprise Funds 2013					
Fund	Fund Name	Agency #	Agency Name	Program Name	
06014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments	
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012
					Budgeted FY 2013
Operating Revenues:					
Fee Revenues			\$0	\$500	\$1,000
Investment Earnings			261,771	236,738	223,015
Securities Lending Income			165	350	400
Premiums			0	0	0
Other Operating Revenues			<u>2,270,082</u>	<u>1,854,943</u>	<u>2,101,511</u>
Total Operating Revenue			\$2,532,018	\$2,092,531	\$2,325,926
Operating Expenses:					
Personal Services			205,745	330,872	198,590
Operating Expenses			123,067	168,307	187,877
Debt Service Expenses			<u>1,839,514</u>	<u>1,084,071</u>	<u>1,317,378</u>
Total Operating Expenses			\$2,168,325	\$1,583,250	\$1,703,845
Operating Income (Loss)			\$363,693	\$509,281	\$622,081
Nonoperating Revenues (Expenses):					
Gain (Loss) Sale of Fixed Assets			0	0	0
Federal Indirect Cost Recoveries			0	0	0
Other Nonoperating Revenues (Expenses)			<u>0</u>	<u>0</u>	<u>0</u>
Net Nonoperating Revenues (Expenses)			\$0	\$0	\$0
Income (Loss) Before Operating Transfers			\$363,693	\$509,281	\$622,081
Contributed Capital			0	0	0
Operating Transfers In (Note 13)			494,639	0	0
Operating Transfers Out (Note 13)			<u>0</u>	<u>0</u>	<u>0</u>
Change in net assets			\$858,332	\$509,281	\$622,081
Total Net Assets- July 1			5,406,924	6,265,255	6,774,537
Prior Period Adjustments			0	0	0
Cumulative effect of account change			<u>0</u>	<u>0</u>	<u>0</u>
Total Net Assets - July 1 - As Restated			<u>\$5,406,924</u>	<u>\$6,265,255</u>	<u>\$6,774,537</u>
Net Assets- June 30 (Fund Balance)			<u>\$6,265,255</u>	<u>\$6,774,537</u>	<u>\$7,396,618</u>
60 days of expenses			\$361,388	\$263,875	\$283,974

Program Description

Unified Investment Program

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 2-15-1808 created the Board of Investments and Section 17-6-201 gave the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$12.0 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The legislative auditor audits the board annually. The board consists of nine members appointed by the Governor. The board also has two non-voting legislative liaisons, from different political parties; one appointed by the President of the Senate and one appointed by the Speaker of the House.

In-State Investments

Section 17-6-305, MCA authorizes the Board to invest 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the Trust Fund in participation with financial institutions. The board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the Trust Fund to value-added type businesses creating jobs. Throughout FY 2010, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program

The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to 15 years, and short-term loans to finance cash flow deficits or bridge financing are also available.

The INTERCAP and In-State Investment Programs were created in FY 1984 as part of the "Build Montana" program.

*Program Narrative*Program Highlights

Board of Investments Major Budget Highlights	
	<ul style="list-style-type: none"> ◆ All funding for this program is from non-budgeted proprietary funds ◆ The legislature approves the rate for the investment program

Expenses

Significant costs for the program are for:

- o Personal services for 33.00 FTE, \$2.5 million or 55.2% of total costs
- o Operating costs, \$2.0 million or 44.8% of total costs. Major operation costs are:
 - Data network services (\$719,000)
 - Indirect/administrative costs (\$325,000)
 - Consultant and professional services (\$311,000)
 - Rent (\$193,000)
 - Non-debt service interest (\$129,000)

Revenues

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

Present Law Adjustments

Statewide present law adjustments increase program costs by \$613,000 for the biennium. Personal services adjustments make up 85% of this adjustment. Other large changes are a \$116,000 increase in the ITSD fixed cost allocation and \$6,600 increase in the statewide indirect cost allocation.

DP 7508 - BOI Administrative Costs Adjustments HB 576 – This request adds \$110,000 for the biennium to adjust for increases in administrative costs. Included are adjustments for such items as: a 2% increase in rent, increase in indirect costs paid to the Director's Office, subscription costs for investment research, consultant services, costs to place minor computer equipment on a five-year replacement schedule, and increases for data network costs.

Proprietary Rates

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

Investment Programs

Requested Rates for Investment Division				
Fee/Rate	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
BOI Administrative Fee	\$4,869,468	\$4,417,089	\$4,831,041	\$4,831,041
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

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.

Intercap Programs

The Intercap or Bond Programs are 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.

Requested Rates for Enterprise Funds				
Fee/Rate	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Fees & Investment Revenues	\$3,026,657	\$2,092,531	\$2,325,926	\$2,571,390

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	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	223,770	198,725	203,093	203,186	422,495	406,279	(16,216)	(3.84%)
Operating Expenses	146,917	95,011	161,570	161,524	241,928	323,094	81,166	33.55%
Grants	725,648	725,648	600,000	600,000	1,451,296	1,200,000	(251,296)	(17.32%)
Total Costs	\$1,096,335	\$1,019,384	\$964,663	\$964,710	\$2,115,719	\$1,929,373	(\$186,346)	(8.81%)
General Fund	0	0	0	0	0	0	0	n/a
State Special	370,687	293,736	364,663	364,710	664,423	729,373	64,950	9.78%
Federal Special	725,648	725,648	600,000	600,000	1,451,296	1,200,000	(251,296)	(17.32%)
Total Funds	\$1,096,335	\$1,019,384	\$964,663	\$964,710	\$2,115,719	\$1,929,373	(\$186,346)	(8.81%)

Program Description

The Director's Office/Management Services Division provides the following functions:

- o The Director's Office provides overall leadership, communication, and management support to the Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. The office provides executive, administrative, legal, and policy direction along with offering problem-solving guidance. The office keeps abreast of department related issues and acts in a public relations and informational capacity. The office works closely with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base. The office acts as the liaison with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, other governmental agencies, and the Governor's Office.
- o The Quality Schools Grant Program (Quality Schools) is a competitive grant program created to provide infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana.
- o The Management Services Division (MSD) provides internal support to Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. Services provided by the Management Services Division include budgeting, accounting, fiscal management, internal controls, contracting, purchasing, asset management, information technology, human resources, payroll, benefits, training, and assistance with the implementation of and compliance with policies, rules, regulations and statutes.
- o The Montana Council on Developmental Disabilities is a citizen based advocacy group. Its members are appointed by the Governor and work to provide increased independence, integration, and productivity for persons with developmental disabilities. The Council administers federal funds in three major areas:
 - Assistance in the provision of comprehensive services to persons with developmental disabilities
 - Assistance to the state in appropriate planning activities
 - Contracting with public and private agencies to establish model programs, demonstrate innovative habilitation techniques, and train professional and paraprofessional personnel in providing services to persons with developmental disabilities

Program Highlights

Director's Office Major Budget Highlights	
♦	Federal funds are \$251,000, or 17.3%, lower for the 2013 biennium than the 2011 biennium because of reductions in Montana Council on Developmental Disabilities grant funding to align the budget to available funding
♦	State special funds are \$65,000, or 9.8%, higher due to a request to increase funding for administrative costs of the Quality Schools Program
♦	This division is primarily funded with proprietary funds, which do not appear in the table. The legislature approves the rate the division can charge to fund its operations <ul style="list-style-type: none"> The division seeks an increase in the rate from 12.95% to 13.20%

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 FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
02000 Total State Special Funds	370,687	33.8%	364,663	37.8%	364,710	37.8%
02218 School Facility Imprvmnt Acct	370,687	33.8%	364,663	37.8%	364,710	37.8%
03000 Total Federal Special Funds	725,648	66.2%	600,000	62.2%	600,000	62.2%
03441 Ddpac - Dev Disabled Council	725,648	66.2%	600,000	62.2%	600,000	62.2%
Grand Total	<u>\$ 1,096,335</u>	<u>100.0%</u>	<u>\$ 964,663</u>	<u>100.0%</u>	<u>\$ 964,710</u>	<u>100.0%</u>

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues. State special revenue funds the Quality Schools Program with revenues from timber harvest on common school trust lands, mineral royalties, and riverbed rental payments. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs. Non-budgeted proprietary funds provide 61.6% of the funding for this program. For further discussion of the proprietary funded portion of this program refer to the "Proprietary Rates" section.

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%	1,096,335	1,096,335	2,192,670	113.65%
Statewide PL Adjustments	0	0	0	0.00%	(16,599)	(17,194)	(33,793)	(1.75%)
Other PL Adjustments	0	0	0	0.00%	(115,073)	(114,431)	(229,504)	(11.90%)
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$964,663	\$964,710	\$1,929,373	

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				(12,304)						(12,208)
Vacancy Savings				(8,459)						(8,462)
Inflation/Deflation				(610)						(587)
Fixed Costs				4,774						4,063
Total Statewide Present Law Adjustments										
	\$0	(\$16,599)	\$0	(\$16,599)		\$0	(\$17,194)	\$0	(\$17,194)	
DP 8108 - DO QUALITY SCHOOLS ADMINISTRATIVE COSTS HB 2										
	0.00	0	10,575	0	10,575	0.00	0	11,217	0	11,217
DP 8109 - DO FEDERAL GRANTS ADJUSTMENTS HB 2										
	0.00	0	0	(125,648)	(125,648)	0.00	0	0	(125,648)	(125,648)
Total Other Present Law Adjustments										
	0.00	\$0	\$10,575	(\$125,648)	(\$115,073)	0.00	\$0	\$11,217	(\$125,648)	(\$114,431)
Grand Total All Present Law Adjustments										
	0.00	\$0	(\$6,024)	(\$125,648)	(\$131,672)	0.00	\$0	(\$5,977)	(\$125,648)	(\$131,625)

DP 8108 - DO Quality Schools Administrative Costs HB 2 - This request adjusts the Quality School administrative funding to restore overtime cover additional printing, travel, and rent expenses; and reduce other one-time cost areas incurred in the base year.

DP 8109 - DO Federal Grants Adjustments HB 2 - This request reduces federal Montana Council on Developmental Disabilities grants to the level available for the 2013 biennium.

Proprietary Rates

Director's Office/Management Services (Commerce Centralized Services - 06542)

Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06542 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 2013						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06542	Commerce Centralized Services	65010	Dept. of Commerce	Director's Office		
			Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Operating Revenues:						
Administrative Fees			\$1,330,551	\$1,330,551	\$1,242,948	\$1,229,048
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Premiums			0	0	0	0
Other Operating Revenues			<u>25,052</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Total Operating Revenue			\$1,355,603	\$1,355,551	\$1,267,948	\$1,254,048
Operating Expenses:						
Personal Services			1,285,645	1,334,658	1,268,074	1,266,353
Other Operating Expenses			<u>311,984</u>	<u>248,987</u>	<u>241,598</u>	<u>316,560</u>
Total Operating Expenses			\$1,597,629	\$1,583,645	\$1,509,672	\$1,582,913
Operating Income (Loss)			(\$242,027)	(\$228,094)	(\$241,724)	(\$328,865)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			0	0	0	0
Federal Indirect Cost Recoveries			237,389	237,389	242,137	244,558
Other Nonoperating Revenues (Expenses)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Nonoperating Revenues (Expenses)			\$237,389	\$237,389	\$242,137	\$244,558
Income (Loss) Before Operating Transfers			(4,638)	9,295	413	(84,307)
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			(\$4,638)	\$9,295	\$413	(\$84,307)
Total Net Assets- July 1			215,728	211,090	220,385	220,797
Prior Period Adjustments			0	0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			<u>215,728</u>	<u>211,090</u>	<u>220,385</u>	<u>220,797</u>
Net Assets- June 30 (Fund Balance)			<u>\$211,090</u>	<u>\$220,385</u>	<u>\$220,797</u>	<u>\$136,490</u>
60 days of expenses			266,272	263,941	251,612	263,819

Program Description

The Director's Office also provides internal support to Department of Commerce staff, programs, bureaus, divisions, and administratively attached boards. Services are provided by the Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information.

Program Narrative

Expenses

Significant costs for the program are for:

- o Personal services for 18.00 FTE, \$1.3 million or 83.6% of total costs
- o Operating costs, \$0.3 million with 61.3% of these costs due to:
 - Rent, \$93,000
 - Payments to the Information Technology Services Division of the Department of Administration, \$34,800
 - Travel, \$23,300

Revenues

Revenues are derived from an indirect cost charged on the actual personal services expenditures of the following divisions:

- o Business Resources Division
- o Montana Promotion Division
- o Energy Promotion and Development Division
- o Community Development Division

- o Montana Facility Finance Authority
- o Housing Division
- o Board of Investments
- o Montana Heritage Preservation and Development Commission
- o Quality Schools Facility Grant Program
- o Montana Council on Developmental Disabilities

Funding Sources

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

- o General fund (22.1%)
- o State special revenue (29.4%)
- o Federal special revenue (6.2%)
- o Other (42.3%)

Present Law Adjustments

Statewide present law adjustments reduce costs by \$22,966 in FY 2012 and \$24,545 in FY 2013. The primary factors for the reduction are lower allocation of costs for services purchased from the Information Technology Services Division of the Department of Administration (\$8,000 per year) and reductions of personal services (\$14,000 per year).

DP - 8110 - DO Administrative Costs Adjustments - This request annualizes administrative costs such as rent, minor computer hardware, and overtime. The request is for a reduction of \$1,029 in FY 2012 and increase of \$3,791 in FY 2013. This request has a minimal impact on the rates.

DP- 8111 - DO Server Replacements – This request is for \$70,000 in FY 2013 to replace servers based on a five-year replacement cycle. This adjustment would increase the FY 2013 rate by 0.35% over the FY 2010 rates.

Proprietary Rates

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

Requested Rates for Commerce Centralized Services				
Fee/Rate Information	Actual FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
State Programs - Indirect Cost Rate	12.95%	12.95%	13.20%	13.20%
Federal Programs - Indirect Cost Rate	12.95%	12.95%	13.20%	13.20%

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.