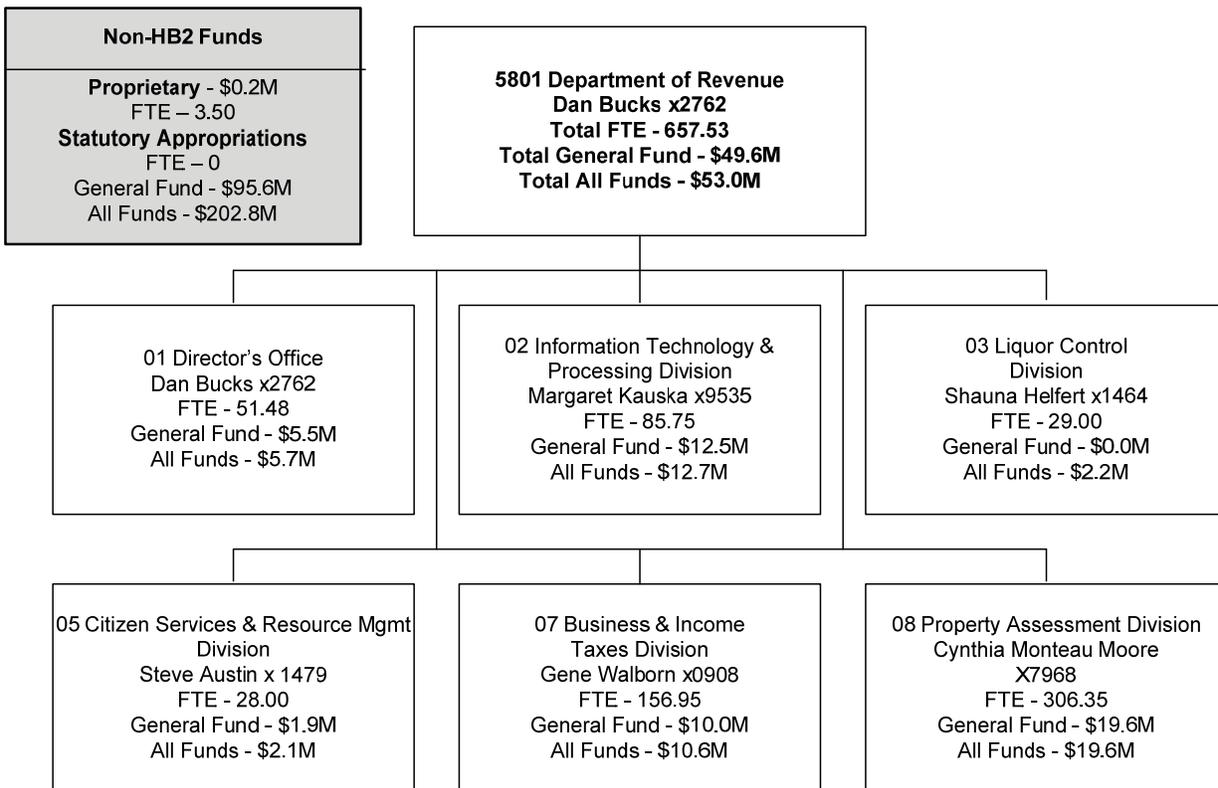


Agency Budget Comparison

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	657.53	657.53	672.53	672.53	657.53	672.53	15.00	2.28%
Personal Services	34,802,579	36,298,202	37,170,919	37,248,919	71,100,781	74,419,838	3,319,057	4.67%
Operating Expenses	17,778,349	17,385,845	16,190,987	16,077,989	35,164,194	32,268,976	(2,895,218)	(8.23%)
Equipment & Intangible Assets	383,777	70,095	330,978	330,978	453,872	661,956	208,084	45.85%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$52,964,705	\$53,754,142	\$53,692,884	\$53,657,886	\$106,718,847	\$107,350,770	\$631,923	0.59%
General Fund	49,569,692	50,171,670	49,609,233	49,570,431	99,741,362	99,179,664	(561,698)	(0.56%)
State Special	761,721	815,907	1,182,824	1,179,757	1,577,628	2,362,581	784,953	49.76%
Federal Special	204,942	206,447	270,210	271,218	411,389	541,428	130,039	31.61%
Other	2,428,350	2,560,118	2,630,617	2,636,480	4,988,468	5,267,097	278,629	5.59%
Total Funds	\$52,964,705	\$53,754,142	\$53,692,884	\$53,657,886	\$106,718,847	\$107,350,770	\$631,923	0.59%

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

Mission Statement: The Department of Revenue administers 38 Montana taxes and fees to achieve equity and integrity, while protecting taxpayer rights and information; values all property as accurately as possible and supervises Montana's property tax system; administers liquor laws to protect public health and safety; receives abandoned property and seeks to return it to its rightful Montana owners; informs and advises the Governor, the legislature, and the public on tax trends and issues; and cooperates with local, state, tribal, and federal governments to advance the public interest under the law.

The Department of Revenue collects revenue from and enforces regulations for 38 state taxes and fees; values all property in the state and supervises the property tax system; regulates the sale and distribution of alcoholic beverages in the state; and administers abandoned property laws and a one-stop business registration system for multiple agencies.

The Department of Revenues is comprised of the following programs:

- Director's Office supports the agency's director and is composed of the following four functional units:
 - Legal Services supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, disclosure officer, and the Office of Dispute Resolution
 - Tax, Policy and Research is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis
 - Human Resources manages the personnel activities of the department. The office includes three functional units for: human resources, payroll and benefits, and education and training
 - Executive Office provides budget analyst, public relations, and administrative support for the department
- Information Technology and Processing Division has two main functions:
 - Provides application development and support services, as well as network services in the areas of data, desktop, information security, and help desk support
 - Processes tax returns and payments for the department and for state agencies
- Liquor Control Division administers the state's alcoholic beverage code, which governs the control, sale, and distribution of alcoholic beverages. The division includes
 - Liquor distribution
 - Liquor licensing
- Citizen Services and Resource Management Division provides service to:
 - Montana citizens, businesses, and nonresident taxpayers through a call center, forms design, and other taxpayer services
 - Other divisions of the department in the areas of accounting, purchasing, and facilities and asset management
- Business and Income Taxes Division has three main functions:
 - Oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property
 - Administers the Unclaimed Property Program to return unclaimed property (lost money and other properties) to its rightful owners
 - Operates a proprietary funded program to collect on behalf of state agencies debt owed to the state that is associated with delinquent accounts
- Property Assessment Division is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes

Agency Highlights

Department of Revenue Major Budget Highlights
<ul style="list-style-type: none"> ◆ General fund for the 2013 biennium is \$561,700, or 0.6%, lower than in the 2011 biennium. Offsetting factors for this change are: <ul style="list-style-type: none"> • Statewide present law adjustments reduce general fund largely because of a reduction in the ITSD fixed cost allocation to the agency • Multiple programs reduced the number of vehicles they would lease from the State Motor Pool to reduce general fund • Ongoing reductions were made to account for reductions implemented in FY 2011 as a result of the 17-7-140, MCA, reductions ordered by the Governor • Funding associated with base expenditures to install video conferencing equipment was removed since the expenditures were not ongoing in nature • Funding to add 8.00 FTE for tax compliance targeted at the area the department identified with the largest non-compliance -- non-residents and out-of-state companies ◆ State special fund expenditures is nearly \$0.8 million, or 49.8%, higher in the 2013 biennium than the 2011 biennium due to: <ul style="list-style-type: none"> • Use of tobacco settlement funding to convert 3.00 FTE from modified status to permanent for tobacco tax compliance work • Use of abandoned property state special revenue to convert 2.00 FTE from modified status to permanent to address workload issues • Funding to add 1.00 FTE to administer hail insurance premiums and livestock per capita fees ◆ Federal special fund expenditures increase by a little over \$0.1 million to fund federal mineral royalty audits at the level authorized in the current agreement with the federal government ◆ Staffing increases by 15.00 FTE for the following purposes: <ul style="list-style-type: none"> • To convert 6.00 FTE from modified status to permanent to: 1) administer the abandoned property program (2.00 FTE); 2) perform tobacco tax compliance work (3.00 FTE); and 3) establish a position for the Granite County appraiser (1.00 FTE) • To add 1.00 FTE to administer the hail insurance premiums and livestock per capita fees with funding from statutorily allowable retention of fees collected • To add 8.00 FTE to address tax compliance of areas the agency determined to have the highest level of non-compliance – non-residents and out-of-state companies ◆ The agency was exempted from the requirement in the executive budget of a 4% reduction in personal services

Legislative Action Issues

- ◆ Major/agency-wide LFD issues
 - A 5% plan item that was not included in the budget request and is allocated to all programs funded with general fund based on the program's share of total general fund in the agency does not specify what services would be impacted
 - The agency states that efficiencies would be realized from the Efficiencies Through Imaging project approved by the 2009 Legislature, but no associated reductions are included in the budget request. A legislative option is provided for setting the stage for future realization of the savings
 - A one-time payment to retire costs of a prior building renovation could save general fund in the long-term
 - Restricted funding designations are recommended for two adjustments in the Liquor Division
 - Collection services internal services fund balance is being depleted
- ◆ Proprietary Rate Decisions
 - The legislature must approve rates for the Collection Services Program within the Business and Income Tax Division
- ◆ Interim Committee Recommendations
 - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

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.

- **Labor Market Experience** – The agency is experiencing the following labor market trends
 - Recently, the agency has been successful in filling vacant positions
 - Larger than historical applicant pools of qualified candidates are being experienced when filling vacant positions
- **Pay Philosophy** – The agency's pay philosophy is as follows:
 - The agency has the following objectives for employee pay: 1) maintain internal equity by providing a salary range for positions that reflect the position's value compared to other similar positions in the agency; and 2) motivate employees by providing the opportunity for future pay adjustments based on an employee's individual work performance and job related competencies
 - Typical employee compensation is at 80% to 95% of the market rates for the associated occupational pay ranges, except for auditors and information technology staff, who are placed at 85% to 95% of the market rates to address hiring difficulties
- **Obstacles** – The agency is facing or expecting to face the following obstacles for recruiting and retaining qualified workers
 - Budget pressures are impacting the agency's ability to meet these objectives and causing pay compression, or a situation where in order to fill a vacant position a new employee is hired at a higher pay rate than an existing employee

Agency Overview

The Department of Revenue budget includes \$561,700, or 0.6%, less general fund in the 2013 biennium than the 2011 biennium. The budget includes reductions for the Governor's 17-7-140, MCA, reductions implemented in FY 2011 that are of an ongoing nature. Reductions were also made to reduce the number of vehicles leased from the State Motor Pool

and to eliminate funding that is not needed because of a one-time expenditure in the base year to install video conferencing equipment.

FTE in this department collect revenue for the nearly 40 taxes and fees it administers. In the process, department personnel process payment and refund transactions, audit taxpayers for compliance to state laws, assess property for the purpose of valuing it for tax purposes, and administer all aspects of accounting for and reconnecting abandoned property with the rightful owner. Personal services for this department increase by 15.00 FTE, or 2.3%, to: 1) address compliance of tobacco taxes and areas with high non-compliance rates; 2) administer collection of premiums for hail insurance and per capita livestock fees; 3) address workload issues in the administration of abandoned property; and 4) add a county appraiser for Granite County.

While most general funded agencies were required by the executive to submit a budget to reduce personal services by 4% for general fund positions, the executive exempted this department from this adjustment. The agency cited adverse impacts on revenue collections as the reason for requesting the exemption. A 4% reduction for this agency would equate to 27.51 FTE and \$2,696,841 general fund for the 2013 biennium. In the 2011 biennium, a 7% vacancy savings rate was applied to the agency. Exemption from the additional 4% reduction means that the agency has a 4% vacancy savings rate applied in the executive budget for the 2013 biennium, providing the agency with an additional 3% in personal services over the 2011 biennium level. For a further discussion please see the issue in the 5% Reduction Plan section that follows.

The budget request adds allowable, but previously unused, funding from collections on hail insurance premiums and livestock per capita fees to administer billing and collection activities. Federal funds are increased to participate in federal mineral royalty audits at the level authorized in the most current agreement with the federal government.

Major Cost Drivers

Costs for personal services makes up 69.0% of the costs for this agency and operating costs dominate the remaining costs. Of the \$32.2 million biennium operating costs, major cost drivers and their percentage of total biennium operation costs are:

- o Computerized management system hosting and maintenance costs, \$6.6 million, or 20.0%
- o Office rent, \$4.7 million, or 14.6%

Common Purpose Decision Packages

The following groups of decision packages address common purposes that cross program lines within the agency. The legislature may wish to examine and/or act on the decision packages within a group with one action or uniformly:

- o Reduce Base Budget – These expenditure were not designated as one-time-only by the 2009 Legislature but will not recur
 - DP 0305 in the Liquor Control Division is for liquor warehouse renovations
 - DP 0709 in the Business and Income Taxes Division is for installation of video conferencing equipment
- o Sustainable Reductions from 17-7-140, MCA – These adjustments are to continue ongoing reductions made in FY 2011 by the Governor under 17-7-140, MCA
 - DP 0102 in the Director’s Office
 - DP 0202 in Information Technology and Processing Division
 - DP 0502 in the Citizen Services and Resource Management Division
 - DP 0702 in the Business and Income Taxes Division
 - DP 0802 in the Property Assessment Division
- o Vehicle Reduction – These adjustments reduce the number of vehicles the divisions will lease from the State Motor Pool
 - DP 0203 in the Information Technology and Processing Division
 - DP 0703 in the Business and Income Taxes Division
 - DP 0803 in the Property Assessment Division

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.

Total 5% Reduction Plan Identified by Agencies, By Division Included and Not Included in Executive Budget 2013 Biennium					
Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
<u>Directors Office</u>					
<i>Included in Executive Budget</i>					
0102 Sustainable Reductions from 17-7-140, MCA	0.00	\$2,620	0.1%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Prorated Reduction - Directors Office		<u>\$531,074</u>	10.7%	<u>\$10,664</u>	14.0%
Total Director's Office		\$533,694	10.8%	\$10,664	14.0%
<u>Information Technology and Processing</u>					
<i>Included in Executive Budget</i>					
0202 Sustainable Reductions from 17-7-140, MCA	0.00	\$12,642	0.3%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Prorated Reduction - Information Technology and Processing		\$1,206,988	24.4%	\$12,950	17.0%
Total Information Technology and Processing		\$1,219,630	24.7%	\$12,950	17.0%
<u>Citizen Services and Resource Management</u>					
<i>Included in Executive Budget</i>					
0502 Sustainable Reductions from 17-7-140, MCA	0.00	\$796	0.0%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Prorated Reduction - Citizen Services and Resource Management		\$193,118	3.9%	\$14,472	19.0%
Total Citizen Services and Resource Management		\$193,914	3.9%	\$14,472	19.0%
<u>Business and Income Taxes Division</u>					
<i>Included in Executive Budget</i>					
0702 Sustainable Reductions from 17-7-140, MCA	0.00	\$4,822	0.1%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Prorated Reduction - Business and Income Taxes Division		\$965,590	19.5%	\$35,800	47.0%
Total Business and Income Taxes Division		\$970,412	19.6%	\$35,800	47.0%
<u>Property Assessment Division</u>					
<i>Included in Executive Budget</i>					
0802 Sustainable Reductions from 17-7-140, MCA	0.00	\$95,500	1.9%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Prorated Reduction - Property Assessment Division		\$1,931,180	39.1%	\$2,286	3.0%
Total Property Assessment Division		\$2,026,680	41.0%	\$2,286	3.0%
<u>Total Reduction Plan</u>					
Included in Executive Budget		\$116,380	2.4%	\$0	0.0%
Not Included in Executive Budget		<u>4,827,950</u>	97.6%	<u>76,172</u>	100.0%
Total Agency Reduction Plan		<u>\$4,944,330</u>		<u>\$76,172</u>	

**LFD
ISSUE**

5% Reduction Plan – Unspecified Reductions

The agency included on its 5% reduction plan an item for each program that stated the reduction was for a prorated reduction. However, the agency failed to specify what services would be reduced or eliminated. None of these items were included in the budget request. Instead, the agency stated that reductions would include:

- Personal services funding by leaving FTE vacant
- A reduction of operating expenses used to fund services mandated by law

As shown in the figure, the unspecified reductions are almost the entire 5% reduction. Without specifying what services would be reduced or eliminated it is not possible to determine the impact on agency operations and which services or other activities, if any, would be eliminated or curtailed. In order to aid the legislature in making this determination, statute requires that the plan include: 1) a prioritized list of services that would be eliminated or reduced; 2) for each service included in the prioritized list, the savings that would result from the elimination or reduction; and 3) the consequences or impacts of the proposed elimination or reduction of each service.

In addition, the agency provides a statement of the consequences of the reductions, stating that the reductions would result in revenue losses several times the expenditure reductions for all programs but at different multipliers of lost revenues to expenditure reduction. More specific information is provided in the narratives for each program. As with the impact on expenditures, without additional information on the specific reductions that would be made, it is not possible to either estimate impacts on revenue or determine the accuracy of any department estimates. The LFD is conducting research to attempt to better define the relationship between program expenditures and revenues.

For the 2011 biennium, the agency had a 7% vacancy savings applied. When comparing actual personal services expended in FY 2010 to what would have been full funding of personal services, the agency achieved 7.1% vacancy savings. As stated earlier, for the 2013 biennium, this agency is exempt from the 4% personal services reduction for positions funded with general fund. Because of this exemption, personal services in the agency are effectively 3% higher relative to the 2011 biennium. As such, personal services reductions of up to 3% should have no revenue reducing effects when compared to revenues collected in FY 2010.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide supporting evidence that links the services impacted with revenue and other consequences.

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.

2013 Biennium Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Directors Office	\$ 11,184,028	\$ 224,716	\$ 2,000	\$ 228,516	\$ 11,639,260	10.84%
02 Information Technology & Processing	22,688,222	262,558	-	273,988	23,224,768	21.63%
03 Liquor Control Division	-	-	-	4,678,193	4,678,193	4.36%
05 Citizen Services & Resource Mgmt	3,843,344	389,411	-	86,400	4,319,155	4.02%
07 Business And Income Taxes Division	21,680,733	1,350,561	539,428	-	23,570,722	21.96%
08 Property Assessment Division	39,783,337	135,335	-	-	39,918,672	37.19%
Grand Total	<u>\$ 99,179,664</u>	<u>\$ 2,362,581</u>	<u>\$ 541,428</u>	<u>\$ 5,267,097</u>	<u>\$ 107,350,770</u>	<u>100.00%</u>

The department is primarily funded with general fund. Proprietary funds support the operation of the Liquor Control Division and other divisions that support liquor control functions or the staff of the Liquor Control Division. State special revenue funds are for tobacco tax compliance activities under the Tobacco Master Settlement Agreement, administration of the unclaimed property program, and administrative costs associated with billing and collecting hail

insurance premiums and livestock per capita fees. State special revenue from the property valuation improvement fund is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Federal special revenue supports federal mineral royalty audits.

In the past, state special revenue from a statutorily allowed 2% retention on collections from hail insurance premiums and livestock per capita fees have not been used to fund the costs to bill and collect these fees. This budget includes funding from these sources.

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.

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.

Statutory Appropriations Department of Revenue					
Purpose	MCA #	Fund Source	FY 2010	FY 2012	FY 2013
<i>Does Not Relate Directly to Agency Operations</i>					
Local government entitlements	15-1-121	General Fund	\$95,640,610	\$104,606,985	\$108,469,667
Redistribution of coal gross proceeds	15-23-706	SSR	1,485,711	2,000,000	2,300,000
Distribute oil and gas production taxes to eligible counties	15-36-332	SSR	134,505,500	101,753,000	126,308,000
Distribution to counties impacted by mining	15-37-117	SSR	2,881,784	4,200,000	4,500,000
Bentonite tax distribution to eligible counties	15-39-110	SSR	994,154	2,500,000	3,000,000
Tribal reimbursements and DOR administration	18-11-112	SSR	4,639,043	5,675,000	5,840,000

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	49,569,692	49,569,692	99,139,384	99.96%	52,964,705	52,964,705	105,929,410	98.68%
Statewide PL Adjustments	(605,036)	(744,817)	(1,349,853)	(1.36%)	(363,845)	(495,112)	(858,957)	(0.80%)
Other PL Adjustments	154,290	255,380	409,670	0.41%	318,562	414,659	733,221	0.68%
New Proposals	490,287	490,176	980,463	0.99%	773,462	773,634	1,547,096	1.44%
Total Budget	\$49,609,233	\$49,570,431	\$99,179,664		\$53,692,884	\$53,657,886	\$107,350,770	

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	51.48	51.48	51.48	51.48	51.48	51.48	0.00	0.00%
Personal Services	3,774,894	3,826,115	3,891,429	3,962,503	7,601,009	7,853,932	252,923	3.33%
Operating Expenses	1,956,810	1,858,138	1,984,079	1,801,249	3,814,948	3,785,328	(29,620)	(0.78%)
Total Costs	\$5,731,704	\$5,684,253	\$5,875,508	\$5,763,752	\$11,415,957	\$11,639,260	\$223,303	1.96%
General Fund	5,534,250	5,486,470	5,648,930	5,535,098	11,020,720	11,184,028	163,308	1.48%
State Special	107,326	107,995	111,777	112,939	215,321	224,716	9,395	4.36%
Federal Special	1,000	0	1,000	1,000	1,000	2,000	1,000	100.00%
Other	89,128	89,788	113,801	114,715	178,916	228,516	49,600	27.72%
Total Funds	\$5,731,704	\$5,684,253	\$5,875,508	\$5,763,752	\$11,415,957	\$11,639,260	\$223,303	1.96%

Program Description

The Director's Office supports the agency's director and provides the following functions:

- o General management of the agency, including assisting the director with administrative functions and communications to the public, agencies, and elected officials; the program also includes the Office of Taxpayer Assistance
- o Legal service support for the Office of Dispute Resolution and the overall legal efforts of the department, including legal representation before various courts, legislative development and review, filing bankruptcy claims, and developing policy and administrative rules
- o Tax policy, research, and analysis of state revenue legislation and legislative proposals affecting the department, preparation of fiscal notes that affect revenue, and analysis of department, economic, and compliance data
- o Human resources, payroll, benefits, education, organizational development, and training of the department

Program Highlights

Director's Office Major Budget Highlights
<ul style="list-style-type: none"> ◆ General fund is \$163,300, or 1.5%, higher in the 2013 biennium than the 2011 biennium due primarily to: <ul style="list-style-type: none"> ● Statewide present law adjustments ● Funding for session-related overtime to prepare fiscal notes, which must be requested each biennium ◆ Statewide present law adjustments are the main factor for the following changes in other funds: <ul style="list-style-type: none"> ● A \$9,395, or 4.4%, increase in state special revenue ● A \$49,600, or 27.7%, increase in proprietary funds
Major LFD Issues
<ul style="list-style-type: none"> ◆ Services associated with a 5% reduction plan item are not specified

Program Narrative

5% Reduction Plan

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

- o The budget request includes a biennium general fund reduction of \$2,620 titled DP 0102 - Sustainable Reductions from 17-7-140, MCA. Details for this reduction can be found in the “New Proposals” section for this program
- o The plan includes another item for this program that was not included in the executive budget. The 5% reduction plan identified savings of \$531,074 general fund and \$10,664 state special revenue for the 2013 biennium that would be achieved through unspecified reductions

LFD
ISSUE

5% Reduction Plan – Unspecified Reductions

As stated in the agency overview, the 5% reduction plan identified by the agency does not specify what reductions would be made. Instead, the agency stated that reductions would include:

- o Personal services funding by leaving FTE vacant
- o Reduction of operating expenses used to fund services mandated by law

Statute requires that the agency provide several types of information when submitting 5% reduction plans to allow the legislature to fully gauge the impacts. Because the plan does not meet that requirement, it is not possible to determine service impacts. In addition, the agency gave revenue impacts of the reduction. However, it is not possible to determine whether or to what degree revenues would be impacted.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide evidence supporting the revenue reduction estimates.

A further discussion is included at the agency level

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							
Directors Office							
Program Funding		Base	% of Base	Budget	% of Budget	Budget	% of Budget
		FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000	Total General Fund	\$ 5,534,250	96.6%	\$ 5,648,930	96.1%	\$ 5,535,098	96.0%
	01100 General Fund	5,534,250	96.6%	5,648,930	96.1%	5,535,098	96.0%
02000	Total State Special Funds	107,326	1.9%	111,777	1.9%	112,939	2.0%
	02790 6901-Statewide Tobacco Sttlmnt	107,326	1.9%	111,777	1.9%	112,939	2.0%
03000	Total Federal Special Funds	1,000	0.0%	1,000	0.0%	1,000	0.0%
	03928 Royalty Audit - Nret	1,000	0.0%	1,000	0.0%	1,000	0.0%
06000	Total Proprietary Funds	89,128	1.6%	113,801	1.9%	114,715	2.0%
	06005 Liquor Division	89,128	1.6%	113,801	1.9%	114,715	2.0%
Grand	Total	<u>\$ 5,731,704</u>	<u>100.0%</u>	<u>\$ 5,875,508</u>	<u>100.0%</u>	<u>\$ 5,763,752</u>	<u>100.0%</u>

Funding for the program comes primarily from the general fund. State special revenue from tobacco settlement funds supports the dedicated attorney that supports tobacco tax compliance activities. Federal mineral royalty audit special revenue funds a portion of the Legislative Audit fixed cost allocation for the agency. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of Director's Office support costs. The allocation is a percentage of the program's budget. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	5,534,250	5,534,250	11,068,500	98.97%	5,731,704	5,731,704	11,463,408	98.49%
Statewide PL Adjustments	115,990	(67,842)	48,148	0.43%	145,114	(36,642)	108,472	0.93%
Other PL Adjustments	0	70,000	70,000	0.63%	0	70,000	70,000	0.60%
New Proposals	(1,310)	(1,310)	(2,620)	(0.02%)	(1,310)	(1,310)	(2,620)	(0.02%)
Total Budget	\$5,648,930	\$5,535,098	\$11,184,028		\$5,875,508	\$5,763,752	\$11,639,260	

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					278,680					279,797
Vacancy Savings					(162,145)					(162,188)
Inflation/Deflation					(146)					(142)
Fixed Costs					28,725					(154,109)
Total Statewide Present Law Adjustments		\$115,990	\$4,451	\$0	\$145,114*		(\$67,842)	\$5,613	\$0	(\$36,642)*
DP 101 - Overtime Pay for Timely Legislative Fiscal Notes	0.00	0	0	0	0	0.00	70,000	0	0	70,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$70,000	\$0	\$0	\$70,000
Grand Total All Present Law Adjustments	0.00	\$115,990	\$4,451	\$0	\$145,114*	0.00	\$2,158	\$5,613	\$0	\$33,358*

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

Program Personal Services Narrative

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

- o **Pay Plan Exceptions** – No employees in this program are exempt from the agency's pay plan.
- o **Program Specific Obstacles** – This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** – This program is not experiencing abnormal turnover.
- o **Legislatively Applied Vacancy Savings** – This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** – Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.
- o **Retirements** – Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:
 - 14 employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$202,740 for leave balances
 - Employees are being identified for leadership training and to transfer knowledge and become candidates for vacancies should key staff retire

DP 101 - Overtime Pay for Timely Legislative Fiscal Notes - A general fund increase is requested for overtime in the Tax Policy and Research Office to prepare fiscal notes for the 2013 Legislature.

LFD COMMENT

Historical Overtime Expenditures

Overtime is a zero based budget item that must be requested in full each biennium. The requested amount is an increase of \$14,413 over the amount appropriated by the 2009 Legislature for FY 2011 and \$9,357 over the amount expended in FY 2009. The following illustrates historical expenditures of the Director's Office for overtime pay. As shown, the expenditures spike during legislative session years. The 2009 Legislature appropriated \$55,587 for this zero based item.

Fiscal Year	Expenditure (\$)
2003	32,000
2004	3,000
2005	18,000
2006	8,000
2007	44,000
2008	12,000
2009	61,000
2010	7,000

New Proposals

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

Program	FTE	Fiscal 2012				Fiscal 2013				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - Sustainable Reductions from 17-7-140, MCA										
01	0.00	(1,310)	0	0	(1,310)	0.00	(1,310)	0	0	(1,310)
Total	0.00	(\$1,310)	\$0	\$0	(\$1,310)	0.00	(\$1,310)	\$0	\$0	(\$1,310)

DP 102 - Sustainable Reductions from 17-7-140, MCA -

The Department of Revenue, Director's Office reduces its operating expense budget by \$2,620 in general fund in the 2013 biennium as a result of the operating efficiencies achieved through the 17-7-140, MCA, budget reduction.

The Governor made reductions to agencies' 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reduction for this program was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

The budget reductions associated with this reduction are for modified operating practices associated with cellular phone usage, out-of-state travel, and advertising of vacant positions.

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	85.75	85.75	85.75	85.75	85.75	85.75	0.00	0.00%
Personal Services	4,043,708	4,267,806	4,314,035	4,316,410	8,311,514	8,630,445	318,931	3.84%
Operating Expenses	8,401,719	7,981,098	7,050,172	7,067,911	16,382,817	14,118,083	(2,264,734)	(13.82%)
Equipment & Intangible Assets	238,120	31,250	238,120	238,120	269,370	476,240	206,870	76.80%
Total Costs	\$12,683,547	\$12,280,154	\$11,602,327	\$11,622,441	\$24,963,701	\$23,224,768	(\$1,738,933)	(6.97%)
General Fund	12,476,399	12,071,923	11,334,113	11,354,109	24,548,322	22,688,222	(1,860,100)	(7.58%)
State Special	131,279	131,882	131,279	131,279	263,161	262,558	(603)	(0.23%)
Other	75,869	76,349	136,935	137,053	152,218	273,988	121,770	80.00%
Total Funds	\$12,683,547	\$12,280,154	\$11,602,327	\$11,622,441	\$24,963,701	\$23,224,768	(\$1,738,933)	(6.97%)

Program Description

The Information Technology and Processing Division provides technology support for the department and processes all tax returns, payments, and other documents received, whether in paper or electronic form. Technology support includes both application development and support services, such as network services and data, desktop, and information security. The division operates a help desk and a mailroom, processes tax returns and payments, maintains taxpayer accounts, and manages department records.

Program Highlights

Information Technology and Processing Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ General fund is \$1.9 million, or 7.6%, lower in the 2013 biennium than the 2011 biennium due in primarily to the following factors: <ul style="list-style-type: none"> • Statewide present law adjustments reduce general fund largely because of a \$3.0 million reduction in the ITSD fixed cost allocation to the agency • Maintenance costs for new imaging and scanning equipment and software partially offset the reduction from statewide present law adjustments ◆ Personal services components of statewide present law adjustments cause proprietary funds to increase by nearly \$122,000, or 80%, in the 2013 biennium compared to the 2011 biennium
Major LFD Issues
<ul style="list-style-type: none"> ◆ Services associated with a 5% reduction plan item are not specified ◆ Efficiencies were stated when funding for the Efficiencies Through Imaging project was being requested, but no associated reductions are included ◆ A one-time payment to retire costs of a prior building renovation could save general fund in the long-term

Program Narrative

5% Reduction Plan

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

- o The budget request includes a biennium general fund reduction of \$12,642 titled DP 0202 - Sustainable Reductions from 17-7-140, MCA. Details for this reduction can be found in the “New Proposals” section for this program
- o The plan includes another item for this program that was not included in the executive budget. The 5% reduction plan identified savings of \$1,206,988 general fund and \$12,950 state special revenue for the 2013 biennium that would be achieved through unspecified reductions

LFD
ISSUE

5% Reduction Plan – Unspecified Reductions

As stated in the agency overview, the 5% reduction plan identified by the agency does not specify what reductions would be made. Instead, the agency stated that reductions would include:

- o Personal services funding by leaving FTE vacant
- o Reduction of operating expenses used to fund services mandated by law

Statute requires that the agency provide several types of information when submitting 5% reduction plans to allow the legislature to fully gauge the impacts. Because the plan does not meet that requirement, it is not possible to determine service impacts. In addition, the agency gave revenue impacts of the reduction. However, it is not possible to determine whether or to what degree revenues would be impacted.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide evidence supporting the revenue reduction estimates.

A further discussion is included at the agency level.

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							
Information Technology & Processing							
Program Funding		Base	% of Base	Budget	% of Budget	Budget	% of Budget
		FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000	Total General Fund	\$ 12,476,399	98.4%	\$ 11,334,113	97.7%	\$ 11,354,109	97.7%
	01100 General Fund	12,476,399	98.4%	11,334,113	97.7%	11,354,109	97.7%
02000	Total State Special Funds	131,279	1.0%	131,279	1.1%	131,279	1.1%
	02088 Ssr Administrative Funds	131,279	1.0%	131,279	1.1%	131,279	1.1%
06000	Total Proprietary Funds	75,869	0.6%	136,935	1.2%	137,053	1.2%
	06005 Liquor Division	75,869	0.6%	136,935	1.2%	137,053	1.2%
Grand	Total	<u>\$ 12,683,547</u>	<u>100.0%</u>	<u>\$ 11,602,327</u>	<u>100.0%</u>	<u>\$ 11,622,441</u>	<u>100.0%</u>

The Information Technology and Processing Division is primarily funded with general fund. State special revenue funds the division’s administration of hail insurance premiums, the livestock per capita fee, and lodging facilities tax. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Control Division share of division support costs. The allocation is a percentage of the program’s budget. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	12,476,399	12,476,399	24,952,798	109.98%	12,683,547	12,683,547	25,367,094	109.22%
Statewide PL Adjustments	(1,307,580)	(1,301,324)	(2,608,904)	(11.50%)	(1,246,514)	(1,240,140)	(2,486,654)	(10.71%)
Other PL Adjustments	171,615	185,355	356,970	1.57%	171,615	185,355	356,970	1.54%
New Proposals	(6,321)	(6,321)	(12,642)	(0.06%)	(6,321)	(6,321)	(12,642)	(0.05%)
Total Budget	\$11,334,113	\$11,354,109	\$22,688,222		\$11,602,327	\$11,622,441	\$23,224,768	

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					450,080					452,551
Vacancy Savings					(179,753)					(179,849)
Inflation/Deflation					29,792					29,828
Fixed Costs					(1,546,633)					(1,542,670)
Total Statewide Present Law Adjustments		(\$1,307,580)	\$0	\$0	(\$1,246,514)*		(\$1,301,324)	\$0	\$0	(\$1,240,140)*
DP 201 - Present Law Base Adjustment - Rent	0.00	26,675	0	0	26,675	0.00	40,415	0	0	40,415
DP 203 - Vehicle Reduction	0.00	(5,060)	0	0	(5,060)	0.00	(5,060)	0	0	(5,060)
DP 205 - Ongoing Maintenance of Imaging and Scanning	0.00	150,000	0	0	150,000	0.00	150,000	0	0	150,000
Total Other Present Law Adjustments	0.00	\$171,615	\$0	\$0	\$171,615	0.00	\$185,355	\$0	\$0	\$185,355
Grand Total All Present Law Adjustments	0.00	(\$1,135,965)	\$0	\$0	(\$1,074,899)*	0.00	(\$1,115,969)	\$0	\$0	(\$1,054,785)*

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

Program Personal Services Narrative

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

- o **Pay Plan Exceptions** - Information technology positions receive an exception from the standard agency's pay plan target of 80% to 95% of market that places their target at 85% to 95% of market.
- o **Program Specific Obstacles** - This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** - This program is not experiencing abnormal turnover.
- o **Legislatively Applied Vacancy Savings** - This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** - Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.
- o **Retirements** - Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:

- 28 employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$119,424 for leave balances
- Employees are being identified for leadership training and to transfer knowledge and become candidates for vacancies should key staff retire

DP 201 - Present Law Base Adjustment - Rent - A general fund increase is requested to pay for rent increases for an existing lease at the Donovan Building in Helena.

**LFD
ISSUE**
Long-term Savings Could be Attained

The Donovan Building, which houses all division staff, is leased to the state by a private party under a 15-year lease with 2.0 percent annual increases stipulated in the lease agreement for base lease of 37,135 square feet of space.

Additionally, modifications to the space negotiated outside the original lease terms added \$66,722 of costs that have been amortized over the full term of the lease with a 7.0 percent annual inflation factor. These modifications add \$7,197 to the annual lease and will cost the state \$107,949 over the term of the lease. The state could save \$34,600 over the long term if it paid the remaining modification costs at the beginning of the 2012 biennium. Prepayment is allowed in the lease contract.

The legislature may want to consider approving \$60,000 in one-time and restricted funding to achieve this savings. If the one-time funding is approved to retire the lease obligation for the prior facility modifications, the amount of the original decision package should be reduced by \$7,197 each year for a net biennium increase of \$45,600 to the original request.

DP 203 - Vehicle Reduction - The agency would lease one fewer vehicle from the State Motor Pool, which reduces general fund by \$10,120 over the biennium.

DP 205 - Ongoing Maintenance of Imaging and Scanning - This general fund increase would fund ongoing vendor maintenance and support for the hardware and software used for imaging and scanning of tax returns, payments, and other documents.

**LFD
ISSUE**
Operational Efficiencies Promised During Funding Hearings

HB 10 of the 2009 Legislature funded long-range information technology projects. One project funded in HB 10 was the Efficiency Through Imaging project that funded \$3,366,178 of long-range information technology project funds. During the February 5, 2009, Long-range Planning Joint Appropriations Subcommittee hearing, the agency testified that operational efficiencies would be achieved in future biennia if the Efficiency Through Imaging project was funded and implemented.

Efficiencies that were identified in the hearing include costs to enter, move, retrieve, secure, and store paper documents. The agency stated that when the State of Idaho implemented a similar system, savings were achieved and some FTE were able to be reallocated within their agency due to the efficiencies. The agency did not identify or commit to FTE savings from the project but stated that once the system is fully implemented, the most tangent and immediate cost savings is in the cost for temporary staff.

**LFD
ISSUE CONT.**

Temporary FTE are used during the peak tax filing season from February to June to augment permanent staff in activities such as entering data from paper filed tax returns into the state tax administration system. The scanning and imaging system would negate the need to manually enter this data and cut down on the need for some of the temporary FTE.

In FY 2010, the new scanning and imaging system was in the stage involving design, contracting, and hardware acquisition, but not implemented into any operations. During that fiscal year, the department expended \$557,865 on temporary FTE to process tax returns. The department anticipates implementing the equipment via a pilot project in FY 2011 during the 2011 tax season. If the imaging system provides the savings anticipated and as recognized in Idaho, the budget for temporary staff could be reduced in the future.

To set the stage for savings that may be realized in the 2013 biennium from this project, the legislature may want to line item the funding for temporary staff and restrict it to be used only for hiring temporary staff during the peak tax filing seasons.

Establishing a line item appropriation with the item restricted this way would:

- o Safeguard the funds from being used for other purposes
- o Provide the legislature a straightforward way to monitor the expenditures
- o Still allow the agency the ability to meet operational demands for staffing during peak tax filing seasons

Adding a one-time-only designation would further safeguard the funds by removing FY 2012 expenditures from the base for the next biennium and allow the opportunity for the legislature to discuss efficiencies if the agency requested the funds for the 2015 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	-----Fiscal 2012-----					-----Fiscal 2013-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 202 - Sustainable Reductions from 17-7-140, MCA	02	0.00	(6,321)	0	0	(6,321)	0.00	(6,321)	0	0	(6,321)
Total		0.00	(\$6,321)	\$0	\$0	(\$6,321)	0.00	(\$6,321)	\$0	\$0	(\$6,321)

DP 202 - Sustainable Reductions from 17-7-140, MCA - The Governor made reductions to agencies’ 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

The budget reductions associated with this reduction are for modified operating practices associated with cellular phone usage, travel, mailing of forms, and advertising of vacant positions.

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	29.00	29.00	29.00	29.00	29.00	29.00	0.00	0.00%
Personal Services	1,573,175	1,744,659	1,788,016	1,789,111	3,317,834	3,577,127	259,293	7.82%
Operating Expenses	612,911	568,213	521,980	525,686	1,181,124	1,047,666	(133,458)	(11.30%)
Equipment & Intangible Assets	26,700	30,125	26,700	26,700	56,825	53,400	(3,425)	(6.03%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$2,212,786	\$2,342,997	\$2,336,696	\$2,341,497	\$4,555,783	\$4,678,193	\$122,410	2.69%
Other	2,212,786	2,342,997	2,336,696	2,341,497	4,555,783	4,678,193	122,410	2.69%
Total Funds	\$2,212,786	\$2,342,997	\$2,336,696	\$2,341,497	\$4,555,783	\$4,678,193	\$122,410	2.69%

Program Description

The Liquor Control Division administers the alcoholic beverage code. The division oversees warehousing, inventory, and shipping of distilled spirits and fortified wines and the state agency liquor stores. The division also oversees licensing of on-premise and off-premise businesses, manufacturers, wholesalers, warehouses, importers, and liquor representatives.

Program Highlights

Liquor Control Division Major Budget Highlights	
◆	Liquor enterprise funds increase \$122,410, or 2.7% in the 2013 biennium when compared to the 2011 biennium
◆	Statewide present law adjustments are the primary drivers for the budget increase
Major LFD Issues	
◆	Restricted funding designations are recommended for two adjustments

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 Liquor Control Division						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
06000 Total Proprietary Funds	\$ 2,212,786	100.0%	\$ 2,336,696	100.0%	\$ 2,341,497	100.0%
06005 Liquor Division	<u>2,212,786</u>	<u>100.0%</u>	<u>2,336,696</u>	<u>100.0%</u>	<u>2,341,497</u>	<u>100.0%</u>
Grand Total	<u>\$ 2,212,786</u>	<u>100.0%</u>	<u>\$ 2,336,696</u>	<u>100.0%</u>	<u>\$ 2,341,497</u>	<u>100.0%</u>

The division is funded with a direct appropriation of Liquor Control Division proprietary funds. Net revenues from liquor sales are transferred to the general fund after operating costs are deducted from gross revenues.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	2,212,786	2,212,786	4,425,572	94.60%
Statewide PL Adjustments	0	0	0	0.00%	78,910	83,711	162,621	3.48%
Other PL Adjustments	0	0	0	0.00%	45,000	45,000	90,000	1.92%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$2,336,696	\$2,341,497	\$4,678,193	

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					179,969					181,106
Vacancy Savings					(70,128)					(70,170)
Inflation/Deflation					(16,914)					(16,246)
Fixed Costs					(14,017)					(10,979)
Total Statewide Present Law Adjustments		\$0	\$0	\$0	\$78,910*		\$0	\$0	\$0	\$83,711*
DP 303 - Personal Services for Termination Payouts	0.00	0	0	0	50,000*	0.00	0	0	0	50,000*
DP 304 - Personal Services for Overtime and Temporary Staff	0.00	0	0	0	55,000*	0.00	0	0	0	55,000*
DP 305 - Reduce Base Budget	0.00	0	0	0	(60,000)*	0.00	0	0	0	(60,000)*
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$45,000*	0.00	\$0	\$0	\$0	\$45,000*
Grand Total All Present Law Adjustments	0.00	\$0	\$0	\$0	\$123,910*	0.00	\$0	\$0	\$0	\$128,711*

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

Program Personal Services Narrative

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

- o **Pay Plan Exceptions** – No employees in this program are exempt from the agency’s pay plan.
- o **Program Specific Obstacles** – This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** – This program is not experiencing abnormal turnover.
- o **Legislatively Applied Vacancy Savings** – This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** – Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.
- o **Retirements** – Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:

- Three employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$49,849 for leave balances
- Employees are being identified for a developmental program

DP 303 - Personal Services for Termination Payouts - This adjustment would fund payouts of accrued leave balances in the event of staff terminations.

**LFD
ISSUE**
Restricted Funds

Prior to the 2009 legislature, these funds were approved as language appropriations, which are treated as a zero base item and restricted from being used for other purposes by the language of the appropriation. The 2009 Legislature approved \$40,000 per year in HB 2 for this purpose and designated the funding as restricted. Only \$80 of this appropriation was expended in the base year. Because this funding is needed only if staff terminate employment with the state and require a payout for accumulated leave balances, the legislature may want to restrict funding only for this purpose.

DP 304 - Personal Services for Overtime and Temporary Staff - This adjustment would fund overtime pay and costs to hire additional temporary employees to maintain statutory service levels to agency liquor stores in the event that demand increases.

**LFD
ISSUE**
Restricted Funds

Like the funds for personal services termination payouts mentioned above, funding prior to the 2011 biennium was authorized as language appropriations. The 2009 Legislature approved \$50,000 per year in HB 2 for this purpose and designated the funding as restricted. In FY 2010, \$31,060 of the funding was expended for overtime. Because this funding is needed only if demand exceeds historical levels, or that amount anticipated in the adjusted base budget, the legislature may want to restrict funding only for this purpose.

DP 305 - Reduce Base Budget - This adjustment would reduce funding for costs associated with the 2011 biennium liquor warehouse renovation project, as these costs are not on-going in nature.

Language and Statutory Authority

The executive recommends the following language for the division:

“Liquor control division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in the amounts not to exceed \$124,000,000 in FY 2012 and \$130,000,000 in FY 2013.”

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	28.00	28.00	28.00	28.00	28.00	28.00	0.00	0.00%
Personal Services	1,475,880	1,500,960	1,527,478	1,527,083	2,976,840	3,054,561	77,721	2.61%
Operating Expenses	642,166	627,860	631,341	633,253	1,270,026	1,264,594	(5,432)	(0.43%)
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$2,118,046	\$2,128,820	\$2,158,819	\$2,160,336	\$4,246,866	\$4,319,155	\$72,289	1.70%
General Fund	1,919,257	1,928,568	1,920,720	1,922,624	3,847,825	3,843,344	(4,481)	(0.12%)
State Special	148,222	149,268	194,914	194,497	297,490	389,411	91,921	30.90%
Other	50,567	50,984	43,185	43,215	101,551	86,400	(15,151)	(14.92%)
Total Funds	\$2,118,046	\$2,128,820	\$2,158,819	\$2,160,336	\$4,246,866	\$4,319,155	\$72,289	1.70%

Program Description

The Citizens Services and Resource Management Division provides agency accounting, purchasing, and statewide facilities safety and security functions. The division also provides customer service and support services to the other divisions of the department including operations of the call center, forms design, one-stop business licensing coordination, and abandoned property distribution.

Program Highlights

Citizens Services and Resource Management Division Major Budget Highlights	
◆	General fund remains nearly the same in the 2013 biennium as in the 2011 biennium
◆	State special revenue increases \$92,000, or 30.9% from the 2011 biennium to the 2013 biennium primarily due to increased reliance on state special revenue administration fees to fund statewide present law adjustments
Major LFD Issues	
◆	Services associated with a 5% reduction plan item are not specified

Program Narrative

5% Reduction Plan

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

- o The budget request includes a biennium general fund reduction of \$12,642 titled DP 0202 - Sustainable Reductions from 17-7-140, MCA. Details for this reduction can be found in the "New Proposals" section for this program
- o The plan includes another item for this program that was not included in the executive budget. The 5% reduction plan identified savings of \$193,118 general fund and \$14,472 state special revenue for the 2013 biennium that would be achieved through unspecified reductions

**LFD
ISSUE****5% Reduction Plan – Unspecified Reductions**

As stated in the agency overview, the 5% reduction plan identified by the agency does not specify what reductions would be made. Instead, the agency stated that reductions would include:

- o Personal services funding by leaving FTE vacant
- o Reduction of operating expenses used to fund services mandated by law

Statute requires that the agency provide several types of information when submitting 5% reduction plans to allow the legislature to fully gauge the impacts. Because the plan does not meet that requirement, it is not possible to determine service impacts. In addition, the agency gave revenue impacts of the reduction. However, it is not possible to determine whether or to what degree revenues would be impacted.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide evidence supporting the revenue reduction estimates.

A further discussion is included at the agency level.

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						
Citizen Services & Resource Mgmt						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	\$ 1,919,257	90.6%	\$ 1,920,720	89.0%	\$ 1,922,624	89.0%
01100 General Fund	1,919,257	90.6%	1,920,720	89.0%	1,922,624	89.0%
02000 Total State Special Funds	148,222	7.0%	194,914	9.0%	194,497	9.0%
02025 Unclaimed Property	114,222	5.4%	138,911	6.4%	138,803	6.4%
02088 Ssr Administrative Funds	34,000	1.6%	56,003	2.6%	55,694	2.6%
06000 Total Proprietary Funds	50,567	2.4%	43,185	2.0%	43,215	2.0%
06005 Liquor Division	50,567	2.4%	43,185	2.0%	43,215	2.0%
Grand Total	<u>\$ 2,118,046</u>	<u>100.0%</u>	<u>\$ 2,158,819</u>	<u>100.0%</u>	<u>\$ 2,160,336</u>	<u>100.0%</u>

The Citizens Services and Resource Management Division is funded primarily by the general fund, with a small amount of state special revenue and proprietary funds. The proprietary funding is from a direct appropriation of Liquor Control Division proprietary fund and is for the Liquor Division share of this program's support costs. The allocation is a percentage of the program's budget. Liquor Control Division proprietary funds are an indirect use of general fund since net liquor revenues are deposited in the general fund after operating costs are deducted. State special revenue funds the division's administration of hail insurance premiums and livestock per capita fee, and for support of the unclaimed property program.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	1,919,257	1,919,257	3,838,514	99.87%	2,118,046	2,118,046	4,236,092	98.08%
Statewide PL Adjustments	1,861	3,765	5,626	0.15%	41,171	42,688	83,859	1.94%
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	(398)	(398)	(796)	(0.02%)	(398)	(398)	(796)	(0.02%)
Total Budget	\$1,920,720	\$1,922,624	\$3,843,344		\$2,158,819	\$2,160,336	\$4,319,155	

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					115,241					114,830
Vacancy Savings					(63,643)					(63,627)
Fixed Costs					(10,427)					(8,515)
Total Statewide Present Law Adjustments		\$1,861	\$46,692	\$0	\$41,171*		\$3,765	\$46,275	\$0	\$42,688*
Grand Total All Present Law Adjustments	0.00	\$1,861	\$46,692	\$0	\$41,171*	0.00	\$3,765	\$46,275	\$0	\$42,688*

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

Program Personal Services Narrative

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

- o **Pay Plan Exceptions** – No employees in this program are exempt from the agency’s pay plan.
- o **Program Specific Obstacles** – This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** – This program is not experiencing abnormal turnover.
- o **Legislatively Applied Vacancy Savings** – This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** – Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.
- o **Retirements** – Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:
 - Eight employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$74,749 for leave balances
 - Employees are being identified for a developmental program to transfer knowledge and become candidates for vacancies should key staff retire

New Proposals

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

New Proposals											
Program	FTE	Fiscal 2012				Fiscal 2013					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 502 - Sustainable Reductions from 17-7-140, MCA	05	0.00	(398)	0	0	(398)	0.00	(398)	0	0	(398)
Total	0.00	(\$398)	\$0	\$0	(\$398)	0.00	(\$398)	\$0	\$0	(\$398)	

DP 502 - Sustainable Reductions from 17-7-140, MCA - The Governor made reductions to agencies’ 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

The budget reductions associated with this reduction are for modified operating practices associated with printing fewer tax forms, modifying cellular phone usage, modifying out of state travel, reducing fixed costs, and implementing changes in advertising of vacant positions.

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	156.95	156.95	169.95	169.95	156.95	169.95	13.00	8.28%
Personal Services	8,593,301	9,311,179	9,756,756	9,756,526	17,904,480	19,513,282	1,608,802	8.99%
Operating Expenses	1,944,528	1,946,482	2,022,115	2,035,325	3,891,010	4,057,440	166,430	4.28%
Equipment & Intangible Assets	52,799	0	0	0	52,799	0	(52,799)	(100.00%)
Total Costs	\$10,590,628	\$11,257,661	\$11,778,871	\$11,791,851	\$21,848,289	\$23,570,722	\$1,722,433	7.88%
General Fund	10,028,704	10,688,922	10,834,971	10,845,762	20,717,626	21,680,733	963,107	4.65%
State Special	357,982	362,292	674,690	675,871	720,274	1,350,561	630,287	87.51%
Federal Special	203,942	206,447	269,210	270,218	410,389	539,428	129,039	31.44%
Total Funds	\$10,590,628	\$11,257,661	\$11,778,871	\$11,791,851	\$21,848,289	\$23,570,722	\$1,722,433	7.88%

Program Description

The Business and Income Taxes Division administers and collects 38 Montana taxes and fees including but not limited to corporation license, natural resource, withholding, individual income, lodging facilities, cigarette and tobacco products, contractor's gross receipts, and telecommunications taxes. The division values all industrial and centrally assessed property in the state. The division also operates the Collection Services Program, which is funded with proprietary funds.

Program Highlights

Business and Income Taxes Division	
Major Budget Highlights	
◆	General fund is \$963,107, or 4.7%, higher in the 2013 biennium than the 2011 biennium due primarily to the following offsetting adjustments: <ul style="list-style-type: none"> • An increase of 8.00 FTE for compliance audits of non-residents and out-of-state companies • An increase for statewide present law adjustments • A reduction in the number of vehicles leased from the State Motor Pool • A reduction associated with installing video conferencing equipment in the base, the costs for which are not ongoing • A reduction to continue into the 2013 biennium ongoing Governor's reductions of 17-7-140, MCA, that were implement in FY 2011
◆	State special revenue is \$630,000, or 87.5% higher in the 2013 biennium than the 2011 biennium due primarily to: <ul style="list-style-type: none"> • Funding to add 2.00 FTE with abandoned property state special revenue for address workload impacts • Funding to add 3.00 FTE with tobacco settlement state special revenue for tobacco tax compliance work
◆	Federal special revenue is \$129,000, or 31.4% higher in the 2013 biennium than the 2011 biennium due to funding to increase federal mineral royalty audit activities to the level of the most current federal mineral royalty audit agreement
◆	FTE increases by 13.00 FTE, or 8.3% for reasons highlighted above

Major LFD Issues	
<ul style="list-style-type: none"> ◆ Services associated with a 5% reduction plan item are not specified ◆ Collection services internal services fund balance is being depleted 	

Program Narrative

5% Reduction Plan

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

- o The budget request includes a biennium general fund reduction of \$4,822 titled DP 0702 - Sustainable Reductions from 17-7-140, MCA. Details for this reduction can be found in the “New Proposals” section for this program
- o The plan includes another item for this program that was not included in the executive budget. The 5% reduction plan identified savings of \$965,590 general fund and \$35,800 state special revenue for the 2013 biennium that would be achieved through unspecified reductions

LFD
ISSUE

5% Reduction Plan – Unspecified Reductions

As stated in the agency overview, the 5% reduction plan identified by the agency does not specify what reductions would be made. Instead, the agency stated that reductions would include:

- o Personal services funding by leaving FTE vacant
- o Reduction of operating expenses used to fund services mandated by law

Statute requires that the agency provide several types of information when submitting 5% reduction plans to allow the legislature to fully gauge the impacts. Because the plan does not meet that requirement, it is not possible to determine service impacts. In addition, the agency gave revenue impacts of the reduction. However, it is not possible to determine whether or to what degree revenues would be impacted.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide evidence supporting the revenue reduction estimates.

A further discussion is included at the agency level.

Funding

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

Program Funding Table						
Business And Income Taxes 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	\$ 10,028,704	94.7%	\$ 10,834,971	92.0%	\$ 10,845,762	92.0%
01100 General Fund	10,028,704	94.7%	10,834,971	92.0%	10,845,762	92.0%
02000 Total State Special Funds	357,982	3.4%	674,690	5.7%	675,871	5.7%
02025 Unclaimed Property	201,911	1.9%	342,910	2.9%	343,716	2.9%
02110 Accommodation Tax Admin	131,094	1.2%	135,694	1.2%	136,491	1.2%
02790 6901-Statewide Tobacco Sttlmnt	24,977	0.2%	196,086	1.7%	195,664	1.7%
03000 Total Federal Special Funds	203,942	1.9%	269,210	2.3%	270,218	2.3%
03928 Royalty Audit - Nrcet	<u>203,942</u>	<u>1.9%</u>	<u>269,210</u>	<u>2.3%</u>	<u>270,218</u>	<u>2.3%</u>
Grand Total	<u>\$ 10,590,628</u>	<u>100.0%</u>	<u>\$ 11,778,871</u>	<u>100.0%</u>	<u>\$ 11,791,851</u>	<u>100.0%</u>

The Business and Income Taxes Division is primarily funded with general fund and some state special revenue, federal special revenue, and proprietary funds. State special revenue comes from the accommodations tax and funds expenses for administering the tax. Federal special revenue comes from reimbursements for performing mineral royalty audits. The finances of the Collections Services Program are not shown in the HB 2 tables because it is funded with proprietary funds. The Collections Services Program is discussed in the Proprietary Rates Section that follows the HB 2 discussion.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	10,028,704	10,028,704	20,057,408	92.51%	10,590,628	10,590,628	21,181,256	89.86%
Statewide PL Adjustments	366,537	377,328	743,865	3.43%	399,318	412,015	811,333	3.44%
Other PL Adjustments	(57,859)	(57,859)	(115,718)	(0.53%)	8,161	8,161	16,322	0.07%
New Proposals	497,589	497,589	995,178	4.59%	780,764	781,047	1,561,811	6.63%
Total Budget	\$10,834,971	\$10,845,762	\$21,680,733		\$11,778,871	\$11,791,851	\$23,570,722	

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					807,687					809,231
Vacancy Savings					(376,035)					(376,103)
Inflation/Deflation					(13,524)					(13,330)
Fixed Costs					(18,810)					(7,783)
Total Statewide Present Law Adjustments		\$366,537	\$33,533	(\$752)	\$399,318		\$377,328	\$34,431	\$256	\$412,015
DP 703 - Vehicle Reduction	0.00	(5,060)	0	0	(5,060)	0.00	(5,060)	0	0	(5,060)
DP 704 - Additional Federal Royalty Audit Authority	0.00	0	0	66,020	66,020	0.00	0	0	66,020	66,020
DP 709 - Reduce Base Budget	0.00	(52,799)	0	0	(52,799)	0.00	(52,799)	0	0	(52,799)
Total Other Present Law Adjustments	0.00	(\$57,859)	\$0	\$66,020	\$8,161	0.00	(\$57,859)	\$0	\$66,020	\$8,161
Grand Total All Present Law Adjustments	0.00	\$308,678	\$33,533	\$65,268	\$407,479	0.00	\$319,469	\$34,431	\$66,276	\$420,176

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** – Auditor positions in this program receive an exception from the standard agency’s pay plan target of 80% to 95% of market that places their target at 85% to 95% of market.
- o **Program Specific Obstacles** – This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** – Entry level administrative staff positions in this division are experiencing high rates of turnover but many are moving to vacated higher level positions in the program and there are no programmatic impacts from

this turnover.

- o **Legislatively Applied Vacancy Savings** – This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** – Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.
- o **Retirements** – Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:
 - 32 employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$379,912 for leave balances. The agency does not anticipate any employees will retire
 - Employees are being identified for leadership training and to transfer knowledge and become candidates for vacancies should key staff retire

DP 703 - Vehicle Reduction - The agency would lease one fewer vehicle from the State Motor Pool, which would reduce general fund by \$10,120 over the biennium.

DP 704 - Additional Federal Royalty Audit Authority - An increase in federal funding is requested to increase funding to the level authorized in an agreement with the federal government for state participation in the federal mineral royalty auditing program. This adjustment would increase funding to the current agreement amount of \$353,253 per year.

DP 709 - Reduce Base Budget - This adjustment would reduce funding for costs associated with the 2011 biennium installation of video conferencing equipment, as these costs are not on-going in nature.

New Proposals

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

Program	-----Fiscal 2012-----					-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 702 - Sustainable Reductions from 17-7-140, MCA	07	0.00	(2,411)	0	0	(2,411)	0.00	(2,411)	0	0	(2,411)
DP 706 - Modified FTE into Permanent - Abandoned Property	07	2.00	0	112,066	0	112,066	2.00	0	112,771	0	112,771
DP 707 - Modified FTE into Permanent-Tobacco Tax Revenues	07	3.00	0	171,109	0	171,109	3.00	0	170,687	0	170,687
DP 708 - Increase Revenues via Fair Share Tax Compliance.	07	8.00	500,000	0	0	500,000	8.00	500,000	0	0	500,000
Total	13.00	\$497,589	\$283,175	\$0	\$780,764	13.00	\$497,589	\$283,458	\$0	\$781,047	

DP 702 - Sustainable Reductions from 17-7-140, MCA - The Governor made reductions to agencies’ 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

The budget reductions associated with this reduction are for modified operating practices associated with cellular phone usage, travel, and advertising of vacant positions.

DP 706 - Modified FTE into Permanent - Abandoned Property - State special revenue is requested to fund 2.00 FTE to address workload issues in the abandoned property program.

**LFD
COMMENT**Actions of the 2009 Legislature

The 2009 Legislature appropriated \$218,874 state special revenue with a one-time-only designation to address workload issues. When appropriating the funds, the legislature did not concur in the addition of 2.00 FTE as requested by the executive, but instead provided the flexibility to add modified FTE, which are not used to build the budget in the next budget cycle, with the funds. The department's biennial report show that the amount of property returned to the state has tripled in the last ten years. A significant area of growth is in the area of corporate stock and mutual funds. The current securities portfolio held by the state in unclaimed property consists of over 1.0 million shares of stock and mutual funds in approximately 750 corporations.

In FY 2010, \$7.9 million was deposited in the general fund due to abandoned property collections. The FY 2010 amount is an increase from the \$1.8 million deposited in FY 2009. However, all the growth cannot be directly tied to the modified positions as the 2.00 FTE authorized were only utilized for the equivalent of 0.63 FTE.

Funding for these positions is from a statutorily allowable administrative deduction from the general fund deposit to cover expenses incurred by the state administering the Uniform Unclaimed Property Act.

The primary purpose for the FTE requested in this adjustment would be to track the original shares of the security and associated splits, and account for dividend payments. This reconciliation workload would continue until the rightful owner is identified

DP 707 - Modified FTE into Permanent-Tobacco Tax Revenues - State special revenue funds from the state tobacco settlement are requested to fund the addition of 3.00 FTE to support tobacco tax compliance activities.

**LFD
COMMENT**Actions of the 2009 Legislature

The 2009 Legislature appropriated \$356,000 state special revenue with a one-time-only designation. When appropriating the funds, the legislature did not concur in the addition of 3.00 FTE as requested by the executive, but instead provided the flexibility to fund modified FTE with the funds. The FTE of this request would audit tobacco wholesalers and retailers to verify they are in compliance with the tobacco master settlement agreement.

DP 708 - Increase Revenues via Fair Share Tax Compliance. - This increase would fund the addition of 8.00 FTE to provide auditing and other tax compliance activities aimed at areas where the department has identified high rates of non-compliance with Montana's tax laws. The areas these FTE would concentrate on are non-residents and out-of-state companies.

**LFD
ISSUE**Similar Funding Was Appropriated by the 2007 and 2009 Legislatures

The 2007 and 2009 Legislatures approved funding to add a combined 22.00 FTE to this program to address key compliance issues very similar to the issues identified in this request. The legislature may want to discuss the results achieved from previous staffing increases and what results would be achieved from funding this request.

2009 and 2011 Biennium FTE Funding

For the 2009 biennium, the legislature added funding to add 10.00 FTE and also appropriated \$2.1 million for contracted services to address compliance in areas such as pass-through entities, natural resource audits, issues related to Montana source income, and issues associated with nonresident taxpayers.

**LFD
ISSUE CONT.**

The 2009 biennium funding was also intended to measure and analyze tax compliance problems to develop performance measures and objectives. In addition to expending \$486,000 on contracted services the agency used the remaining contracted services funding to add 12.00 modified FTE.

The 2009 legislature then approved a request for the 2011 biennium to convert the base funding expended on contracted services to personal services to fund the addition of 12.00 FTE. The FTE added for the 2011 biennium were intended to address compliance issues associated with pass-through entities' partners and shareholders that have not filed or have underreported income, nonresidents selling property in Montana who have not filed or have been identified through the cross-matching of department data with various data sources.

FTE Growth

Since FY 2004, when the department was reorganized to align the organizational structures of programs with the functions they served, this program has grown from 102.78 FTE to 156.95 FTE in the 2011 biennium. If all the FTE requested for this program are approved the program would have 169.95 FTE or 67.17 FTE in the 2013 biennium more than in FY 2004.

Tax Gap

The department estimates Montana's tax gap at approximately \$300.0 million annually. Tax gap is the measure of the difference between taxes owed and taxes paid timely and voluntarily. In its request the department states that the FTE added by this request would narrow the tax gap and generate \$5.0 million additional revenue for the 2013 biennium. No quantitative data is provided to support the estimate of additional revenue from the \$1.0 million biennium cost of this request. Instead, the department states the federal tax gap and establishes an estimate for Montana from this estimate and findings identified in a sampling of past compliance audits.

Past Efforts to Verify Outcomes from Prior FTE Additions

The Legislative Fiscal Division has attempted to independently verify revenue increases that result from the addition of compliance FTE. The accounting structure used by the department to record revenues, concerns raised by the department about tax data confidentiality, and concerns with placing quotas on auditors activities have stymied these efforts to provide independent verification. Instead, reliance is placed on aggregated amounts recorded or characterized as being due to compliance activities or generalized revenue growth figures that fail to isolate natural revenue growth from growth due the department's compliance activities. As a result, claims of results from past compliance efforts cannot be independently verified.

Legislative Actions

If the legislature wants to verify the return on its tax compliance investment it may want to consider the following actions when considering this request:

1. Designate funding as restricted and one time only and provide specific requirements for reporting outcomes associated with compliance funding. Restricting the funding would prevent the department from transferring funding for purposes other than the legislature designates purpose. Making the funding one time only would remove the funding from the base and require the executive to request the funding from the next legislature. If specific reporting requirements were established, that information could be used when evaluating subsequent requests for funding.
2. The legislature could request the department to work with the appropriate interim committee to define the definitions and accounting structure needed to independently verify return on investment in compliance. This would include:
 - o Defining activities that generate revenue not due to compliance activities and activities that generate compliance revenue
 - o Establishing an accounting structure for tracking compliance expenditures and revenues separately from non-compliance expenditures and revenues
 - o Designating criteria for reporting to the legislature while it evaluates subsequent compliance funding requests

Proprietary Rates

Proprietary Program Description

Collections Services Program (BIT Collection Services – 06554)

Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06554 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06554	BIT Collection Services	58010	Department of Revenue	Business & Income Tax Division
			Actual	Budgeted
			Budgeted	Budgeted
			FY 2010	FY 2011
			FY 2012	FY 2013
Operating Revenues:				
Fee revenue				
	Charges for Services (non-DOR)		\$63,131	\$57,438
	Charges for Services (DOR)		46,237	74,054
	Net Fee Revenue		<u>\$109,368</u>	<u>\$131,492</u>
	Total Operating Revenue		\$109,368	\$131,492
Operating Expenses:				
	Personal Services		145,548	143,702
	Other Post Employment Expense		9,548	
	Other Operating Expenses		<u>29,276</u>	<u>39,786</u>
	Total Operating Expenses		\$184,372	\$183,488
	Operating Income (Loss)		(\$75,004)	(\$51,996)
Nonoperating Revenues (Expenses):				
	Gain (Loss) Sale of Fixed Assets		0	0
	Federal Indirect Cost Recoveries		0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		\$0	\$0
	Income (Loss) Before Operating Transfers		(\$75,004)	(\$51,996)
	Contributed Capital		0	0
	Operating Transfers In (Note 13)		0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>
	Change in net assets		(\$75,004)	(\$51,996)
	Total Net Assets- July 1 - As Restated		184,817	109,812
	Prior Period Adjustments		0	0
	Cumulative effect of account change		0	0
	Total Net Assets - July 1 - As Restated		<u>0</u>	<u>0</u>
	Net Assets- June 30		<u>\$109,812</u>	<u>\$57,817</u>
	60 days of expenses		\$30,729	\$30,581
			\$29,713	\$29,799

LFD ISSUE

Diminishing Fund Balance

The above figure for fund 06554 shows that operating losses are depleting net assets. At the end of FY 2012 the fund is expected to be at roughly a 60-day working capital level, but less than a two-day level by the end of FY 2013. This illustrates that revenues are not sufficient to support ongoing operating expenses for the program. Personal service costs alone consume nearly all of the fee revenue generated by the program. Since operating expenses are dominated heavily by fixed costs, the program has little control to reduce them.

**LFD
ISSUE CONT.**

Because the program's funding is based upon a fixed percentage of the debt collected for this and other state agencies, either the percentage charged to agencies would need to be increased or the agency would have to find ways to collect the debt more efficiently. If expenditures were to be maintained at a level sustainable at current anticipated revenues, a reduction of 9.5%, or \$17,000, in expenditures necessary to collect the same amount of debt would be required. The debt collections rate necessary to sustain projected expenditures would need to be 5.49%, or a 9.8% increase in the rate.

As seen below the program is not requesting a higher rate nor is it proposing any expenditure reductions. The legislature may want to ask the agency what actions it plans to take to provide adequate funding for the program or what changes it anticipates for controlling expenses within available revenue.

Program Description

The Collection Services Program collects, on behalf of state agencies, debt associated with delinquent accounts. The program serves all state agencies and is funded through a service charge for collecting on delinquent accounts.

*Program Narrative*Expenses

Significant costs for the program are for:

- o Personal services for 3.50 FTE, \$144,380 or 83.1% of total costs
- o Operating costs, \$29,275 with 60.7% of these costs due to:
 - Fixed cost items (rent, insurance, SABHRS fees, etc.), \$10,897
 - Postage and mailing costs, \$6,868

Revenues

The program revenues are generated from a fixed percentage collection commission based on the amount of bad debt funds the program is able to recover. The exception is that general fund pays the collection charge for child support payment collections.

Funding Sources

The funding sources that pay for the services provided by this program cannot be determined as the expenditure account established for Department of Revenue bad debt collection fee is not used uniformly by agencies.

Present Law Adjustments

The only adjustments impacting this program are for statewide present law adjustments of \$4,623 in FY 2012 and \$5,137 in FY 2013

Proprietary Rates

For the 2013 biennium the executive requests a maximum delinquent account collection fee of 5% of amount collected, with an exemption from the rate for collections of overpaid child support payments made to custodial parents or collection of delinquent child support payments from noncustodial parents.

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

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	306.35	306.35	308.35	308.35	306.35	308.35	2.00	0.65%
Personal Services	15,341,621	15,647,483	15,893,205	15,897,286	30,989,104	31,790,491	801,387	2.59%
Operating Expenses	4,220,215	4,404,054	3,981,300	4,014,565	8,624,269	7,995,865	(628,404)	(7.29%)
Equipment & Intangible Assets	66,158	8,720	66,158	66,158	74,878	132,316	57,438	76.71%
Total Costs	\$19,627,994	\$20,060,257	\$19,940,663	\$19,978,009	\$39,688,251	\$39,918,672	\$230,421	0.58%
General Fund	19,611,082	19,995,787	19,870,499	19,912,838	39,606,869	39,783,337	176,468	0.45%
State Special	16,912	64,470	70,164	65,171	81,382	135,335	53,953	66.30%
Total Funds	\$19,627,994	\$20,060,257	\$19,940,663	\$19,978,009	\$39,688,251	\$39,918,672	\$230,421	0.58%

Program Description

The Property Assessment Division values all residential, commercial, agricultural, forestland, and business equipment property in Montana for property tax purposes. The division is comprised of a central office located in Helena and six regions. There is a local Department of Revenue office in each of the county seats within the regional areas.

Program Highlights

Property Assessment Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ General fund is \$176,500, or 0.5%, higher in the 2013 biennium than the 2011 biennium ◆ General fund increases are for: <ul style="list-style-type: none"> ● Statewide present law adjustments ● Rent increases for county offices ● Funding to add 1.00 FTE for a county assessor in Granite County ◆ General fund reductions are to: <ul style="list-style-type: none"> ● Extend the ongoing portion of Governor's 17-7-140 FY 2011 reductions into the 2013 biennium ● Lease four fewer vehicles from the State Motor Pool ◆ State special revenue is nearly \$54,000, or 66.3%, higher in the 2013 biennium than the 2011 biennium due largely to funding to add 1.00 FTE to administer hail insurance premiums and livestock per capita fees ◆ Staffing would increase by 2.00 FTE for: <ul style="list-style-type: none"> ● A county assessor in Granite County, 1.00 FTE ● Administration of hail insurance premiums and livestock per capita fees, 1.00 FTE 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Services associated with a 5% reduction plan item are not specified 	

Program Narrative

5% Reduction Plan

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

- o The budget request includes a biennium general fund reduction of \$95,500 titled DP 0802 - Sustainable Reductions from 17-7-140, MCA. Details for this reduction can be found in the “New Proposals” section for this program
- o The plan includes another item for this program that was not included in the executive budget. The 5% reduction plan identified savings of \$1,931,180 general fund and \$2,286 state special revenue for the 2013 biennium that would be achieved through unspecified reductions

LFD
ISSUE

5% Reduction Plan – Unspecified Reductions

As stated in the agency overview, the 5% reduction plan identified by the agency does not specify what reductions would be made. Instead, the agency stated that reductions would include:

- o Personal services funding by leaving FTE vacant
- o Reduction of operating expenses used to fund services mandated by law

Statute requires that the agency provide several types of information when submitting 5% reduction plans to allow the legislature to fully gauge the impacts. Because the plan does not meet that requirement, it is not possible to determine service impacts. In addition, the agency gave revenue impacts of the reduction. However, it is not possible to determine whether or to what degree revenues would be impacted.

The legislature may want to direct the agency to specify what services would be reduced or eliminated under this reduction plan item and provide evidence supporting the revenue reduction estimates.

A further discussion is included at the agency level.

Funding

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

Program Funding Table							
Property Assessment Division							
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget	
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013	
01000 Total General Fund	\$ 19,611,082	99.9%	\$ 19,870,499	99.6%	\$ 19,912,838	99.7%	
01100 General Fund	19,611,082	99.9%	19,870,499	99.6%	19,912,838	99.7%	
02000 Total State Special Funds	16,912	0.1%	70,164	0.4%	65,171	0.3%	
02088 Ssr Administrative Funds	-	-	53,252	0.3%	48,259	0.2%	
02320 Property Value. Improv. Fund	16,912	0.1%	16,912	0.1%	16,912	0.1%	
Grand Total	<u>\$ 19,627,994</u>	<u>100.0%</u>	<u>\$ 19,940,663</u>	<u>100.0%</u>	<u>\$ 19,978,009</u>	<u>100.0%</u>	

Funding for the Property Assessment Division is from general fund and state special revenue in the percentages shown on the above figure. State special revenue is from the property valuation improvement fund and is used for increasing the efficiency of the property appraisal, assessment, and taxation process through improvements in technology and administration. Revenue deposited to the fund is from a fee received as reimbursement for the cost of developing and maintaining the property valuation and assessment system database. The fee is charged to persons, federal agencies, state agencies, and other entities requesting the database or any part of the database from any department property valuation and assessment system. The fee may not be charged to the Office of Budget and Program Planning, the State Tax Appeal Board, or any legislative agency or committee.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	19,611,082	19,611,082	39,222,164	98.59%	19,627,994	19,627,994	39,255,988	98.34%
Statewide PL Adjustments	218,156	243,256	461,412	1.16%	218,156	243,256	461,412	1.16%
Other PL Adjustments	40,534	57,884	98,418	0.25%	93,786	106,143	199,929	0.50%
New Proposals	727	616	1,343	0.00%	727	616	1,343	0.00%
Total Budget	\$19,870,499	\$19,912,838	\$39,783,337		\$19,940,663	\$19,978,009	\$39,918,672	

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					1,120,956					1,125,418
Vacancy Savings					(658,505)					(658,682)
Inflation/Deflation					(166,035)					(163,624)
Fixed Costs					(78,260)					(59,856)
Total Statewide Present Law Adjustments		\$218,156	\$0	\$0	\$218,156		\$243,256	\$0	\$0	\$243,256
DP 801 - Present Law Base Adjustment - Rent	0.00	62,219	0	0	62,219	0.00	79,569	0	0	79,569
DP 803 - Vehicle Reduction	0.00	(21,685)	0	0	(21,685)	0.00	(21,685)	0	0	(21,685)
DP 804 - Increase in Spending Authority - Hail & Livestock	1.00	0	53,252	0	53,252	1.00	0	48,259	0	48,259
Total Other Present Law Adjustments	1.00	\$40,534	\$53,252	\$0	\$93,786	1.00	\$57,884	\$48,259	\$0	\$106,143
Grand Total All Present Law Adjustments	1.00	\$258,690	\$53,252	\$0	\$311,942	1.00	\$301,140	\$48,259	\$0	\$349,399

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 employees in this program are exempt from the agency's pay plan.
- o **Program Specific Obstacles** – This program is not experiencing obstacles not already identified in the agency summary section.
- o **Vacancy** – Tax technician positions have higher turnovers rates than other positions, but many incumbents in these entry level positions stay with the agency after gaining experience and applying for tax appraiser positions when vacancies occur. As a result, there are no identified operational impacts from the high turnover of these positions.
- o **Legislatively Applied Vacancy Savings** – This program achieved the applied vacancy savings by managing vacancies and moving funds from other expenditure areas.
- o **Pay/Position Changes** – Besides pay increases identified in statute the only pay changes given were for training assignment progression and for position reclassifications to match position classifications to job duties.

- o **Retirements** – Anticipated retirements for this program and the actions being taken to mitigate any operational impacts are:
 - 88 employees will be eligible for retirement in the 2013 biennium with an anticipated payout of \$829,199 for leave balances. The agency did not have an estimate of how many were likely to retire
 - Employees are being identified for leadership training and to transfer knowledge and become candidates for vacancies should key staff retire

DP 801 - Present Law Base Adjustment - Rent - General fund is requested to pay for increases for office space rent for division staff throughout the state.

LFD COMMENT	<u>Rent Increases</u>																																													
<p>The program houses employees in offices located in all 56 counties of the state. The program occupies both county-owned and private lease space. Space leased from the private sector comprises 61.3% of the office space with space in county-owned buildings comprising the remaining 38.7%.</p> <p>This adjustment is associated only with the space occupied in space not owed by the state. Budget changes to adjust the funding for the office space in state-owned buildings is included in the fixed cost item of the statewide present law adjustments shown above.</p> <p>Private sector lease space increases are based on lease contract inflation clauses. When space is available in a building owned by a county, Montana law allows the county to charge state agencies for leasing the space. The law limits the cost for the space to the rate charged by the Department of Administration (DOA) to state agencies for rent of state-owned buildings. Department of Administration rent rates are going down due to reductions to non-critical maintenance. By law, these rate reductions will lower the rate paid to counties for rent in county buildings.</p> <p>The following figure illustrates how the different space ownership impacts this adjustment.</p>																																														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="8">DP 801 Contributions by Ownership of Property Leased</th> </tr> <tr> <th rowspan="2"></th> <th rowspan="2">Sq. Ft.</th> <th rowspan="2">% of Total</th> <th colspan="3">Rental Rates per Sq. Ft. (average)</th> <th colspan="2">Contribution to DP 801</th> </tr> <tr> <th>FY 2010</th> <th>FY 2012</th> <th>FY 2013</th> <th>FY 2012</th> <th>FY 2013</th> </tr> </thead> <tbody> <tr> <td>County office space</td> <td>34,437</td> <td>38.7%</td> <td>\$8.87</td> <td>\$8.41</td> <td>\$8.46</td> <td>(\$16,256)</td> <td>(\$14,553)</td> </tr> <tr> <td>Private office space</td> <td><u>54,613</u></td> <td><u>61.3%</u></td> <td><u>14.96</u></td> <td><u>16.44</u></td> <td><u>16.73</u></td> <td><u>78,475</u></td> <td><u>94,122</u></td> </tr> <tr> <td>Total</td> <td><u>89,050</u></td> <td><u>100.0%</u></td> <td><u>\$12.60</u></td> <td><u>\$13.34</u></td> <td><u>\$13.53</u></td> <td><u>\$62,219</u></td> <td><u>\$79,569</u></td> </tr> </tbody> </table>		DP 801 Contributions by Ownership of Property Leased									Sq. Ft.	% of Total	Rental Rates per Sq. Ft. (average)			Contribution to DP 801		FY 2010	FY 2012	FY 2013	FY 2012	FY 2013	County office space	34,437	38.7%	\$8.87	\$8.41	\$8.46	(\$16,256)	(\$14,553)	Private office space	<u>54,613</u>	<u>61.3%</u>	<u>14.96</u>	<u>16.44</u>	<u>16.73</u>	<u>78,475</u>	<u>94,122</u>	Total	<u>89,050</u>	<u>100.0%</u>	<u>\$12.60</u>	<u>\$13.34</u>	<u>\$13.53</u>	<u>\$62,219</u>	<u>\$79,569</u>
DP 801 Contributions by Ownership of Property Leased																																														
	Sq. Ft.	% of Total	Rental Rates per Sq. Ft. (average)			Contribution to DP 801																																								
			FY 2010	FY 2012	FY 2013	FY 2012	FY 2013																																							
County office space	34,437	38.7%	\$8.87	\$8.41	\$8.46	(\$16,256)	(\$14,553)																																							
Private office space	<u>54,613</u>	<u>61.3%</u>	<u>14.96</u>	<u>16.44</u>	<u>16.73</u>	<u>78,475</u>	<u>94,122</u>																																							
Total	<u>89,050</u>	<u>100.0%</u>	<u>\$12.60</u>	<u>\$13.34</u>	<u>\$13.53</u>	<u>\$62,219</u>	<u>\$79,569</u>																																							

DP 803 - Vehicle Reduction - The agency would lease four fewer vehicles from the State Motor Pool and reduce general fund by \$43,370 over the biennium.

DP 804 - Increase in Spending Authority - Hail & Livestock - An increase of state special revenue would fund the addition of 1.00 FTE to address workload issues in the agency’s collection and distribution activities in support of hail insurance premiums and livestock per capita fees.

LFD COMMENT	<u>Administrative Costs Allowed in Statute</u>
<p>By law, the agency is responsible for billing and collection of hail insurance premiums and collection of livestock per capita fees. Statute allows the agency to retain 2% of the gross annual fees collected for administrative costs associated these programs. In FY 2010, no funds from hail insurance premiums or livestock per capita fees allocation to the administrative fund was used by this program, but program FTE located in all counties have been supporting the administration of these fees and premiums. This adjustment would use administrative allocations already being made, so no additional burdens would be placed on the hail insurance or livestock per capita funds.</p>	

New Proposals

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

New Proposals	-----Fiscal 2012-----					-----Fiscal 2013-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 802 - Sustainable Reductions from 17-7-140, MCA											
08	0.00	(47,750)	0	0	(47,750)	0.00	(47,750)	0	0	(47,750)	
DP 805 - Modified FTE into Permanent - Co. Assessor											
08	1.00	48,477	0	0	48,477	1.00	48,366	0	0	48,366	
Total	1.00	\$727	\$0	\$0	\$727	1.00	\$616	\$0	\$0	\$616	

DP 802 - Sustainable Reductions from 17-7-140, MCA - The Governor made reductions to agencies’ 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reductions was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.

The budget reductions associated with this reduction are for modified operating practices associated with cellular phone usage, travel, advertising of vacant positions, and purchasing practices for reference materials.

DP 805 - Modified FTE into Permanent - Co. Assessor - A general fund increase is requested to fund the addition of 1.00 FTE to serve as the county assessor in Granite County.

LFD COMMENT	<p><u>County Assessor is a State Responsibility</u></p> <p>Under an agreement with Granite County, the department contracted for the services of the County Assessor. When the Granite County assessor retired the county has decided not to retain a separate office of county assessor, so the responsibility for performing these duties has reverted to the department. Beginning in FY 2010 the department has been providing a tax assessor as a modified FTE.</p>
--------------------	--