

**Agency Budget Comparison**

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00 %
Personal Services	0	48,000	0	0	48,000	0	(48,000)	(100.00)%
Operating Expenses	0	60,000	105,000	105,000	60,000	210,000	150,000	250.00 %
Equipment & Intangible Assets	0	0	0	0	0	0	0	0.00 %
Grants	0	20,000	0	0	20,000	0	(20,000)	(100.00)%
<b>Total Costs</b>	<b>\$0</b>	<b>\$128,000</b>	<b>\$105,000</b>	<b>\$105,000</b>	<b>\$128,000</b>	<b>\$210,000</b>	<b>\$82,000</b>	<b>64.06 %</b>
Federal Spec. Rev. Funds	0	128,000	105,000	105,000	128,000	210,000	82,000	64.06 %
<b>Total Funds</b>	<b>\$0</b>	<b>\$128,000</b>	<b>\$105,000</b>	<b>\$105,000</b>	<b>\$128,000</b>	<b>\$210,000</b>	<b>\$82,000</b>	<b>64.06 %</b>

**Mission Statement**

It is the mission of the Secretary of State to provide efficient services to Montana’s voters, business community, and governmental agencies through open communications, effective use of technology, and transparent accountability.

**Agency Highlights**

<p><b>Secretary of State Major Budget Highlights</b></p>
<ul style="list-style-type: none"> <li>• No FY 2014 funding exists for the office as the 2013 Legislature designated the \$256,000 in federal Help America Vote Act (HAVA) funds appropriated for the 2015 bienium as one-time-only</li> <li>• HB 2 funding consists of a request to fund operating costs associated with elections with HAVA funds</li> <li>• The remainder of the office funding is derived from non-budgeted proprietary funds</li> </ul>
<p><b>Legislative Action Issues</b></p>
<ul style="list-style-type: none"> <li>• State agencies records management and costs related to the ARMS are subsidized by charges to Montana businesses for registration and document filing fees</li> </ul>

**Agency Discussion**

In the 2015 biennium the legislature provided a biennial appropriation of \$256,000 from the Help America Vote Act (HAVA) funds to provide grants to counties for continued voting equipment improvements. HAVA was passed by Congress in the wake of the controversial 2000 presidential election in Florida. The 2013 Legislature designated the HAVA funds as one-time-only for the 2015 biennium. As a result, the agency budget comparison table does not reflect funding in FY 2014.

The executive is requesting \$105,000 each year of the biennium for unallocated operating expenses to meet federal requirements included in the federal act.

**Agency Personal Services**

Secretary of State does not have any personal services that are funded within HB 2. Personal services for the agency are discussed as part of the "Proprietary Rate" narrative.

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

As discussed in the Agency Narrative, FY 2014 expenditures for HAVA are not reflected in the agency budget comparison table as the 2013 Legislature designated the funds as one-time-only.

Funding

The following table shows proposed program funding by source from all sources of authority.

Secretary of States Office, 01-Business & Government Services Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
General Fund	0	0	0	0	0.00 %	
<b>State Special Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
03242 HAVA 251 Part II CFDA 90.401	0	0	0	0	0.00 %	
03340 EAS Grant	0	0	0	0	0.00 %	
03464 EAID Grant Help America Vote	0	0	0	0	0.00 %	
03715 Elections Federal Grant	210,000	0	0	210,000	100.00 %	
<b>Federal Special Total</b>	<b>\$210,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$210,000</b>	<b>1.70 %</b>	
06053 Sec. Of St. Business Services	0	12,148,097	0	12,148,097	100.00 %	
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$12,148,097</b>	<b>\$0</b>	<b>\$12,148,097</b>	<b>98.30 %</b>	
<b>Total All Funds</b>	<b>\$210,000</b>	<b>\$12,148,097</b>	<b>\$0</b>	<b>\$12,358,097</b>		

The operations of the Secretary of State’s Office are primarily funded with proprietary funds derived from fees for services, document sales, and other fees established in statute. For further discussion regarding these funds refer to the “Proprietary Rate” section of the narrative.

In recent years, the federal Help America Vote Act of 2002 has provided federal revenues for election reform initiatives. Since expenditure of HAVA interest funds in the base were designated as one-time-only, these expenditures were removed from the base and no base exists. Interest accrued on deposit of HAVA funds remains unspent and funding from these funds is proposed for the 2017 biennium.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
New Proposals	0	0	0	0.00 %	105,000	105,000	210,000	0.00 %
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$105,000</b>	<b>\$105,000</b>	<b>\$210,000</b>	

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals										
	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 100002 - HAVA Interest - (OTO)	0.00	0	0	105,000	105,000	0.00	0	0	105,000	105,000
<b>Total</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$105,000</b>	<b>\$105,000</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$105,000</b>	<b>\$105,000</b>

**DP 100002 - HAVA Interest - (OTO) -**

The executive includes a request to allow the Secretary of State's Office to spend interest generated from federal Help America Vote Act (HAVA) funds. HAVA money assists the office and counties with HAVA regulations and compliance.

**Other Issues -****Proprietary Rates****Business and Government Services - 06053****Program Description**

The Secretary of State conducts its daily operations through a single program, the Business and Government Services Program. It provides the following major functions:

- Election administration
- Registration and document filing of Montana businesses
- Publication and distribution of administrative rules
- Records management of public documents generated by state and local governments
- Centralized services for the Secretary of State's Office

While for budgeting purposes the SOS only has one program, SOS does have five divisions, one for each of the described functions above.

*Program Discussion***Expenses**

The figure on the following page shows the expenses and revenues in FY 2014 for each of the division as recorded on the state's accounting system.

Secretary of State Revenues and Expenditures By Division FY 2014					
	Centralized Services	Election Government Services	Business Services	Administrative Rule Services	Records and Information Management
Revenues	\$5,153	\$103,133	\$4,388,473	\$304,260	\$293,526
Expenditures					
Personal services					
Salaries	1,127,975	219,976	580,747	182,490	311,850
Employee Benefits	<u>381,555</u>	<u>75,610</u>	<u>245,858</u>	<u>76,639</u>	<u>137,369</u>
Total Personal Services	1,509,530	295,586	826,604	259,128	449,219
Operating Expenses					
Other Services	(774,948)	421,973	602,051	46,026	15,569
Supplies and materials	30,727	3,749	29,191	7,300	20,770
Communications	27,045	10,882	94,616	20,501	18,132
Travel	17,207	10,190	1,304	1,975	1,338
Rent	44,647	11,370	35,946	10,587	119,292
Utilities	0	0	0	0	3,500
Repair and Maintenance	5,181	961	4,281	749	10,041
Other Expenses	27,729	23,313	6,031	20,556	17,327
Goods Purchased for Resale	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,821</u>
Total Operating Expenses	(622,413)	482,437	773,419	107,693	208,789
Debt Service					
Capital Leases	<u>1,258</u>	<u>0</u>			
Total Debt Service	1,258	0	0	0	0
Total Expenditures	888,375	778,023	1,600,024	366,822	658,008
Net Income (Loss)	<u>(\$883,222)</u>	<u>(\$674,890)</u>	<u>\$2,788,449</u>	<u>(\$62,561)</u>	<u>(\$364,483)</u>

**LFD  
ISSUE**State Agency Internal Service Functions Subsidized By Business Services

In FY 2014 SOS operated four of its five divisions at a loss. The income from registration and document filing fees paid by Montana businesses provided the income to offset these losses. As discussed, two of the functions within SOS provide internal service services to other state agencies: administrative rules (ARMS) and records management. Services that are provided by one state agency to other state agencies are generally funded through proprietary rates and budgeted by including them as fixed costs within each state agency's budget. The legislature established SOS as an enterprise fund and included all office functions within the enterprise fund including those that could more appropriately be categorized as internal service operations.

Current practice for both internal service functions is that state agencies include the FY 2014 actual costs for records management and ARMS in their requests for the 2017 biennium unchanged from actual spending. This differs from other internal service rates charged to state agencies, as those include anticipated changes in the underlying costs to provide the service such as increases in personal services or operating expenses. This methodology ensures state agencies pay their "fair share" of the costs from biennium to biennium.

If the legislature required state agencies to pay the costs of ARMS and records management, rates for registration and document filing fees to Montana businesses could be reduced as the revenues would no longer be needed to subsidize the ARMS and records management functions of the agency.

Legislative Option

The legislature may wish to indicate its intent that SOS establish proprietary rates for ARMS and records management that ensure the functions are self-funded. The legislature may also wish to indicate its intention that SOS lower the fees for business registration and document filling fees as the fees do not appear to be commensurate with the costs of providing the services.

Revenues

Revenues are received from fees charged to: 1) businesses and corporations for corporate filings, registration of assumed business names, and trademarks; 2) state agencies and users of ARM for publishing and distributing the ARM and the MAR, and storage and management of public documents; 3) candidates who file for elections; 4) Montana citizens who apply to be notaries. Revenues, by source, have been steadily increasing since FY 2009 and are not projected to deviate from this pattern. The 2017 Biennium Report on Internal Services and Proprietary Funds showing SOS projections of revenues and expenditures is presented on the next page.

2017 Biennium Report on Internal Service and Enterprise Funds							
Agency # 32010	Agency Name: Secretary of States Office		Program Name: Business & Government Services				
	<b>Fund</b>	<b>Fund Name</b>					
	06053	Sec. Of St. Business Services					
		Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
<b>Operating Revenues:</b>							
Fee and Charges							
Fee Revenue A		5,013,863	4,802,950	5,186,120	4,901,130	4,902,160	4,899,640
Revenue A		7,406	7,557	4,229	4,000	-	-
Revenue B		650	-	-	-	-	-
<b>Total Operating Revenues</b>		<b>5,021,919</b>	<b>4,810,507</b>	<b>5,190,349</b>	<b>4,905,130</b>	<b>4,902,160</b>	<b>4,899,640</b>
<b>Expenses:</b>							
Personal Services							
Other Operating Expenses		1,399,988	1,450,918	1,100,099	2,141,676	2,101,447	1,946,727
Expense B		55,200	135,522	34,662	12,435	12,435	132,171
<b>Total Operating Expenses</b>		<b>4,416,086</b>	<b>4,556,531</b>	<b>4,477,636</b>	<b>6,054,125</b>	<b>6,092,669</b>	<b>6,055,428</b>
<b>Operating Income (Loss)</b>		<b>605,833</b>	<b>253,976</b>	<b>712,713</b>	<b>(1,148,995)</b>	<b>(1,190,509)</b>	<b>(1,155,788)</b>
Nonoperating Revenues:							
Other Revenue A		5,147	7,528	(70,234)	-	-	-
Nonoperating Expenses:							
<b>Total Nonoperating Revenues (Expenses)</b>		<b>5,147</b>	<b>7,528</b>	<b>(70,234)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income (Loss) Before Contributions and Transfers</b>		<b>610,980</b>	<b>261,504</b>	<b>642,479</b>	<b>(1,148,995)</b>	<b>(1,190,509)</b>	<b>(1,155,788)</b>
<b>Change in Net Position</b>		<b>610,980</b>	<b>261,504</b>	<b>642,479</b>	<b>(1,148,995)</b>	<b>(1,190,509)</b>	<b>(1,155,788)</b>
<b>Beginning Net Position - July 1</b>		<b>4,237,808</b>	<b>4,853,188</b>	<b>5,114,692</b>	<b>5,757,171</b>	<b>4,608,176</b>	<b>3,417,667</b>
Prior Period Adjustments		4,400	-	-	-	-	-
Change in Net Position		610,980	261,504	642,479	(1,148,995)	(1,190,509)	(1,155,788)
<b>Ending Net Position - June 30</b>		<b>4,853,188</b>	<b>5,114,692</b>	<b>5,757,171</b>	<b>4,608,176</b>	<b>3,417,667</b>	<b>2,261,879</b>
<b>Net Position (Fund Balance) Analysis</b>							

**LFD COMMENT**

Between FY 2009 and FY 2014 SOS revenues from all sources have increases 15.7%. SOS estimates that for the 2017 biennium revenues will decline when compared to FY 2014 actuals by about 4.7%. In addition, FY 2015 budgeted numbers do not tie to the SOS budget submission for FY 2015, which is \$1.5 million lower than reflected in the figure above. The legislature may wish to discuss the higher projected costs with SOS.

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