

Program Budget Comparison

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

Program 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	32.00	32.00	32.00	32.00	32.00	32.00	0.00	0.00 %
Personal Services	3,125,531	3,302,746	3,686,784	3,681,222	6,428,277	7,368,006	939,729	14.62 %
Operating Expenses	2,348,414	2,303,946	2,595,430	2,564,826	4,652,360	5,160,256	507,896	10.92 %
Equipment & Intangible Assets	5,346	0	0	0	5,346	0	(5,346)	(100.00)%
Total Costs	\$5,479,291	\$5,606,692	\$6,282,214	\$6,246,048	\$11,085,983	\$12,528,262	\$1,442,279	13.01 %
Proprietary Funds	5,479,291	5,606,692	6,282,214	6,246,048	11,085,983	12,528,262	1,442,279	13.01 %
Total Funds	\$5,479,291	\$5,606,692	\$6,282,214	\$6,246,048	\$11,085,983	\$12,528,262	\$1,442,279	13.01 %

Program Description

The Board of Investments (BOI) manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. BOI consists of nine members appointed by the Governor. BOI also has two non-voting legislative liaisons from different political parties; one appointed by the President of the Senate and one appointed by the Speaker of the House.

Statute grants the board sole authority to invest state funds. BOI also invests local government funds at its discretion. BOI currently manages an investment portfolio with a market value of approximately \$15.9 billion. BOI manages the portfolio under the "prudent expert principle".

To provide for diversification and reduced risk, BOI manages several investment pools in which funds of similar types are invested. The investment pools operate like mutual funds. Investments not managed in pools are included in All Other Funds. The investment pools include:

- Retirement Funds Bond Pool
- Trust Funds Investment Pool
- Short Term Investment Pool
- Montana Domestic Equity Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool
- All Other Funds

Annual audited financial statements are prepared for each investment pool. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the BOI's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the BOI administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs. The INTERCAP and In-State Investment Programs were created in FY 1984 as part of the "Build Montana" program.

In-State Investment Program

Section 17-6-305, MCA, authorizes BOI to invest 25% of the permanent coal tax trust fund (trust fund) to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust fund in participation with financial institutions. BOI lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses located in the government's jurisdiction. BOI also lends low-interest monies funded from the trust fund to value-

added type businesses creating jobs. Throughout FY 2008, the BOI purchased Montana residential mortgages with pension funds as part of the In-State Investment Program. The In-State Investment Program also administers low interest loans for first time home buying Montana veterans funded through up to \$30.0 million of the permanent coal tax trust monies.

INTERCAP Program

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

Proprietary Program Description

Investment Division - 06527

Industrial Revenue Bond I-95 – 06014

The Board of Investments is funded by two proprietary fund types. The Industrial Revenue Bond Program, an enterprise fund, funds the INTERCAP Program. Investment Division Program, an internal service fund, funds the Investment Programs. BOI s’ customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

Program Narrative

Expenses

Overall program administrative costs increase about 14% when compared to actual spending in FY 2014.

Department of Commerce Board of Investments						
	FY 2014	FY 2016	% Change	FY 2017	% Change	
FTE	32.00	32.00	0.00%	32.00	0.00%	
Personal Services	\$3,125,531	\$3,686,784	17.96%	\$3,681,222	17.78%	
Operating Expenses	2,348,414	2,595,430	10.52%	2,564,826	9.22%	
Equipment	<u>5,346</u>	<u>0</u>	<u>-100.00%</u>	<u>0</u>	<u>-100.00%</u>	
Total Costs	5,479,291	6,282,214	14.65%	6,246,048	13.99%	
Funding						
Industrial Revenue Bond	483,126	541,362	12.05%	531,455	10.00%	
Investment Division	<u>4,996,165</u>	<u>5,740,852</u>	<u>14.91%</u>	<u>5,714,593</u>	<u>14.38%</u>	
Total Funding	<u>\$5,479,291</u>	<u>\$6,282,214</u>	<u>14.65%</u>	<u>\$6,246,048</u>	<u>13.99%</u>	

Personal services costs are higher due to increases for:

- Reclassification of two positions
- Elimination of 4% vacancy savings, fully funding all positions
- Restoration of funding for 1.00 FTE that was vacant throughout FY 2014 and four positions that were partially filled

28.00 FTE are supported by the investment division fund and the remaining 4.0 FTE are supported by the INTERCAP Program revenues.

**LFD
ISSUE**Changes in Budgeting Methodology Result in Personal Service Increases

As discussed in the agency summary, proprietary funded programs were assessed vacancy savings in previous biennia in line with the vacancy savings required of HB 2 programs. In the 2017 biennium the proprietary programs eliminated vacancy savings but did not provide for corresponding reductions in positions to offset the increased program costs. As a result, BOI proprietary program personal service costs increased by about \$125,000 each year of the biennium.

BOI's proposed budget includes an investment analyst position that has been vacant for a number of years. In addition, two investment analyst positions were only partially filled during the year, one 21.4% of the time and the other 45.8% of the time. Total costs for these three positions are about \$275,000 annually. The vacant position is funded at \$96,000 each year of the biennium. If the legislature wishes to mitigate the impact of higher personal services costs it may eliminate funding for the vacant investment analyst position and a portion of the funding for one of the other positions.

Legislative Option

Eliminate funding for the vacant investment analyst position and a portion of the funding for one of the other positions.

Operating expense increases include higher costs for consulting and professional services, legal fees, IT services, travel, rent, and indirect costs paid to the Director's Office. BOI eliminated funding used for equipment in FY 2014 from its budget proposal.

Over \$2.032 million was disbursed from the INTERCAP Program in FY 2014 via a statutory appropriation for debt service requirements related to the state's bonding activity.

Revenues

INTERCAP Program

Nearly all program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the program between draws. Remaining revenues are received monthly from the BOI's contract with the Montana Facility Finance Authority. The figure below shows the revenues, expenses, and fund balance for the industrial revenue bond fund that supports the INTERCAP Program.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06014	Industrial Revenue Bond I-95	65010	Board of Investments			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Investment Earnings		\$47,143	\$205,230	\$150,310	\$199,675
	Securities Lending Income		1	0	200	200
	Other Operating Revenues		762,538	1,716,019	1,356,765	1,666,655
Total Operating Revenues			809,682	1,921,249	1,507,275	1,866,530
Expenses						
	Personal Services		371,864	344,884	364,846	364,081
	Other Operating Expense		149,095	180,249	176,654	167,514
	Debt Service Expense (Statutory)		2,032,896	1,594,800	1,090,415	1,438,445
Total Operating Expense			2,553,855	2,119,933	1,631,915	1,970,040
Operating Income (Loss)			(1,744,173)	(198,684)	(124,640)	(103,510)
Income (Loss) Before Contributions and Transfers			(1,744,173)	(198,684)	(124,640)	(103,510)
	Capital Contributions					
	Transfers In		18,833	18,000	19,775	19,775
	Transfers Out		0	0	0	0
Change in Net Position			(1,725,340)	(180,684)	(104,865)	(83,735)
Beginning Net Position - July 1			7,223,482	5,438,142	5,317,458	5,212,533
	Prior Period Adjustments		0	0	0	0
Change in Net Position			(1,725,340)	(180,684)	(104,865)	(83,735)
Ending Net Position - June 30			5,498,142	5,317,458	5,212,533	5,128,858
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		0	0	0	0
	Unrestricted Net Position		\$5,498,142	\$5,317,458	\$5,212,533	\$5,128,858

Rate(s) and Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures and setting the fee at that level. Fees proposed for the INTERCAP Program are shown below.

Requested Rates for Enterprise Funds Fee/Rate Information				
	Actual FY 14	Budgeted FY 15	Budgeted FY 16	Budgeted FY 17
Budgeted Revenues				
Fees & Investment Revenues	\$ 1,658,269	\$ 1,921,249	\$ 1,507,275	\$ 1,866,530

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

Revenues

Investment Division Fund

Nearly all BOI revenues are generated from charges to each account that BOI invests. The revenue objective of the BOI is to fairly assess the costs of operations while maintaining a 60 day working capital reserve.

2017 Biennium Report on Internal Service and Enterprise Funds - WITHOUT OPEB						
Fund	Fund Name	Agency #	Program Name			
06527	Investment Division	65010	Board of Investments			
			Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17
Operating Revenues						
Fees and Charges						
	Administrative Fees		\$5,164,248	\$5,234,796	\$6,031,846	\$6,031,846
	Other Operating Revenues		12	0	0	0
Total Operating Revenues			5,164,260	5,234,796	6,031,846	6,031,846
Expenses						
	Personal Services		2,871,926	3,012,886	3,481,498	3,476,565
	Other Operating Expense		2,225,196	2,123,697	2,418,776	2,397,312
Total Operating Expense			5,097,122	5,136,583	5,900,274	5,873,877
Operating Income (Loss)			67,138	98,213	131,572	157,969
Income (Loss) Before Contributions and Transfers			67,138	98,213	131,572	157,969
Change in Net Position			67,138	98,213	131,572	157,969
Beginning Net Position - July 1			204,977	272,115	370,328	501,900
	Prior Period Adjustments		0	0	0	0
	Change in Net Position		67,138	98,213	131,572	157,969
Ending Net Position - June 30			272,115	370,328	501,900	659,869
Net Position (Fund Balance) Analysis						
	Restricted Net Position (Enterprise Funds Only)		0	0	0	0
	Unrestricted Net Position		\$272,115	\$370,328	\$501,900	\$659,869

As shown, administrative fees are proposed to increase 16.8% when compared to actual FY 2014 revenues. The higher revenues support the higher costs for personal services and operating expenses.

Rate(s) and Rate Explanation:

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures and setting the fee at that level.

Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Approved FY 14	Approved FY 15	Budgeted FY 16	Budgeted FY 17
BOI Administrative Fee Rate	\$5,109,144	\$5,234,796	\$6,031,846	\$6,031,846
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.				

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

Program Highlights

There are no highlights for this program.

Funding

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

Department of Commerce, 75-Board of Investments 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 %	
State Special Total	\$0	\$0	\$0	\$0	0.00 %	
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %	
06014 Industrial Revenue Bond I-95	0	1,072,817	2,528,860	3,601,677	23.92 %	
06527 Investment Division	0	11,455,445	0	11,455,445	76.08 %	
Proprietary Total	\$0	\$12,528,262	\$2,528,860	\$15,057,122	100.00 %	
Total All Funds	\$0	\$12,528,262	\$2,528,860	\$15,057,122		

This program is entirely funded with proprietary rates.

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 %	5,363,990	5,363,990	10,727,980	0.00 %	
PL Adjustments	0	0	0	0.00 %	918,224	882,058	1,800,282	0.00 %	
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %	
Total Budget	\$0	\$0	\$0		\$6,282,214	\$6,246,048	\$12,528,262		