

### Agency Budget Comparison

The following table compares 2014 actuals expenditures without one-time appropriations plus 2015 estimated appropriations including one-time appropriations, but excluding certain base appropriations to the 2017 biennial total legislative budget. The comparison is listed by year, type of expenditure, and source of funding. The biennial percent change column has been eliminated to allow for the transition to a comparison of biennial appropriations consistent with SB 140 in the future. The biennial appropriation growth/decline is listed in the agency highlight tables and the expenditure section of Volume 1 of this Fiscal Report.

Agency Budget Comparison							
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Legislative Budget 2016	Legislative Budget 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change
FTE	49.25	49.25	50.04	50.04	49.25	50.04	0.79
Personal Services	3,100,195	3,700,449	4,028,545	4,040,485	6,800,644	8,069,030	1,268,386
Operating Expenses	3,869,520	7,155,639	7,945,729	7,961,738	11,025,159	15,907,467	4,882,308
Grants	10,054,807	18,259,960	20,181,193	18,590,472	28,314,767	38,771,665	10,456,898
Benefits & Claims	157,063	358,921	358,921	358,921	515,984	717,842	201,858
Transfers	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$17,181,585</b>	<b>\$29,474,969</b>	<b>\$32,514,388</b>	<b>\$30,951,616</b>	<b>\$46,656,554</b>	<b>\$63,466,004</b>	<b>\$16,809,450</b>
General Fund	3,455,383	4,486,833	7,298,098	5,784,633	7,942,216	13,082,731	5,140,515
State/Other Special Rev. Funds	3,188,483	7,106,724	6,527,759	6,486,949	10,295,207	13,014,708	2,719,501
Federal Spec. Rev. Funds	10,537,719	17,881,412	18,688,531	18,680,034	28,419,131	37,368,565	8,949,434
<b>Total Funds</b>	<b>\$17,181,585</b>	<b>\$29,474,969</b>	<b>\$32,514,388</b>	<b>\$30,951,616</b>	<b>\$46,656,554</b>	<b>\$63,466,004</b>	<b>\$16,809,450</b>

### Agency Description

Agency Mission: The Department of Commerce through its employees, community partners, public outreach, and media contacts enhances economic prosperity in Montana; fosters community lead diversification and sustainability of a growing economy; maintains and improves our infrastructure, housing and facilities; and promotes and enhances Montana's positive national and international image. The Department of Commerce will enhance and sustain a health economy so Montana businesses, communities, and people can prosper.

The Department of Commerce is composed of five divisions including:

- Business Resources Division
- Montana Promotion Division
- Community Development Division
- Housing Division
- Director's Office

The Board of Horse Racing, Board of Housing, Coal Board, Montana Facility Finance Authority, Montana Council on Developmental Disabilities, Montana Heritage Commission, Hard Rock Mining Impact Board, Montana Board of Research and Commercialization Technology, State-Tribal Development Commission, Economic Development Advisory Council, Tourism Advisory Council, and the Board of Investments are administratively attached to the Department of Commerce.

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

### Agency Highlights

<b>Department of Commerce Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• The 2017 biennium legislative appropriation increased by 4.8% when compared to to the 2015 biennium legislative appropriation</li> <li>• Increases in general fund are primarily due to:               <ul style="list-style-type: none"> <li>◦ Continued funding for economic development programs that were funded as one-time-only in previous biennia</li> <li>◦ Continued funding for the Native Language Preservation Program</li> <li>◦ Additional funding to enhance current economic development programs that are statutorily funded</li> <li>◦ Funding for infrastructure grants to youth recreational facilities</li> <li>◦ Additional funding for the Montana Manufacturing Extension Center</li> </ul> </li> <li>• Federal grant funding increases of \$8.9 million include:               <ul style="list-style-type: none"> <li>◦ Community Development Block Grants</li> <li>◦ Home Program grants</li> </ul> </li> </ul>

### Summary of Legislative Action

The Department of Commerce receives an overall increase of \$1.2 million in the 2017 biennium when compared to the 2015 biennium legislative appropriation including:

- \$0.9 million in general fund
- (\$1.6) million in state special revenue
- \$1.9 million in federal revenue

It should be noted that a number of the programs included in the 2015 biennium were designated by the legislature as one-time-only and as such were removed from the program budget comparison table on the previous page. This is the main reason for the large difference in the increases as shown on the program budget comparison table and reflected in the narrative above.

\$4.3 million of general fund approved for the 2017 biennium is due to continued funding of programs that have been funded as one-time-only for several biennia including Primary Business Sector Training Program, Indian Country Economic Development Program, and the Native Language Preservation Program. Another \$1.5 million of general fund is for a one-time-only appropriation for capital improvement grants to youth recreational facilities on school trust lands. State special revenue increases were provided mainly in two areas: 1) \$0.5 million in funding to establish a Gap Financing Program for Indian tribes in Montana, and; 2) \$2.56 million for primary sector business training as part of the passage of SB 163. Federal revenues increases are mainly within the Community Development Division in anticipation of increased federal support for Community Development Block Grant Program and the HOME Program.

The personal services budget for the 2017 biennium increases due to funding that was provided to support:

- Annualization of the state share for employee insurance
- Increased employer retirement contributions
- Annualization of market pay adjustments provided in FY 2014
- Employee attainment of longevity milestones in the 2017 biennium
- Reclassification of positions between biennia
- Full funding of positions that were unfilled during a portion of FY 2014

- Elimination of the 4% vacancy savings assessed to personal services in the 2015 biennium
- Addition of 3.00 FTE and \$374,618 in personal services in FY 2016 and \$380,433 in FY 2017 to provide for program staff that were funded as one-time-only in previous biennia or for SB 163

Operating expenses increase as additional support was provided for the following programs:

- \$0.5 million each year of the biennium for the Primary Business Sector Training Program, the Indian Country Economic Development Program, enhancing economic development programs, and the new GAP Financing Program
- \$1.5 million in FY 2016 and \$1.6 million in FY 2017 for the Community Development Division

The majority of the increases in the Department of Commerce budget occurred in the grants expenditure category. Additional authority was provided for:

- \$1.5 million over the biennium to continue the Native Language Preservation Program
- \$1.5 million over the biennium to establish a grant program for capital improvements for youth recreational facilities
- \$1.25 million over the biennium to continue the Indian Country Economic Development Program
- \$2.95 million for the Primary Business Sector Training Program
- \$0.2 million for the Montana Manufacturing Extension Service
- \$0.1 million to enhance economic development programs

**Funding**

The following table shows agency funding by source of authority. Funding for each program is discussed in detail in the individual program narratives that follow.

Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	13,082,731	0	4,750,000	17,832,731	7.42 %
State Special Total	13,014,708	0	58,888,962	71,903,670	29.92 %
Federal Special Total	37,368,565	0	95,000	37,463,565	15.59 %
Proprietary Total	0	110,098,285	3,000,000	113,098,285	47.07 %
Other Total	0	0	0	0	0.00 %
<b>Total All Funds</b>	<b>\$63,466,004</b>	<b>\$110,098,285</b>	<b>\$66,733,962</b>	<b>\$240,298,251</b>	
<b>Percent - Total All Sources</b>	<b>26.41 %</b>	<b>45.82 %</b>	<b>27.77 %</b>		

Almost 75% of the overall funding for the Department of Commerce is not budgeted through HB 2 but provided as either non-budgeted proprietary funding or as statutory appropriations.

**HB 2**

Within HB 2, the legislature restored several programs that were funded with one-time-only general fund appropriations by the 2013 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections. The programs included are listed below:

- Primary Business Sector Training - \$1.2 million for the 2017 biennium
- Tribal Economic Development – \$1.6 million for the 2017 biennium
- Native Language Preservation - \$1.5 million over the biennium

General fund also supports the Census and Economic Information Center, Regional Development Bureau, trade and international relations activities, Entrepreneur Development Program /NxLevel, Community Technical Assistance Program, and the Made in Montana Program; and provides match for the federal Community Development Block Grant. The legislature also provided \$1.5 million in general fund in FY 2016 for grants for infrastructure improvements to youth recreational facilities on school trust lands and \$0.2 million for the Montana Manufacturing Extension Center.

State special revenues support the Microbusiness Loan Program, the Treasure State Endowment Program, the Coal Board, the Hard Rock Mining Board, Distressed Wood Products Program, and quality school project administration.

Federal special revenues include the community development block grant, small business development centers, the Montana Council on Developmental Disabilities, and various programs for housing.

*Proprietary*

Almost half of the funding for the agency is non-budgeted proprietary funding. Proprietary funds are discussed in detail in the narrative sections of each program.

*Statutory Appropriations*

\$2.5 million of general fund is statutorily appropriated for the Research and Commercialization Program. Another \$2.2 million is appropriated to support a number of programs including:

- \$250,000 for the Small Business Development Center
- \$100,000 for the Small Business Innovation Research Program
- \$850,000 for Cetified Regional Development Corporations
- \$400,000 for the Montana Manufacturing Extension Center
- \$600,000 for export trade enhancement

State special revenues that are statutorily appropriated include:

- Lodging use facility taxes for support of the Montana Promotion Division. The funding supports 29.50 FTE and tourism promotions programs conducted by the program
- General fund that is transferred to a state special revenue account for research and commercialization
- Coal severance tax income supporting the Big Sky Economic Development Program
- The Montana Heritage Commission is funded with \$400,000 in lodging use facility taxes received each year, a portion of light vehicle registrations, and revenues generated by Virginia City and Nevada City as well as Reeder's Alley. The funding supports 12.00 FTE and the costs of operating the historic properties

Federal matching funds provided for the Distressed Wood Products Program.

**Budget Summary by Category**

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

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	3,161,833	3,161,833	6,323,666	48.34 %	34,009,437	34,009,437	68,018,874	107.17 %
PL Adjustments	248,765	235,300	484,065	3.70 %	(5,462,549)	(5,525,321)	(10,987,870)	(17.31)%
New Proposals	3,887,500	2,387,500	6,275,000	47.96 %	3,967,500	2,467,500	6,435,000	10.14 %
<b>Total Budget</b>	<b>\$7,298,098</b>	<b>\$5,784,633</b>	<b>\$13,082,731</b>		<b>\$32,514,388</b>	<b>\$30,951,616</b>	<b>\$63,466,004</b>	

Present law adjustments for the agency in total are the result of reductions in the HOME Program within the Housing Division. The 2015 base budget for this program was \$6.7 million higher than the funding approved each year of the 2017 biennium. The reduction totally offsets approved increases for both personal services and operating expenses.

The personal services present law adjustment provides for personal service changes including:

- Annualization of statutory changes for state share contribution to employee health insurance and longevity

- Annualization of FY 2015 pay increases
- Restoration of funding reduced in the 2015 biennium through 4% vacancy savings
- Reclassification of positions

The remaining present law adjustments include increases for information technology services, meetings and conference costs, travel, rent, and temporary services. These increases are entirely offset by reductions in other operating expenses such as loans made, advertising, and public relation expenses. The majority of the remaining present law adjustments were for grant administration and federal grants to other entities.

New proposals include restoration of one-time-only funding for the primary business sector training, tribal economic development, and native language preservation. The legislature also provided funding to enhance economic development by providing an additional \$275,000 over the biennium for current programs, \$500,000 for gap financing for the various Indian tribes throughout Montana, \$200,000 for the Montana Manufacturing Extension Service, and \$1.5 million for capital improvements for youth recreational facilities on school trust lands.

### Other Legislation

HB 11 - This bill appropriates \$22.2 million in funding over the biennium to support the Treasure State Endowment Program (TSEP). TSEP provides funding for local government infrastructure projects.

HB 577- The legislature revised the definition of wager in relation to bets placed on horse racing. The fiscal note for the bill estimates the change will generate an additional \$180,000 in revenues for the Board of Horse Racing.

SB 163 - The legislature revised economic development laws. The bill creates a primary business sector training account in the state special revenue account and requires any general fund appropriated by the legislature to be transferred into the account. The fiscal note for the bill estimates that \$2,556,000 in funding will be available in FY 2015, FY 2016, and FY 2017 combined.

SB 367 - The legislature eliminated the statutory appropriation of general fund to the research and commercialization state special revenue account, instead requiring that the general fund be transferred into the state special revenue account. This eliminated appropriating the funding twice as the state special revenue funds are also statutorily appropriated.

SB 380 - The legislature approved increasing the amount of funding available from the permanent coal tax trust fund for the Montana Veterans' Loan Program by \$10.0 million, from the current amount of \$30.0 million to \$40.0 million. Statute authorizes the Board of Housing to take the loan servicing fees and administrative charges from the interest paid by the borrower. The fiscal note for the bill estimates that the 2017 biennium cost of the program will be \$50,000.

### Executive Budget Comparison

The following table compares the legislative budget for the 2017 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

Executive Budget Comparison								
Budget Item	Base Budget Fiscal 2014	Executive Budget Fiscal 2016	Legislative Budget Fiscal 2016	Leg — Exec. Difference Fiscal 2016	Executive Budget Fiscal 2017	Legislative Budget Fiscal 2017	Leg — Exec. Difference Fiscal 2017	Biennium Difference Fiscal 16-17
FTE	49.25	52.04	50.04	(2.00)	52.04	50.04	(2.00)	(2.00)
Personal Services	6,200,390	8,162,368	8,057,090	(105,278)	8,175,064	8,080,970	(94,094)	(199,372)
Operating Expenses	3,869,520	7,019,418	7,945,729	926,311	6,972,402	7,961,738	989,336	1,915,647
Grants	20,109,614	39,624,554	40,362,386	737,832	38,469,578	37,180,944	(1,288,634)	(550,802)
Benefits & Claims	157,063	370,731	358,921	(11,810)	370,731	358,921	(11,810)	(23,620)
Transfers	0	2,375,000	0	(2,375,000)	2,375,000	0	(2,375,000)	(4,750,000)
<b>Total Costs</b>	<b>\$30,336,587</b>	<b>\$57,552,071</b>	<b>\$56,724,126</b>	<b>(\$827,945)</b>	<b>\$56,362,775</b>	<b>\$53,582,573</b>	<b>(\$2,780,202)</b>	<b>(\$3,608,147)</b>
General Fund	3,455,383	8,871,346	7,298,098	(1,573,248)	8,485,596	5,784,633	(2,700,963)	(4,274,211)
State/other Special Rev. Funds	3,188,483	6,493,120	6,527,759	34,639	6,452,409	6,486,949	34,540	69,179
Federal Spec. Rev. Funds	10,537,719	18,294,144	18,688,531	394,387	18,102,449	18,680,034	577,585	971,972
<b>Total Funds</b>	<b>\$17,181,585</b>	<b>\$33,658,610</b>	<b>\$32,514,388</b>	<b>(\$1,144,222)</b>	<b>\$33,040,454</b>	<b>\$30,951,616</b>	<b>(\$2,088,838)</b>	<b>(\$3,233,060)</b>

The primary differences between the executive's proposed budget and the legislature's adopted budget include:

1. Elimination of \$1.4 million of state special revenue funding for loans made in the microbusiness loan program. However, the legislature provided trigger language allowing additional expenditures if the level of funding for the microbusiness loan program exceeds \$550,000. The funding was aligned to the highest amount of loans made in the last two biennia;
2. Not approving 2.00 FTE requested for the Community Development Division;
3. Adopting 2% vacancy savings applied to HB 2 positions within the boilerplate language of HB 2;
4. Changing the allocation of operating expenses, grants, benefits and claims, and transfers based on the 2015 legislatively approved base budget;
5. Reducing the funding for enhancing economic development programs from \$5.50 million requested to \$275,000
6. Providing the following additional funds:
  - \$1.5 million in general fund for infrastructure grants to youth recreational facilities on school trust lands;
  - \$0.2 million in general fund for grants to the Montana Manufacturing Extension Center supporting engineering consulting services;
  - \$2.56 million in state special revenues for the enactment of SB 163, revision of economic development statutes.

### Language and Statutory Authority

The legislature included the following language in HB 2:

"Business Resources Division is appropriated up to an additional \$1,450,000 in each fiscal year from the microbusiness development loan account and finance program administrative account provided for in 17-6-407 if there are sufficient funds available in the account. The additional appropriation may be used only to provide additional microbusiness development loans."

"Montana Manufacturing Extension Service is restricted to providing for an engineering consultant and related operating costs."