

| Agency Proposed Budget | | | | | | | | |
|------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 241.81 | 4.00 | 0.00 | 245.81 | 4.00 | 1.00 | 246.81 | 246.81 |
| Personal Services | 8,274,062 | 1,305,274 | 0 | 9,579,336 | 1,366,705 | 28,552 | 9,669,319 | 19,248,655 |
| Operating Expenses | 13,237,039 | 3,114,823 | 459,250 | 16,811,112 | 2,898,807 | 677,100 | 16,812,946 | 33,624,058 |
| Equipment | 215,069 | 401,497 | 0 | 616,566 | 41,030 | 0 | 256,099 | 872,665 |
| Grants | 26,823,294 | 43,279,420 | 24,983 | 70,127,697 | 46,258,803 | 58,459 | 73,140,556 | 143,268,253 |
| Benefits & Claims | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Service | 239,272 | 916,354 | 0 | 1,155,626 | 916,353 | 0 | 1,155,625 | 2,311,251 |
| Total Costs | \$48,788,736 | \$49,017,368 | \$484,233 | \$98,290,337 | \$51,481,698 | \$764,111 | \$101,034,545 | \$199,324,882 |
| General Fund | 2,095,231 | 553,958 | 78,604 | 2,727,793 | 516,285 | 72,454 | 2,683,970 | 5,411,763 |
| State/Other Special | 12,273,510 | 2,180,134 | (31,371) | 14,422,273 | 2,036,628 | 30,657 | 14,340,795 | 28,763,068 |
| Federal Special | 27,677,052 | 44,134,320 | 0 | 71,811,372 | 46,966,323 | 0 | 74,643,375 | 146,454,747 |
| Proprietary | 6,742,943 | 2,148,956 | 437,000 | 9,328,899 | 1,962,462 | 661,000 | 9,366,405 | 18,695,304 |
| Total Funds | \$48,788,736 | \$49,017,368 | \$484,233 | \$98,290,337 | \$51,481,698 | \$764,111 | \$101,034,545 | \$199,324,882 |

Agency Description

The Department of Commerce, provided for in Title 2, Section 15, Part 18, MCA, is responsible for working with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of infrastructure, while providing a reasonable, customer-oriented, regulatory environment. The Department of Commerce and its programs generally relate to the two major missions with which the department is charged: Economic and Community Development, and Business and Consumer Regulatory Services.

Agency Discussion

The Department of Commerce is funded with a mixture of general fund, state and federal special revenues, and proprietary funds. The 2003 biennium budget requests sees most programs continuing current operations and contains issues the legislature has seen in previous biennia. Major proposals and significant changes addressed by the 2003 biennium request include:

- 1) Increased federal funding to accommodate the Housing Division's management of Section 8 project- and tenant-based programs.
- 2) Increased operating expenses within the Lottery Division. Although a proprietary fund, the Lottery Fund deposits its remaining balance into the general fund at the end of each year. The executive is therefore required to submit a budget request for Lottery Division operations.
- 3) Funding shifts from state special revenue to general fund for two programs within the Consumer Affairs Division. This proposal would result in the funding of Consumer Affairs entirely from general fund, rather than through the partial use of settlement proceeds.
- 4) Increased rental charges resulting from the consolidation of divisions and subsequent move to the Federal Building in Helena.

More information on these proposals can be found in the appropriate program narratives, which follow.

| Biennium Budget Comparison | | | | | | | | |
|----------------------------|-------------------------|---------------------------|--------------------------------|-------------------------|---------------------------|--------------------------------|-----------------------------|---------------------------------|
| Budget Item | Present Law Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | Present Law Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Biennium Fiscal 00-01 | Total Exec. Budget Fiscal 02-03 |
| FTE | 245.81 | 0.00 | 245.81 | 245.81 | 1.00 | 246.81 | 0.00 | 246.81 |
| Personal Services | 9,579,336 | 0 | 9,579,336 | 9,640,767 | 28,552 | 9,669,319 | 17,039,602 | 19,248,655 |
| Operating Expenses | 16,351,862 | 459,250 | 16,811,112 | 16,135,846 | 677,100 | 16,812,946 | 27,793,521 | 33,624,058 |
| Equipment | 616,566 | 0 | 616,566 | 256,099 | 0 | 256,099 | 1,074,869 | 872,665 |
| Grants | 70,102,714 | 24,983 | 70,127,697 | 73,082,097 | 58,459 | 73,140,556 | 71,411,850 | 143,268,253 |
| Benefits & Claims | 0 | 0 | 0 | 0 | 0 | 0 | 9,701 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Service | 1,155,626 | 0 | 1,155,626 | 1,155,625 | 0 | 1,155,625 | 1,390,618 | 2,311,251 |
| Total Costs | \$97,806,104 | \$484,233 | \$98,290,337 | \$100,270,434 | \$764,111 | \$101,034,545 | \$118,720,161 | \$199,324,882 |
| General Fund | 2,649,189 | 78,604 | 2,727,793 | 2,611,516 | 72,454 | 2,683,970 | 4,365,703 | 5,411,763 |
| State/Other Special | 14,453,644 | (31,371) | 14,422,273 | 14,310,138 | 30,657 | 14,340,795 | 25,824,824 | 28,763,068 |
| Federal Special | 71,811,372 | 0 | 71,811,372 | 74,643,375 | 0 | 74,643,375 | 73,147,564 | 146,454,747 |
| Proprietary | 8,891,899 | 437,000 | 9,328,899 | 8,705,405 | 661,000 | 9,366,405 | 15,382,069 | 18,695,304 |
| Total Funds | \$97,806,104 | \$484,233 | \$98,290,337 | \$100,270,434 | \$764,111 | \$101,034,545 | \$118,720,160 | \$199,324,882 |

New Proposals

The table below summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

| New Proposals | | | | | | | | | | |
|-------------------------------------|-------------|-----------------------|-------------------|-----------------|-------------------|-----------------------|-----------------|-----------------|-----------------|-------------------|
| Prgm | FTE | -----Fiscal 2002----- | | | | -----Fiscal 2003----- | | | | |
| | | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| DP 4 - Coal Board Grants and FTE | | | | | | | | | | |
| 60 | 0.00 | 0 | 24,983 | 0 | 24,983 | 1.00 | 0 | 87,011 | 0 | 87,011 |
| DP 7 - Census Access | | | | | | | | | | |
| 51 | 0.00 | 22,250 | 0 | 0 | 22,250 | 0.00 | 16,100 | 0 | 0 | 16,100 |
| DP 10 - Scratch Games Enhancements | | | | | | | | | | |
| 77 | 0.00 | 0 | 0 | 0 | 337,000* | 0.00 | 0 | 0 | 0 | 561,000* |
| DP 11 - Telemarketing Funding Shift | | | | | | | | | | |
| 79 | 0.00 | 25,000 | (25,000) | 0 | 0 | 0.00 | 25,000 | (25,000) | 0 | 0 |
| DP 12 - On-Line Enhancements | | | | | | | | | | |
| 77 | 0.00 | 0 | 0 | 0 | 100,000* | 0.00 | 0 | 0 | 0 | 100,000* |
| DP 13 - Lemon Law Funding Shift | | | | | | | | | | |
| 79 | 0.00 | 31,354 | (31,354) | 0 | 0 | 0.00 | 31,354 | (31,354) | 0 | 0 |
| Total | 0.00 | \$78,604 | (\$31,371) | \$0 | \$484,233* | 1.00 | \$72,454 | \$30,657 | \$0 | \$764,111* |

Funding Issues

The department has decentralized the funding of its shared information technology components. Correspondingly, each division's request contains increased authority for its share of the department's server and related computer hardware replacement. In Fiscal 2002, the department proposes the replacement of two servers, the age of which will exceed the four-year replacement cycle established by ISD. The costs of these servers and the equipment required to maintain the department's computer networks have been allocated to each division/bureau on the basis of the number of networked devices used.

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| LFD ISSUE | This request would add funding authority to each division for one-time purchases. These costs should not carry through as base expenditures into the 2005 biennium. It would be time-consuming and confusing to identify each line item in each division as one-time-only. If the legislature wants to identify and track the funding and expenditures for this item, it may wish to separate the request and add it to the Director's Office/Management Services Division HB 2 request as a one-time-only appropriation. |
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| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 11.00 | 0.00 | 0.00 | 11.00 | 0.00 | 0.00 | 11.00 | 11.00 |
| Personal Services | 428,916 | 4,222 | 0 | 433,138 | 6,945 | 0 | 435,861 | 868,999 |
| Operating Expenses | 201,865 | 4,513 | 0 | 206,378 | 3,503 | 0 | 205,368 | 411,746 |
| Equipment | 63,000 | 599 | 0 | 63,599 | 0 | 0 | 63,000 | 126,599 |
| Total Costs | \$693,781 | \$9,334 | \$0 | \$703,115 | \$10,448 | \$0 | \$704,229 | \$1,407,344 |
| State/Other Special | 693,781 | 9,334 | 0 | 703,115 | 10,448 | 0 | 704,229 | 1,407,344 |
| Total Funds | \$693,781 | \$9,334 | \$0 | \$703,115 | \$10,448 | \$0 | \$704,229 | \$1,407,344 |

Program Description

The Weights and Measures Bureau is responsible for licensing, inspecting, testing, and certifying all weighing or measuring devices used in making commercial transactions in the State of Montana. The Bureau enforces laws and regulations pertaining to the quantity control of prepackaged goods and the quality control of petroleum products. The Bureau is also responsible for maintaining the state standards of mass and volume applied when calibrating other mass or volume standards used in testing commercial devices.

Funding

The Weights and Measures Division is funded entirely by state special revenues derived primarily from annual license fees levied against all commercial weighing or measuring devices, including scales or gas pumps certified by the bureau on an annual basis. Additional funding (approximately 2.5 percent) comes from special inspection fees derived from charges for certification at the bureau's standards lab as well as for other special requests.

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| LFD ISSUE | <p>The Weights and Measures Fund projects an approximate match of revenues to expenditures during the 2003 biennium. This estimate is based on the assumption that the legislature will pass department-requested legislation changing statutorily-based fees imposed when licensing measuring devices. Table 1 provides an outlook for the fund based on fiscal 2000 revenues and proposed expenditures for the 2003 biennium. Although the account is not projected to go negative in the 2003 biennium, it will approach a zero balance. Any decrease in revenues below fiscal 2000 levels could cause the account to enter a negative status. If a fee increase is not approved for the 2003 biennium, the department will have to address the account balance for the 2005 biennium, through one of two options:</p> <ol style="list-style-type: none"> 1) Increase fees; or 2) Reduce expenditures. <p>The legislature may wish to consider the account balance when making a decision on the present law adjustment requested within the Executive Budget.</p> |
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Table 1
Department of Commerce
Accounting Entity Review
Fiscal 2001-2003
Based on fiscal 2000 revenues/proposed expenditures

| Fund | Fiscal 2000 | Fiscal 2001 | Fiscal 2002 | Fiscal 2003 |
|--------------------------------------|------------------|------------------|-----------------|-----------------|
| Weights and Measures Bureau AE 02805 | | | | |
| Beg. Fund Balance | \$221,675 | \$148,345 | \$150,823 | \$90,677 |
| Revenues | 642,969 | 642,969 | 642,969 | 642,969 |
| Expenditures | (717,245) | (640,491) | (703,115) | (704,229) |
| Adjustments | 946 | 0 | 0 | 0 |
| Ending Fund Balance | <u>\$148,345</u> | <u>\$150,823</u> | <u>\$90,677</u> | <u>\$29,417</u> |

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|------------|------------------|--------------------|----------------|-----------------------|------------|------------------|--------------------|-----------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 16,284 | | | | | 19,091 |
| Vacancy Savings | | | | | (12,188) | | | | | (12,272) |
| Inflation/Deflation | | | | | 254 | | | | | 248 |
| Fixed Costs | | | | | 1,935 | | | | | 827 |
| Total Statewide Present Law Adjustments | | | | | \$6,285 | | | | | \$7,894 |
| DP 39 - W & M Administrative Costs(HB0002) | | | | | | | | | | |
| | 0.00 | 0 | 3,049 | 0 | 3,049 | 0.00 | 0 | 2,554 | 0 | 2,554 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$3,049 | \$0 | \$3,049 | 0.00 | \$0 | \$2,554 | \$0 | \$2,554 |
| Grand Total All Present Law Adjustments | | | | | \$9,334 | | | | | \$10,448 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 39 - Weights & Measures Bureau Administrative Costs - The executive proposes an increase in state special revenue authority for administrative cost increases, including overtime and the division's share of department server replacement and indirect costs.

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| LFD COMMENT | <p>The amount requested for overtime is equal to base year expenditures. Since overtime is not funded in the adjusted base, this request carries over the overtime value from the base year.</p> <p>For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the agency overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.</p> |
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| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 28.75 | 0.00 | 0.00 | 28.75 | 0.00 | 0.00 | 28.75 | 28.75 |
| Personal Services | 880,902 | 249,400 | 0 | 1,130,302 | 254,859 | 0 | 1,135,761 | 2,266,063 |
| Operating Expenses | 355,933 | 100,185 | 0 | 456,118 | 102,509 | 0 | 458,442 | 914,560 |
| Equipment | 0 | 1,917 | 0 | 1,917 | 0 | 0 | 0 | 1,917 |
| Total Costs | \$1,236,835 | \$351,502 | \$0 | \$1,588,337 | \$357,368 | \$0 | \$1,594,203 | \$3,182,540 |
| State/Other Special | 1,236,835 | 351,502 | 0 | 1,588,337 | 357,368 | 0 | 1,594,203 | 3,182,540 |
| Total Funds | \$1,236,835 | \$351,502 | \$0 | \$1,588,337 | \$357,368 | \$0 | \$1,594,203 | \$3,182,540 |

Program Description

The Banking and Financial Institutions Division is responsible for the supervision, regulation, and examination of:

- 1) state-chartered banks, trust companies, savings and loans, and credit unions;
- 2) consumer loan and sales finance companies;
- 3) escrow companies;
- 4) foreign capital depositories in accordance with Title 32, MCA; and
- 5) deferred deposit loan companies.

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound manner. Supervision of regulated financial businesses is accomplished through on-site safety and soundness examinations conducted by division examiners.

Program Narrative

The 1997 legislature passed SB 83, which provided for the creation of a new class of financial institutions called "foreign capital depositories." The Banking and Financial Institutions Division is responsible for chartering, examining, and regulating any such institutions. In fiscal 2000, one application was received and accepted. That entity is currently undergoing the approval process necessary to obtain a charter. The agency has requested language appropriating \$500,000 of Foreign Capital Depository Administration funding for each year of the biennium, in the event that revenues are received in the foreign capital depository account. For the 2001 biennium, HB 2 contained language appropriating up to \$1 million in funding each year. For the 2003 biennium, the department reduced the request to \$500,000 each year. The Revenue and Taxation Committee did not include any foreign capital depository revenues in the officially-adopted revenue estimate. For this reason, no appropriation for the Foreign Capital Depository Account is listed in the funding tables. Instead, a language appropriation is being requested versus requesting a direct appropriation.

Funding

The division is funded with state special revenues generated from:

- ?? bank assessments and application fees;
- ?? credit union supervisory and examination fees;
- ?? consumer loan examination fees;
- ?? consumer loan/sales finance licenses; and
- ?? foreign capital depository application, charter, charter renewal, and examination (audit) fees, if received.

| Present Law Adjustments | | | | | | | | | | |
|--|-------------|------------|-----------------|-----------------|------------------|-----------------------|------------|-----------------|-----------------|------------------|
| -----Fiscal 2002----- | | | | | | -----Fiscal 2003----- | | | | |
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 272,314 | | | | | 277,941 |
| Vacancy Savings | | | | | (31,517) | | | | | (31,685) |
| Inflation/Deflation | | | | | 1,151 | | | | | 1,765 |
| Fixed Costs | | | | | 15,504 | | | | | 14,443 |
| Total Statewide Present Law Adjustments | | | | | \$257,452 | | | | | \$262,464 |
| DP 7 - Examiner Travel | | | | | | | | | | |
| | 0.00 | 0 | 46,292 | 0 | 46,292 | 0.00 | 0 | 46,292 | 0 | 46,292 |
| DP 11 - Lease Replacement Vehicles | | | | | | | | | | |
| | 0.00 | 0 | 1,224 | 0 | 1,224 | 0.00 | 0 | 3,994 | 0 | 3,994 |
| DP 40 - Banking Administrative Costs | | | | | | | | | | |
| | 0.00 | 0 | 46,534 | 0 | 46,534 | 0.00 | 0 | 44,618 | 0 | 44,618 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$94,050 | \$0 | \$94,050 | 0.00 | \$0 | \$94,904 | \$0 | \$94,904 |
| Grand Total All Present Law Adjustments | | | | | \$351,502 | | | | | \$357,368 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - Examiner Travel - The Executive Budget includes a request for additional state revenue authority to allow for the travel of examination staff. Examination staff typically travels 34-38 weeks per year to licensee locations. During the base year, vacancies resulted in travel expenditures falling below those that would have been expended had there been full staffing. The division is requesting additional travel authority to provide for full staffing levels.

LFD COMMENT The division was unsuccessful in filling several vacancies, which affected operations during the base year. Two additional positions sustained extended leave for medical reasons. Although all mandatory bank examinations were completed, the division only completed an approximate 33 percent of its examinations of lending companies. This proposal assumes staffing and travel adequate to complete all required examinations.

DP 11 - Lease Replacement Vehicles - This request would allow the department to replace the remaining two department-owned minivans at the Billings office with leased minivans. Corresponding decreases in gasoline, vehicle repair, and equipment expenditures are projected.

DP 40 - Banking Administrative Costs - An increase in state special revenue authority is requested with which to fund increases in overtime, board member per diem, computer lease costs, and the division's share of the department's indirect and server replacement costs.

LFD COMMENT The amount requested for overtime is equal to base-year expenditures. Since overtime and per diem are not funded in the adjusted base, this request carries over overtime and per diem values from the base year.

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

**LFD
ISSUE**

This proposal contains an increase to accommodate lease renewal for 13 computers, and would provide authority for the department to spend up to \$1,800 per year per computer. The proposed lease is for a three-year term, bringing the cost per computer to \$5,400 over the term. The department states that leasing provides access to more current, powerful software. The current standard for computer replacement is based on a four-year cycle, with a replacement limit for desktop PCs established at \$2,000 as per Executive Budget instructions. This amount is waivable up to \$3,000. This request does not adhere to the replacement timeline nor to replacement cost limitations. Neither does the proposed software appear to warrant the significantly higher cost of leasing versus purchasing replacement computers. In essence, the legislature has two policy issues to consider:

- 1) In light of the current standard for computer replacement, is a three-year replacement cycle appropriate for these computers?
- 2) Given the standard allowable cost for replacement computers as identified by the executive (\$3,000 for computers using specialized software), is an effective cost of \$5,400 per computer appropriate in this instance?

Language Recommendations

The following language is recommended by the executive for HB2:

- ?? "The department is appropriated in each of the fiscal years 2002 and 2003 up to \$500,000 of state special revenue that is deposited in the account established for the purpose of processing charter applications and for the chartering, examination, and regulation of each foreign capital depository that obtains a charter under the provisions of 32-8-205."

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 32.53 | 2.50 | 0.00 | 35.03 | 2.50 | 0.00 | 35.03 | 35.03 |
| Personal Services | 1,020,151 | 282,131 | 0 | 1,302,282 | 290,530 | 0 | 1,310,681 | 2,612,963 |
| Operating Expenses | 3,616,538 | 473,080 | 0 | 4,089,618 | 397,262 | 0 | 4,013,800 | 8,103,418 |
| Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Benefits & Claims | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Service | 7,548 | 2,500 | 0 | 10,048 | 2,500 | 0 | 10,048 | 20,096 |
| Total Costs | \$4,644,237 | \$757,711 | \$0 | \$5,401,948 | \$690,292 | \$0 | \$5,334,529 | \$10,736,477 |
| State/Other Special | 4,644,237 | 757,711 | 0 | 5,401,948 | 690,292 | 0 | 5,334,529 | 10,736,477 |
| Proprietary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Funds | \$4,644,237 | \$757,711 | \$0 | \$5,401,948 | \$690,292 | \$0 | \$5,334,529 | \$10,736,477 |

Program Description

The Professional and Occupational Licensing Division (POL) provides the administrative and clerical services needed by the 38 professional boards and occupational licensing programs authorized by state statutes. Services provided include correspondence, application processing, issuing and renewing licenses, administering and grading examinations, taking minutes of board meetings and hearings, and providing the legal staff and investigators who investigate legal infractions.

Funding

The licensing boards in POL are funded from state special revenues obtained from license fees set by each board. Fees are collected from activities that include providing license applications, examinations, license renewals, reciprocity, and continuing education. Administrative cost assessments also contribute to the funding of POL. POL administrative costs are funded through assessments (recharges) on all boards and are deposited in a proprietary fund. This internal charge provides funding for various administrative, clerical, and legal support services provided to the boards. These funds do not require an appropriation and therefore are not listed in the funding tables. (For further discussion of this account, please refer to the proprietary rates discussion at the end of this section.)

LFD COMMENT

The executive proposes expenditures in excess of fiscal 2000 revenues for several accounts. These accounts have implemented fee increases that will increase revenues in the 2003 biennium as compared to those realized in fiscal 2000. The accounts, therefore, are projected to remain stable.

| | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|------------|------------------|-----------------|------------------|-----------------------|------------|------------------|-----------------|------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 113,465 | | | | | 119,950 |
| Vacancy Savings | | | | | (30,400) | | | | | (30,593) |
| Inflation/Deflation | | | | | 1,548 | | | | | 3,489 |
| Fixed Costs | | | | | 882 | | | | | 1,463 |
| Total Statewide Present Law Adjustments | | | | | \$85,495 | | | | | \$94,309 |
| DP 9 - Board Operating Expenses (HB0002) | | | | | | | | | | |
| | 0.00 | 0 | 634,628 | 0 | 634,628 | 0.00 | 0 | 567,209 | 0 | 567,209 |
| DP 13 - Licensing FTE (HB0002) | | | | | | | | | | |
| | 2.50 | 0 | 67,607 | 0 | 67,607 | 2.50 | 0 | 58,793 | 0 | 58,793 |
| DP 34 - POL Rent (HB0002) | | | | | | | | | | |
| | 0.00 | 0 | (30,019) | 0 | (30,019) | 0.00 | 0 | (30,019) | 0 | (30,019) |
| Total Other Present Law Adjustments | 2.50 | \$0 | \$672,216 | \$0 | \$672,216 | 2.50 | \$0 | \$595,983 | \$0 | \$595,983 |
| Grand Total All Present Law Adjustments | | | | | \$757,711 | | | | | \$690,292 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 9 - Board Operating Expenses - The Executive Budget includes a request for an increase in state special revenue authority with which to meet the operating expenses necessary to support various board activities. Additional expenses include travel, overtime, per diem, postage, printing, supplies, and rent, as well as the contracted services of independent inspectors and expert witnesses. Adjustments are also made for computer upgrades and indirect costs. Negative adjustments are made for moving expenses incurred in the base year. This request also includes \$70,000 of state special authority in each year of the biennium in order to reestablish the POL and Building Codes divisions' legal proceeding contingency fund. The legal contingency fund appropriation is requested on a one-time-only basis.

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| LFD COMMENT | For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
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| LFD ISSUE | The POL and Building Codes Legal Proceeding Contingency Fund provides authority for the consolidation of funds for expenses rising from legal issues. This funding is available on an as-needed basis, and was designated by the 1999 legislature as restricted, one-time-only. The request to reestablish the fund should therefore be considered under new proposals. Additionally, if the legislature wishes to approve funding only for the Legal Contingency Fund, the appropriation should be designated restricted, one-time-only. |
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| | |
|------------------|---|
| LFD ISSUE | During budget formulation, approximately \$43,000 in recharge increases were incorrectly allocated to the Earmarked Alcohol Funds Account. If the legislature wishes to fund this proposal, the Earmarked Alcohol Funds Account should be increased by only \$5,498 per year of the biennium, while the Chemical Dependency Counselors' Account should be increased by \$22,096 in fiscal 2002, and by \$20,248 in fiscal 2003. |
|------------------|---|

DP 13 - Licensing FTE - Additional state special revenue authority is requested for personal services and related operating expenses to add 2.50 FTE for administrative support of the boards of Architects, Dentistry, and Medical Examiners. The Board of Architects requests .30 FTE for Architectural Licensing Program support. Duties would include processing license and examination applications, preparing for screening and adjudicatory panels and board meetings, and processing license renewals. The Board of Dentistry requests .70 FTE for Dentistry Licensing Program support. Duties would include processing licenses and examinations, credentialing applications, coordinating and setting up anesthesia inspections, preparing for screening and adjudicatory panels and board meetings, processing complaints and license renewals. The Board of Medical Examiners requests 1.50 FTE. Duties would include processing licensing and renewal applications.

DP 34 - POL Rent - An adjustment to consolidate rental payments within the division is proposed. This adjustment moves authority of \$30,019 per year from state special revenue funds to the POL Division Proprietary Fund, allowing the division to centralize rental charges for all boards and programs assigned.

Proprietary Rates

Program Description

The POL Administrative Services Bureau provides all the professional, technical, administrative, legal, and clerical services required by the professional licensing regulatory boards and programs authorized in this division.

The thirty-three boards and five programs attached to the Professional and Occupational Licensing Division include:

Boards

Alternative Health Care Board
 Board of Architects
 Board of Athletics
 Board of Barbers
 Board of Chiropractors
 Board of Clinical Laboratory Science Practitioners
 Board of Cosmetologists
 Board of Dentistry
 Board of Funeral Service
 Board of Hearing Aid Dispensers
 Board of Landscape Architects
 Board of Medical Examiners
 Board of Nursing
 Board of Nursing Home Administrators
 Board of Occupational Therapy Practice
 Board of Optometry
 Board of Outfitters
 Board of Pharmacy
 Board of Physical Therapy Examiners
 Board of Plumbers
 Board of Private Security Patrol Officers and Investigators
 Board of Professional Engineers & Professional Land Surveyors

Board of Psychologists
 Board of Public Accountants
 Board of Radiologic Technologists
 Board of Real Estate Appraisers
 Board of Realty Regulation
 Board of Respiratory Care Practitioners
 Board of Sanitarians
 Board of Social Work Examiners and Professional Counselors
 Board of Speech-Language Pathologists and Audiologists
 Board of Veterinary Medicine
 State Electrical Board

Programs

Boiler Operators/Engineers
 Crane/Hoisting Operators
 Chemical Dependency Counselors
 Fire Prevention and Permitting
 Construction Blasters

Revenues and Expenses

The stated revenue objective of the POL Administrative Services Account is to assess the common costs of operations to the special revenue accounts on an equitable basis, while attempting to maintain a reasonable working capital reserve.

Rate Explanation

Recharge rates are allocated to the state special revenue accounts based upon requested appropriations, less any program-direct personal services amounts. Each program is assigned a percentage rate based on adjusted appropriations in comparison to the total appropriation for all accounts. That percentage rate is then applied to the required proprietary revenue needed to determine each account's share of the funding.

At the proposed recharge rate of 38 percent, the department projects a fiscal 2003 ending fund balance of \$325,312, a 62-day working capital reserve.

Significant Present Law

DP 28 - POL Rent - This adjustment would consolidate rental charges from various boards/programs attached to the division into the division's proprietary account. This proposal is accompanied by a corresponding adjustment in the budget proposal for POL boards. This proposal would effect an approximate rate increase of 0.1.86 percent over the 2003 biennium.

DP 38 - High Speed Printer - The division proposes the addition of a second printer to their single Oracle database operation, at a fiscal 2000 cost of \$5,500. This proposal would effect an approximate rate increase of 0.09 percent over the 2003 biennium.

DP 42 - POL Administrative Costs - This adjustment is for increases in indirect costs and covers equipment replacement allocation costs incurred by the Director's Office/Management Services Division . This proposal also includes a reduction for one-time moving expenditures incurred in fiscal 2000. This proposal would effect an approximate rate increase of 0.13 percent over the 2003 biennium.

| | |
|------------------------|---|
| LFD COMMENT | For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
|------------------------|---|

Report on Internal Service & Enterprise Funds, 2003 Biennium

| | | | | |
|----------------------|-----------------------------|-----------------------|---------------------------------------|---------------------------|
| Fund Number 06552 | Fund Name POL Admin Svcs | Agency Number 6501 | Agency Name Department of Commerce | Program Name POL Admin |
|----------------------|-----------------------------|-----------------------|---------------------------------------|---------------------------|

Fund Balance Information

| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Beginning Retained Earnings | 247,194 | 141,267 | 63,217 | 47,699 | (93,857) | (1,302) | 139,152 | 212,525 |
| Increases | | | | | | | | |
| Fee Revenue | 1,193,482 | 1,192,533 | 1,414,762 | 1,408,537 | 1,776,840 | 1,800,000 | 2,000,000 | 2,000,000 |
| Investment Earnings | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | - | - | - | - |
| Miscellaneous, other | 348 | 220 | - | - | 728 | 500 | 728 | 728 |
| Total Increases | 1,193,830 | 1,192,753 | 1,414,762 | 1,408,537 | 1,777,568 | 1,800,500 | 2,000,728 | 2,000,728 |
| (Decreases) | | | | | | | | |
| Personal Services | 899,221 | 1,025,675 | 1,026,018 | 1,105,645 | 1,274,718 | 1,217,813 | 1,326,323 | 1,333,177 |
| Operations | 309,702 | 292,457 | 355,869 | 357,469 | 460,952 | 442,233 | 601,032 | 554,764 |
| Transfers Out | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | 81,724 | - | - | - | - | - | - | - |
| Miscellaneous, other | 9,110 | (47,329) | - | 61,523 | - | - | - | - |
| Total Decreases | 1,299,757 | 1,270,803 | 1,381,887 | 1,524,637 | 1,735,669 | 1,660,046 | 1,927,355 | 1,887,941 |
| Adjustments to Beginning Retained Earnings | - | - | (48,393) | (25,456) | 50,657 | - | - | - |
| Ending Retained Earnings | 141,267 | 63,217 | 47,699 | (93,857) | (1,302) | 139,152 | 212,525 | 325,312 |
| Total Contributed Capital | 736 | 736 | - | - | - | - | - | - |
| Total Fund Equity | 142,003 | 63,953 | 47,699 | (93,857) | (1,302) | 139,152 | 212,525 | 325,312 |
| Unreserved Fund Balance | 141,267 | 63,217 | 47,699 | (68,401) | (1,302) | 139,152 | 212,525 | 325,312 |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | 215,108 | 219,689 | 230,315 | 243,852 | 289,278 | 276,674 | 321,226 | 314,657 |

Fee/Rate Information for Legislative Action:

| | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY03 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Requested Rates for Internal Service Funds | 32.03% | 31.94% | 33.68% | 33.38% | 35.61% | 35.68% | 38.00% | 38.00% |

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

The revenue objective of the POL Administrative Services Pool of the POL Division of the Department of Commerce is to maintain the lowest possible recharges to supported licensing boards and occupational programs while attempting to maintain a reasonable and prudent 60 day working capital reserve.

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 2.00 | 0.00 | 0.00 | 2.00 | 0.00 | 0.00 | 2.00 | 2.00 |
| Personal Services | 0 | 71,245 | 0 | 71,245 | 71,493 | 0 | 71,493 | 142,738 |
| Operating Expenses | 1,204 | 76,832 | 0 | 78,036 | 77,303 | 0 | 78,507 | 156,543 |
| Equipment | 0 | 719 | 0 | 719 | 0 | 0 | 0 | 719 |
| Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$1,204 | \$148,796 | \$0 | \$150,000 | \$148,796 | \$0 | \$150,000 | \$300,000 |
| General Fund | 1,204 | 148,796 | 0 | 150,000 | 148,796 | 0 | 150,000 | 300,000 |
| Total Funds | \$1,204 | \$148,796 | \$0 | \$150,000 | \$148,796 | \$0 | \$150,000 | \$300,000 |

Program Description

The Board of Research and Commercialization Technology was established by the 1999 Montana Legislature to provide a predictable and stable source of funding for research and commercialization projects; to expand and strengthen research efforts, allowing the state's basic industries to increase their economic impact on the state's economy; and to expand research efforts into areas beyond the scope of the state's basic industries in order to diversify and strengthen the state's economic security through the creation of technology-based operations and long-term, good quality jobs.

The Board has the authority to make grants or loans from the Research and Commercialization Expendable Trust Fund established in 90-3-1002, MCA. These grants or loans can be made research and commercialization centers if the projects:

- ?? have the potential to diversify or add value to a traditional basic industry of the state's economy;
- ?? show promise for enhancing the technology-based sectors or the commercial development of discoveries;
- ?? employ or take advantage of existing research and commercialization strengths;
- ?? have a realistic and achievable project design;
- ?? employ an innovative technology;
- ?? are located in the state;
- ?? have a qualified research team;
- ?? have scientific merit based on peer review; and
- ?? include research opportunities for students.

Program Narrative

The Fifty-sixth legislature passed HB 260, which established the Board of Research and Commercialization. HB 260 allowed the board to hire an executive director and prescribed the executive director's salary and duties. The executive director was allowed to hire additional staff as necessary within the budgetary limitations prescribed by the board. HB 1, passed in the May 2000 special session, funded grants from the board at \$4.8 million per year through the 2005 biennium, and the administrative costs of the board at \$150,000 per year through the current biennium. Administrative expenses must be budgeted in HB 2 for the 2003 biennium. The board is established and meeting consistently. The department predicts that the board will announce its first award by January 1st, 2001.

Funding

The Board of Research and Commercialization administrative functions are funded entirely with general fund.

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|-----------------|------------------|--------------------|------------------|-----------------------|-----------------|------------------|--------------------|------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 73,229 | | | | | 73,485 |
| Vacancy Savings | | | | | (1,984) | | | | | (1,992) |
| Fixed Costs | | | | | 5,223 | | | | | 4,828 |
| Total Statewide Present Law Adjustments | | | | | \$76,468 | | | | | \$76,321 |
| DP 1 - Board of Research & Commercialization Admin Costs | 0.00 | 72,328 | 0 | 0 | 72,328 | 0.00 | 72,475 | 0 | 0 | 72,475 |
| Total Other Present Law Adjustments | 0.00 | \$72,328 | \$0 | \$0 | \$72,328 | 0.00 | \$72,475 | \$0 | \$0 | \$72,475 |
| Grand Total All Present Law Adjustments | | | | | \$148,796 | | | | | \$148,796 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Board of Research & Commercialization Admin Costs - This proposal would continue to fund the Board of Research and Commercialization at the same level as was appropriated by the May 2000 special session.

**LFD
ISSUE** Due to the delay caused by the passing of and subsequent challenge to HB 260, no board positions were filled during the base year, and only \$1,204 in advertising costs was expended. No grants or loans have been approved. For these reasons, no baseline has been established that ties results to expenses. The department is currently developing board goals and objectives for the 2003 biennium. The legislature may wish to ask the department for an update on these goals and objectives. Based on the proposed goals, the legislature can then consider the following policy issues:

- 1) Should results be tied to expenses (return on investment) in order to determine the proper level of administrative funding for the board?
- 2) Are the department's proposed goals and objectives sufficient to accurately gauge results and therefore measure success? Examples of measurable results could include jobs created and increased state taxes paid by the industries and/or companies involved.

Should the board's goals and objectives be aligned with the outcome indicators directed in HB 2 by the 1999 legislature? (For more discussion on those outcome indicators, please refer to the discussion in the section on the Economic Development Division.)

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 26.00 | 0.50 | 0.00 | 26.50 | 0.50 | 0.00 | 26.50 | 26.50 |
| Personal Services | 1,025,833 | 101,667 | 0 | 1,127,500 | 107,277 | 0 | 1,133,110 | 2,260,610 |
| Operating Expenses | 1,278,071 | 61,686 | 22,250 | 1,362,007 | 53,355 | 16,100 | 1,347,526 | 2,709,533 |
| Equipment | 0 | 8,624 | 0 | 8,624 | 0 | 0 | 0 | 8,624 |
| Grants | 2,214,579 | 875,760 | 0 | 3,090,339 | 875,760 | 0 | 3,090,339 | 6,180,678 |
| Debt Service | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$4,518,483 | \$1,047,737 | \$22,250 | \$5,588,470 | \$1,036,392 | \$16,100 | \$5,570,975 | \$11,159,445 |
| General Fund | 1,090,864 | 153,824 | 22,250 | 1,266,938 | 142,078 | 16,100 | 1,249,042 | 2,515,980 |
| State/Other Special | 236,521 | 12,139 | 0 | 248,660 | 12,139 | 0 | 248,660 | 497,320 |
| Federal Special | 3,191,098 | 881,774 | 0 | 4,072,872 | 882,175 | 0 | 4,073,273 | 8,146,145 |
| Total Funds | \$4,518,483 | \$1,047,737 | \$22,250 | \$5,588,470 | \$1,036,392 | \$16,100 | \$5,570,975 | \$11,159,445 |

Program Description

The Economic Development Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. The division strives to enhance the economic base of Montana by creating, expanding, and retaining business, as well as by providing technical and financial assistance and forming relationships with local development groups, chambers, and similar organizations.

Program Narrative

HB 1, passed during the May 2000 special session, included funding for business recruitment, a small business development center, small business innovative research, certified communities, Montana Manufacturing Extension Center at MSU-Bozeman, and export trade enhancement activities. HB 1 funded these programs through the 2005 biennium. Table 1 provides a breakout of the funding allocated for these programs.

These initiatives were originally considered during the 1999 legislature as part of the executive's Jobs and Income Blueprint for Economic Development. At the time, several proposals presented in the executive's Jobs and Income blueprint did not have measurable or well-defined goals and objectives. The legislature directed the department in HB 2 to set fiscal 2000 and 2001 goals for improving the following specific outcome indicators relative to the state's economy:

- 1) Percent increase in per capita earnings;
- 2) Percent increase in personal income;
- 3) Percent increase in the number of livable wage jobs;
- 4) Percent increase in manufacturing employment;
- 5) Percent increase in economic value of agriculture;
- 6) Percent decrease in multiple jobholders;
- 7) Percent increase in value of the livestock industry; and
- 8) Percent increase in revenue generated from film and advertisement production.

The indicators were to be published on the department's web site by July 1, 1999, and updated every six months to show progress. At the time of this analysis, most statistics displayed on the department's web site are current to fiscal 1997, due to the delay in obtaining statistics for a given year.

| Table 1 Economic Development Division HB 1 Program Funding May 2000 Special Session | |
|--|--------------------|
| Program | Annual Funding |
| Business Recruitment | \$350,000 |
| Small Business Development Center | 125,000 |
| Small Business Innovative Research Program | 50,000 |
| Certified Communities Program | 425,000 |
| Montana Manufacturing Extension Center | 200,000 |
| Export Trade Enhancement | 300,000 |
| Total Funded | \$1,450,000 |

**LFD
ISSUE**

The legislature may wish to ask the department for an update on specific goals, outcome indicators, and progress in meeting those goals as they relate to the economic development initiatives funded.

Funding

The Economic Development Division is funded by a combination of 23 percent general fund, 4 percent state special revenue funds, and 73 percent federal funds. The Census and Economic Information Center (CEIC) Regional Development function, and the Business Location function are fully funded by the general fund. Community development block grants are primarily funded with federal funds, but the general fund matches a portion of the costs for administering the grants. The interest earned from development loans to Microbusiness Development Corporations provides funding for the administrative expenses of the microbusiness loan program. Trade and International Relations activities are funded with general fund and state special revenues from conference fees and trade shows. Small Business Development Centers are primarily funded with federal funds and state special revenues from private industry partnering. General fund provides a portion of the match for administrative costs.

The trade program receives additional funding from Travel Montana's allocation of the Lodging Facility Use Tax, which amounts to approximately \$200,000 annually. Since Lodging Facility Use Tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as a result, does not appear in the funding tables. The trade program also receives funding from the Growth Through Agriculture Program in the Department of Agriculture. The Agriculture Council determines the amount of grant funds to be transferred to the division, which has typically been \$90,000 per year for this purpose.

| | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|---|-----------------------|-----------------|-----------------|------------------|--------------------|-----------------------|-----------------|-----------------|------------------|--------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Present Law Adjustments | | | | | | | | | | |
| Personal Services | | | | | 109,096 | | | | | 114,836 |
| Vacancy Savings | | | | | (31,180) | | | | | (31,353) |
| Inflation/Deflation | | | | | 610 | | | | | 1,433 |
| Fixed Costs | | | | | 29,654 | | | | | 22,940 |
| Total Statewide Present Law Adjustments | | | | | \$108,180 | | | | | \$107,856 |
| DP 23 - CEIC Library Modernization | 0.50 | 16,448 | 0 | 0 | 16,448 | 0.50 | 15,991 | 0 | 0 | 15,991 |
| DP 43 - Economic Development Administrative Costs | 0.00 | 29,198 | 12,138 | 6,013 | 47,349 | 0.00 | 18,232 | 12,138 | 6,415 | 36,785 |
| DP 512 - CDBG Federal Grants | 0.00 | 0 | 0 | 875,760 | 875,760 | 0.00 | 0 | 0 | 875,760 | 875,760 |
| Total Other Present Law Adjustments | 0.50 | \$45,646 | \$12,138 | \$881,773 | \$939,557 | 0.50 | \$34,223 | \$12,138 | \$882,175 | \$928,536 |
| Grand Total All Present Law Adjustments | | | | | \$1,047,737 | | | | | \$1,036,392 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 23 - CEIC Library Modernization - The Executive Budget includes a request for a general fund increase for personal services and related operating expenses to add a .50 FTE library technician position to assist the current administrative assistant position. The position would be responsible for cataloging and maintaining the collection, and for assisting the public and other users in accessing materials. The increase also provides for the installation of library cataloging and circulation software, and links to the Montana Library Network.

DP 43 - Economic Development Administrative Costs - An increase in general fund and state and federal special revenue authority is requested in order to meet administrative cost increases, including overtime, board member per diem, indirect costs, and the division's share of department server replacement. The request also includes an increase for contracted services related to conducting at least two Revolving Loan Fund training sessions for the Microbusiness Finance Program and local MBDC staff on the subjects of loan portfolio management and credit analysis, per a recommendation from the Legislative Audit Division.

LFD COMMENT The amount requested for overtime and per diem is equal to base year expenditures. Since overtime and per diem are not funded in the adjusted base, this request carries over the overtime and per diem values from the base year.

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division

LFD COMMENT The Legislative Audit Division, at the request of the Legislative Audit Committee, conducted a performance audit on the department's Microbusiness Finance Program. The Audit Division concluded that the program's loan portfolio was at risk and noted several weaknesses within the program, one of which was training. The request for training included in this proposal is a direct result of recommendations from that audit.

DP 512 - CDBG Federal Grants - The Executive Budget includes a request for an increase in federal special revenue authority for CDBG increases. Federal CDBG economic development funds are projected to increase during the 2003 biennium to an estimated \$2.50 million per year. These funds are used to help communities throughout Montana further their economic development efforts.

| New Proposals | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | | |
|----------------------|-----------------------|-----------------|------------|---------------|-------------------|-----------------------|-----------------|------------|---------------|-------------------|-------------|
| | Prgm | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| DP 7 - Census Access | | | | | | | | | | | |
| 51 | 0.00 | 22,250 | 0 | 0 | 22,250 | 0.00 | 16,100 | 0 | 0 | 16,100 | |
| Total | 0.00 | \$22,250 | \$0 | \$0 | \$22,250 * | 0.00 | \$16,100 | \$0 | \$0 | \$16,100 * | |

New Proposals

DP 7 - Census Access - This request would provide additional general fund to develop new services that would enable CEIC users access to the full range of Census and economic data available via the Internet (including population, socioeconomic, geographic, and redistricting information).

LFD ISSUE This request includes \$13,750 in 2002 and \$7,100 in 2003 for one-time software purchases, which should be designated as one-time-only expenses. The remaining funding is for training, which is projected to occur on a recurring basis. The legislature may wish to require the department to report to the 2003 legislature on availability and examples of information provided by the new services.

| Program Proposed Budget | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| FTE | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Operating Expenses | 567,913 | 197,236 | 0 | 765,149 | 182,087 | 0 | 750,000 | 1,515,149 |
| Total Costs | \$567,913 | \$197,236 | \$0 | \$765,149 | \$182,087 | \$0 | \$750,000 | \$1,515,149 |
| State/Other Special | 567,913 | 197,236 | 0 | 765,149 | 182,087 | 0 | 750,000 | 1,515,149 |
| Total Funds | \$567,913 | \$197,236 | \$0 | \$765,149 | \$182,087 | \$0 | \$750,000 | \$1,515,149 |

Program Description

The Travel Montana Division promotes:

- ?? increased visitor travel and expenditures;
- ?? motion pictures and commercial filming in the state through consumer advertising, publicity, international and domestic group travel marketing;
- ?? printing and distribution of literature; and
- ?? marketing to motion picture and television production companies.

The division is funded primarily by the statutorily-appropriated Lodging Facility Use Tax and uses these monies to provide training and assistance to the Montana tourism industry, to administer and distribute infrastructure grants, and to oversee expenditures of six regional non-profit corporations and the nine specific cities where Lodging Facility Use Tax collections exceed \$140,000.

Program Narrative

Lodging Facility Use Tax

Background

The Lodging Facility Use Tax, established by the 1987 legislature, is a 4 percent tax collected by lodging facilities from all guests. Further discussion of the funding allocation is included in the Funding Section of this narrative.

Since establishment of the Lodging Facility Use Tax, revenues have increased from \$5.1 million in fiscal 1989 to \$11.0 million in fiscal 2000. Increases have ranged from 3 to 5 percent annually during the past several years. The allocation has remained the same for the duration of the tax, although it should be noted that the \$400,000 statutory allocation to the Montana Heritage Preservation and Development Account ends effective July 1, 2001, and is not projected into future years' allocations.

The state's involvement in tourism promotion and the allocation of the Lodging Facility Use Tax revenues have been debated at length by the last several legislatures. When discussing tourism promotion, two questions frequently asked are:

- 1) Should state government promote a private industry, and
- 2) If so, why?

The frequent response is that state government should be involved because of tourism's contribution to the state economy. Another common response is that, as a single entity, state government can provide a more efficient return on the investments made in promoting the physical resources the state has to offer than can the individual businesses directly benefiting from this effort.

Economic Impact

Independent information regarding the impacts of tourism on Montana's economy is not readily available. Most of the available information comes from two state entities - the Institute for Tourism and Recreation Research (ITRR) at the University of Montana and the Montana Promotion Division. Table 1 summarizes information relating to the impact of tourism on Montana's economy contained in the Montana Promotion Division's November 2000 Report on the Montana

Tourism Industry and the ITRR 2000 edition of An Economic Review of the Travel Industry in Montana. According to ITRR research, total expenditures resulting directly from Montana's tourism industry were approximately \$1.6 billion in 1999. Additionally, almost 30,000 jobs and an employment compensation in the amount of \$479 million resulted from nonresident travel in Montana in 1999.

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|------------------------|---------|---------|---------|---------|---------|---------|
| Nonresident Visitors: | | | | | | |
| Visitors (millions) | 8.7 | 8.8 | 8.7 | 8.8 | 9.25 | 9.4 |
| Growth from prior year | | 1.1% | -1.1% | 1.1% | 5.1% | 1.6% |
| Tourism-dependent jobs | | | | | | |
| Jobs (thousands) | 27 | 27.4 | 27.1 | 27.7 | 28.8 | 29.9 |
| Growth from prior year | | 1.5% | -1.1% | 2.2% | 4.0% | 3.8% |
| Travel-related Payroll | | | | | | |
| \$ million | \$432 | \$438 | \$435 | \$444 | \$462 | \$479 |
| Growth from prior year | | 1.4% | -0.7% | 2.1% | 4.1% | 3.7% |
| Visitor Expenditures | | | | | | |
| \$ million | \$1,430 | \$1,450 | \$1,440 | \$1,470 | \$1,530 | \$1,588 |
| Growth from prior year | | 1.4% | -0.7% | 2.1% | 4.1% | 3.8% |

Sources: Travel Montana: November 2000 Report on the Montana Tourism Industry
ITRR: An Economic Review of the Travel Industry in Montana - 2000 Edition

When referring to tourism as an industry, it is important to realize that this "industry" is really comprised of portions of traditional major industries including the retail trade, foodservices, hotels, amusement and recreation services, agricultural, forest, and hunting activities, transportation, and public utilities. These industries serve nonresident visitors as well as citizens and business travelers. Therefore, during analysis of Table 1 data, it should be noted that information provided relative to the impacts of tourism on Montana's economy is the result of estimates made based on statistical inferences.

LFD ISSUE The lack of readily-available information from a variety of sources makes it difficult to validate the assumptions and survey results used in providing the estimated impacts of resident and non-resident travel. Likewise, there is no objective data to tie these results to involvement, or lack of involvement, of the Department of Commerce or other state agencies. Therefore, the legislature may wish to consider the following questions:

What is the benefit of Montana Promotion Division expenditures (a portion of which is paid by Montana residents) on the overall state economy?

- 1) Should expenditures be tied to results within the tourism industry and state economy?
- 2) If so, what performance indicators should/could be used to tie program expenditures to results?

Allocation

Allocation of the Lodging Facility Use Tax revenues was discussed during the 1999 legislature, with a final decision to leave the allocation as previously appropriated in statute. One option discussed was an increase in the tax, with a partial or full tax credit to Montana residents. This proposal notably put the burden of tax revenues on out-of-state visitors, and excluded (partially or totally) taxes paid by Montana residents. Table 2 shows an example of the effect of this tax when a credit on the increase is given to Montana citizens. The table projects a doubling of the tax to 8 percent, and demonstrates the results when a credit for the increase and the full amount of the tax is given to Montana residents.

Table 2
Lodging Facility Use Tax Calculations

| Current Law (Fiscal 2000) | Proposed Credit-Keep Current Allocations | Proposed Credit-Keep Current Allocations |
|--|--|--|
| | Tax 8%, tax credit on entire tax paid | Tax 8%, tax credit on 4% increase |
| Current Tax Percentage: 4.00% | New Tax Percentage: 8.00% | New Tax Percentage: 8.00% |
| Estimated Resident Portion: 0.4 | Estimated Resident Portion: 0.4 | Estimated Resident Portion: 0.4 |
| Estimated Non-resident Portion: 0.6 | Estimated Non-resident Portion: 0.6 | Estimated Non-resident Portion: 0.6 |
| Fiscal 2000 Revenues: \$11,038,724 | Projected Revenues: \$22,077,448 | Projected Revenues: \$22,077,448 |
| Under Current Tax: | Under New Tax: | Under New Tax: |
| Amounts Paid by State Employees: \$139,366 | Amounts Paid by State Employees: \$278,732 | Amounts Paid by State Employees: \$278,732 |
| Amounts Paid by Residents: 4,359,743 | Amounts Paid by Residents: 8,719,486 | Amounts Paid by Residents: 8,719,486 |
| Amounts Paid by Non-residents: 6,539,615 | Amounts Paid by Non-residents: 13,079,230 | Amounts Paid by Non-residents: 13,079,230 |
| Total: \$11,038,724 | Total: \$22,077,448 | Total: \$22,077,448 |
| Off-the-top Allocation: | Off-the-top Allocation: | Off-the-top Allocation: |
| Department of Revenue: \$114,525 | Department of Revenue: \$114,525 | Department of Revenue: \$114,525 |
| State Employee Deposits to GF: 139,366 | Refund for State Employee Travel: 278,732 | Refund for State Employee Travel: 278,732 |
| Heritage Preservation & Devel.: 400,000 | Heritage Preservation & Development: 0 | Heritage Preservation & Development: 0 |
| Total: \$653,891 | Total: \$393,257 | Total: \$393,257 |
| Remaining Amount for % Allocations: \$10,384,833 | Remaining Amount for Allocation: \$21,684,191 | Remaining Amount for Allocation: \$21,684,191 |
| Current Percentage Allocations: | New Percentage Allocations: | New Percentage Allocations: |
| Department of Commerce: 67.5% \$7,009,762 | Department of Commerce: 32.3% \$7,009,762 | Department of Commerce: 32.3% |
| General Fund: 0% 0 | General Fund: 52.1% 11,299,358 | General Fund: 52.1% |
| Regional Nonprofit Tourism Corps.: 22.5% 2,336,587 | Regional Nonprofit Tourism Corps.: 10.8% 2,336,587 | Regional Nonprofit Tourism Corps.: 10.8% |
| Fish, Wildlife and Parks: 6.5% 675,014 | Fish, Wildlife and Parks: 3.1% 675,014 | Fish, Wildlife and Parks: 3.1% |
| Commissioner of Higher Education: 2.5% 259,621 | Commissioner of Higher Education: 1.2% 259,621 | Commissioner of Higher Education: 1.2% |
| Montana Historical Society: 1.0% 103,848 | Montana Historical Society: 0.5% 103,848 | Montana Historical Society: 0.5% |
| Total: 100.0% \$10,384,833 | Total: 100.0% \$21,684,191 | Total: 100.0% |
| | Reduction in Income Tax Revenue: (\$7,411,563) | Reduction in Income Tax Revenue: (\$3,705,782) |
| | Collections to General Fund: 11,299,358 | Collections to General Fund: 11,299,358 |
| | Net Impact to general fund: \$3,887,795 | Net Impact to general fund: \$7,593,576 |
| Assumptions: Percentage of taxes paid by MT residents: 40% (ITRR, plus adjustment for business travel) Percentage of taxpayers to apply for credit: 85% Assumes increased tax does not lessen number of rooms rented Assumes no change in rooms rented due to changes in allocations | | |

It should be noted this table is an estimate only, and that it includes the following assumptions:

- 1) Montana resident travel (pleasure and business) makes up 40 percent of revenue collections;
- 2) 85 percent of eligible residents would claim the tax credit;
- 3) Increased taxes would not affect the number of rooms rented;
- 4) A change in allocation would not affect the number of rooms rented; and
- 5) Current allocations are frozen at their dollar amounts, with new percentages calculated.

The example increase in the table shows a projected net impact of \$3.9 million when a credit on the entire tax is given to Montana residents, and a projected impact of \$7.6 million when a credit is given only on the increase.

| | |
|--------------------|---|
| LFD COMMENT | The implications of this tax are too numerous to explore in this narrative. Therefore, the table is not meant to serve as a proposal, but merely to illustrate the effects a tax change would have on state revenues. Additionally, this table does not address the relationship between expenditures, tourism and revenues, which are directly affected by travel within the state |
|--------------------|---|

Funding

The division is primarily funded by state special revenues derived from 67.5 percent of Lodging Facility Use Tax receipts remaining after statutory deductions. Statutory deductions include refunding state accounts for Lodging Facility Use Tax paid by state employees on official business, and Department of Revenue costs.

The remainder of the tax not allocated to the Department of Commerce goes to the Montana State Historical Society, the University of Montana for allocation to the Institute of Tourism and Recreation Research, and to the Department of Fish, Wildlife, and Parks. The funds distributed to the Department of Commerce are statutorily appropriated by 15-65-121, MCA, rather than in HB 2.

The division is partially funded by state special revenues received from the sale of advertising material as well as income from conferences and other state agencies. The Montana Promotion Division distributes 22.5 percent of the Lodging Facility Use Tax revenue to regional nonprofit tourism corporations and to certain cities. The remainder is spent by the division for tourism promotion and for promotion of the state as a location for motion pictures and television commercials. Table 3 provides an illustration of the Lodging Facility Use Tax distribution.

| | Distribution Basis | Fiscal 1996 | Fiscal 1997 | Fiscal 1998 | Fiscal 1999 | Fiscal 2000 |
|--|------------------------|-------------|-------------|--------------|--------------|--------------|
| Gross Facility Use Tax Receipts | | \$9,290,960 | \$9,509,673 | \$10,008,143 | \$10,420,017 | \$11,038,724 |
| Department of Revenue | Reimburse State Travel | \$126,708 | \$104,847 | \$104,799 | \$208,334 | \$114,525 |
| Department of Revenue | Cover collection costs | 88,605 | 89,808 | 103,235 | 104,267 | 139,366 |
| MT Heritage Preservation & Development | Fixed | 0 | 0 | 400,000 | 400,000 | 400,000 |
| Net Facility Use Tax for Distribution | | \$9,075,647 | \$9,315,018 | \$9,400,109 | \$9,707,416 | \$10,384,833 |
| Historical Society | 1% of net | \$90,756 | \$93,150 | \$94,001 | \$97,074 | \$103,848 |
| Higher Education | 2.5% of net | 226,891 | 232,875 | 235,003 | 242,685 | 259,621 |
| Fish, Wildlife, & Parks | 6.5% of net | 589,917 | 605,476 | 611,007 | 630,982 | 675,014 |
| Department of Commerce | | | | | | |
| For Department Use | 67.5% of net | \$6,126,062 | \$6,287,637 | \$6,345,073 | \$6,552,506 | 7,009,762 |
| For Distribution to Regions and Cities | 22.5% of net | 2,042,021 | 2,095,879 | 2,115,024 | 2,184,169 | 2,336,587 |

LFD ISSUE Since the Lodging Facility Use Tax was enacted, the Montana Promotion Division has expended more than \$76 million with an additional \$42 million distributed to the six tourism regions of the state. There has been no legislative review of expenditures or proposals. The legislature may wish to consider whether a statutory appropriation should be continued to accommodate Department of Commerce expenditures from this account.

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|------------|------------------|--------------------|------------------|-----------------------|------------|------------------|--------------------|-------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Fixed Costs | | | | | 970 | | | | | (14,179) |
| Total Statewide Present Law Adjustments | | | | | \$970 | | | | | (\$14,179) |
| DP 521 - Cooperative Promotion | 0.00 | 0 | 196,266 | 0 | 196,266 | 0.00 | 0 | 196,266 | 0 | 196,266 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$196,266 | \$0 | \$196,266 | 0.00 | \$0 | \$196,266 | \$0 | \$196,266 |
| Grand Total All Present Law Adjustments | | | | | \$197,236 | | | | | \$182,087 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 521 - Cooperative Promotion - This request for additional state special revenue authority would support private sector cooperative promotional campaigns, partially funded by private contributions.

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 13.50 | 0.00 | 0.00 | 13.50 | 0.00 | 1.00 | 14.50 | 14.50 |
| Personal Services | 542,993 | 21,370 | 0 | 564,363 | 24,646 | 28,552 | 596,191 | 1,160,554 |
| Operating Expenses | 504,652 | 137,610 | 0 | 642,262 | 130,984 | 0 | 635,636 | 1,277,898 |
| Equipment | 6,309 | 3,114 | 0 | 9,423 | 0 | 0 | 6,309 | 15,732 |
| Grants | 7,415,242 | 1,915,544 | 24,983 | 9,355,769 | 1,915,544 | 58,459 | 9,389,245 | 18,745,014 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$8,469,196 | \$2,077,638 | \$24,983 | \$10,571,817 | \$2,071,174 | \$87,011 | \$10,627,381 | \$21,199,198 |
| General Fund | 359,188 | 89,195 | 0 | 448,383 | 86,772 | 0 | 445,960 | 894,343 |
| State/Other Special | 1,803,777 | 113,950 | 24,983 | 1,942,710 | 109,437 | 87,011 | 2,000,225 | 3,942,935 |
| Federal Special | 6,306,231 | 1,874,493 | 0 | 8,180,724 | 1,874,965 | 0 | 8,181,196 | 16,361,920 |
| Total Funds | \$8,469,196 | \$2,077,638 | \$24,983 | \$10,571,817 | \$2,071,174 | \$87,011 | \$10,627,381 | \$21,199,198 |

Program Description

The Community Development Division works with federal, state, and local governments and the private sector in all areas of community development including public facilities planning and financing, community planning and growth management, subdivision regulation and zoning, housing development for low- and moderate-income families, neighborhood revitalization, needs assessment, coal and hard rock mining mitigation, and project management. There are three major programs within the Bureau: the Community Technical Assistance Program (CTAP), the Community Development Block Grant (CDBG) Program, and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board and their respective programs are attached to the Bureau for administrative purposes.

Funding

- ?? The Hard Rock Mining Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax.
- ?? The CDBG program is primarily funded with federal block grant funds. The general fund provides a HUD-mandated match for a portion of the administrative costs of the program.
- ?? TSEP is funded by interest earnings from the permanent Coal Tax Trust.
- ?? CTAP is funded through the general fund and also receives a portion of Coal Severance Tax collections allocated for county land planning.
- ?? The Coal Board and CTAP (County Land Planning) compete with three other programs (Montana Growth Through Agriculture, State Library Commission, and Conservation Districts) for a share of 8.36 percent of Coal Severance Tax collections.

Table 1 shows the executive proposal for allocation of the 8.36 percent of Coal Severance Tax collections, by program.

| Program | Biennium Request | Percentage of overall |
|---|--------------------|-----------------------|
| Local Impact (Coal Board) - Dept of Comm. | \$2,464,168 | 44.6% |
| Conservation Districts - DNRC | 1,314,870 | 23.8% |
| MT Growth Through Ag - Dept of Ag. | 775,122 | 14.0% |
| State Library Services - State Lib. Comm. | 568,454 | 10.3% |
| County Land Planning - Dept of Comm. | 397,386 | 7.2% |
| 8.36% total projected | <u>\$5,520,000</u> | <u>100.0%</u> |

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|-----------------|------------------|--------------------|--------------------|-----------------------|-----------------|------------------|--------------------|--------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 34,442 | | | | | 37,820 |
| Vacancy Savings | | | | | (15,836) | | | | | (15,938) |
| Inflation/Deflation | | | | | 1,264 | | | | | 2,166 |
| Fixed Costs | | | | | 2,962 | | | | | (2,428) |
| Total Statewide Present Law Adjustments | | | | | \$22,832 | | | | | \$21,620 |
| DP 61 - Community Development Administrative Costs | 0.00 | 17,243 | 122,019 | 0 | 139,262 | 0.00 | 13,871 | 120,139 | 0 | 134,010 |
| DP 602 - CDBG Federal Grants | 0.00 | 0 | 0 | 1,915,544 | 1,915,544 | 0.00 | 0 | 0 | 1,915,544 | 1,915,544 |
| Total Other Present Law Adjustments | 0.00 | \$17,243 | \$122,019 | \$1,915,544 | \$2,054,806 | 0.00 | \$13,871 | \$120,139 | \$1,915,544 | \$2,049,554 |
| Grand Total All Present Law Adjustments | | | | | \$2,077,638 | | | | | \$2,071,174 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 61 - Community Development Administrative Costs - An increase in general fund and state special revenue authority including authority for expenditures from the Hard Rock Mining Impact Account Reserve, is proposed to provide for administrative cost increases, overtime, board member per diem, indirect costs and the division's share of department server replacement.

LFD COMMENT The biggest increase of this proposal provides the division with the authority to make expenditures from the Hard Rock Mining Impact Account Reserve as statutorily provided in Title 90, MCA. The reserve had no expenditures during the base year. As with the 2001 biennium, the executive requests the Hard Rock Mining Impact Account be restricted.

LFD COMMENT The amounts requested for overtime and per diem are equal to base year expenditures. Since overtime and per diem are not automatically funded in the adjusted base, this request carries over the overtime and per diem values from the base year.

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

DP 602 - CDBG Federal Grants - An increase in federal special revenue authority is requested. This funding would allow the division to meet the expense of federal CDBG funds, which are projected to increase to an estimated \$8.00 million each year during the 2003 biennium.

| New Proposals | | | | | | | | | | |
|--|-------------|-----------------------|-----------------|-----------------|-------------------|-----------------------|------------|-----------------|-----------------|-------------------|
| Prgm | FTE | -----Fiscal 2002----- | | | | -----Fiscal 2003----- | | | | |
| | | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| DP 4 - Coal Board Grants and FTE 60 | 0.00 | 0 | 24,983 | 0 | 24,983 | 1.00 | 0 | 87,011 | 0 | 87,011 |
| Total | 0.00 | \$0 | \$24,983 | \$0 | \$24,983 * | 1.00 | \$0 | \$87,011 | \$0 | \$87,011 * |

New Proposals

DP 4 - Coal Board Grants and FTE - An increase in state special revenue authority is requested in both years of the biennium, and an additional 1.00 FTE is requested in fiscal 2003. This proposal would add additional grants and a full time staff position dedicated to working with issues relative to local coal impact mitigation. Grant funds would be set aside for projects dealing with the impacts resulting from the decline in coal production and would allow local projects to enhance existing coal utilization practices.

LFD ISSUE The executive would fund this new proposal from the Coal Severance Tax Shared State Special Revenue Fund. At the end of each fiscal year, the remaining balance would be transferred to the general fund. The legislature's general fund projection as approved by the Revenue and Taxation Committee is based on present law, and does not include new proposals. Therefore, approving this new proposal would effectively reduce the general fund projection by the same amount.

Language Recommendations

The following language is recommended by the executive for HB2:

"The Montana coal board is authorized up to \$2,000,000 state special revenue during the 2003 biennium for grants dependent on available revenue in the coal severance tax shared account."

LFD ISSUE At the end of each fiscal year, the remaining balance in the Coal Severance Tax Shared Account is transferred to the general fund. Implementation of this language would have a direct effect on the amount of general fund available to the state during fiscal 2003. If the legislature wishes to approve this appropriation, it should be addressed as a new proposal rather than a language appropriation.

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 6.00 | 0.00 | 0.00 | 6.00 | 0.00 | 0.00 | 6.00 | 6.00 |
| Personal Services | 249,113 | 13,603 | 0 | 262,716 | 15,516 | 0 | 264,629 | 527,345 |
| Operating Expenses | 151,616 | 18,075 | 0 | 169,691 | 17,566 | 0 | 169,182 | 338,873 |
| Equipment | 0 | 1,198 | 0 | 1,198 | 0 | 0 | 0 | 1,198 |
| Total Costs | \$400,729 | \$32,876 | \$0 | \$433,605 | \$33,082 | \$0 | \$433,811 | \$867,416 |
| General Fund | 400,729 | 32,876 | 0 | 433,605 | 33,082 | 0 | 433,811 | 867,416 |
| Total Funds | \$400,729 | \$32,876 | \$0 | \$433,605 | \$33,082 | \$0 | \$433,811 | \$867,416 |

Program Description

The Local Government Services Division consists primarily of two programs.

- ?? The Local Government Accounting Systems Program provides technical assistance and training to local government accounting and financial personnel in the areas of local government finance, accounting, budgeting and financial reporting through on-site visits, telephone assistance, and local government training seminars. Program staff also serves as liaisons between local government and various state agencies.
- ?? The Local Government Audit Review Program is responsible for defining, reviewing, and enforcing auditing requirements for Montana's local governments. Program staff reviews all of the jurisdictions' annual financial reports and certifies compliance of local governments with the state Single Audit Act.

Funding

The systems portion of the division is funded entirely by the general fund.

The Audit Review Program and the Defalcation Audit Program are funded from proprietary funds, and are not listed in the funding tables. For more information on funding for these programs, please refer to the discussion on proprietary rates at the end of this chapter.

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|-----------------|---------------|-----------------|-----------------|-----------------------|-----------------|---------------|-----------------|-----------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 21,071 | | | | | 23,044 |
| Vacancy Savings | | | | | (7,468) | | | | | (7,528) |
| Inflation/Deflation | | | | | (110) | | | | | (95) |
| Fixed Costs | | | | | (3,276) | | | | | (4,224) |
| Total Statewide Present Law Adjustments | | | | | \$10,217 | | | | | \$11,197 |
| DP 29 - Federal Building Rent | 0.00 | 5,167 | 0 | 0 | 5,167 | 0.00 | 5,817 | 0 | 0 | 5,817 |
| DP 46 - LGS Administrative Costs | 0.00 | 17,492 | 0 | 0 | 17,492 | 0.00 | 16,068 | 0 | 0 | 16,068 |
| Total Other Present Law Adjustments | 0.00 | \$22,659 | \$0 | \$0 | \$22,659 | 0.00 | \$21,885 | \$0 | \$0 | \$21,885 |
| Grand Total All Present Law Adjustments | | | | | \$32,876 | | | | | \$33,082 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 29 - Federal Building Rent - The Executive Budget includes a request for a general fund increase to accommodate increased rent costs resulting from the division's move into the Federal Building.

DP 46 - LGS Administrative Costs - The Executive Budget includes a proposal to increase general fund support for administrative cost increases, including travel-related costs, indirect costs and the division's share of department server replacement.

**LFD
COMMENT**

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

**LFD
COMMENT**

This proposal would adjust for low travel costs experienced in the base year due to a vacancy in the accounting officer position. The position is currently filled, and is projected to remain filled throughout the 2003 biennium.

Proprietary Rates

Program Description

The Audit Review Program is responsible for administering the provisions of the Montana Single Audit Act (Title 2, Chapter 7, Part 5, MCA), which specifies the audit requirements for all of Montana's local government entities. It also provides information to the public regarding local government audits, audit findings, entity responses to findings, legal compliance and accounting requirements.

The Defalcation Audit Program coordinates the financial and compliance post-auditing of financial statements of local taxing jurisdictions by contracting with private accounting firms. The Local Government Audit Review and Systems Bureau has the administrative responsibility to determine if a special audit of a local government entity should be conducted due to a significant defalcation or an alleged financial or reporting impropriety.

Revenues and Expenses

The Audit Review Program receives revenues from two fees:

- 1) The report filing fee, required by 2-7-514, MCA, is based upon costs incurred by the department for administering the Audit Review Program. All local government entities who are required to submit to audits pay the filing fee. All local governments except school districts and associated cooperatives are required to pay the fee at the time they file their annual financial report with the Department of Commerce. The Office of Public Instruction pays the filing fee for school districts and associated cooperatives subject to audit. The Department of Commerce bills the Office of Public Instruction for the filing fees once a year, in January.
- 2) A roster fee is collected from auditors for their inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana. The current fee is \$50 per year, and currently provides approximately \$2,900 in revenue each year.

The department does not request, nor does it plan changes to the current fees. The fee revenues support a staff of 4.0 FTE. Staffing is expected to remain at 4.0 FTE for fiscal 2002 and 2003.

Funding for the Defalcation Audit Program is derived from the reimbursable special audit costs received from local government entities undergoing audits or reviews. No FTE are funded with Defalcation Audit Program funds. Audit Review Program staff perform any administrative or monitoring work related to the contracted special audits or reviews. The department's cost recovery is dependent on the fiscal capacity of the audited local government entity.

The department is projecting fiscal 2002 and 2003 expenditure levels at \$65,000 per year, an amount consistent with the current and past biennium.

The Audit Review Program receives the majority of its revenues during the second and third quarters of the year. Because of this, the program manages its cash flow with a four to five month working capital reserve at the beginning of the fiscal year. In addition, the Audit Review Program has gradually established an additional reserve of approximately \$65,000 to \$100,000, to meet anticipated one-time contracted services costs associated with a database conversion from Informix to Oracle, to be completed by fiscal 2004. In fiscal 1998, the department reduced fees to a level that would gradually reduce the working capital reserve to a four to five month balance (120 - 150 days) over a period of between five and six years, not including the additional working capital reserve for Oracle Data Base programming.

The objective of Audit Review Program management is to gradually reduce the unreserved fund balance, less the estimated \$65,000 to \$100,000 database conversion costs, to approximately \$45,000 to \$70,000 by the end of fiscal 2003.

The objective of the Defalcation Audit Program is to recover any special audit or review costs from audited local government entities and to maintain the current unreserved fund balance.

Significant Present Law

DP 30 - Federal Building Rent - This adjustment would provide for increased rent charges resulting from the Audit Review Program's move from a state-owned building to the Federal Building.

DP 46 - LGS Administrative Costs - This proposal would increase the funding for administrative expenses within the division, including contracted audit work, travel, printing, indirect costs, and the division's share of department server replacement.

| | |
|------------------------|---|
| LFD COMMENT | For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the agency overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
|------------------------|---|

Report on Internal Service & Enterprise Funds, 2003 Biennium

| Fund Number | Fund Name | Agency Number | Agency Name | Program Name |
|-------------|---------------------|---------------|------------------------|--------------|
| 06042 | Single Audit Review | 6501 | Department of Commerce | Audit Review |
| 06043 | Government Audit | 6501 | Department of Commerce | Defalcation |

Fund Balance Information

| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
|--|----------------|----------------|----------------|----------------|----------------|-------------------|-------------------|-------------------|
| Beginning Retained Earnings | 136,369 | 202,841 | 241,635 | 205,765 | 230,806 | 231,838 | 210,234 | 167,913 |
| Increases | | | | | | | | |
| Fee Revenue | 253,950 | 257,575 | 234,799 | 246,300 | 247,500 | 245,000 | 245,000 | 245,000 |
| Investment Earnings | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | 36 | - | - | - |
| Miscellaneous, other | - | - | - | - | 402 | 65,000 | 65,000 | 65,000 |
| Total Increases | 253,950 | 257,575 | 234,799 | 246,300 | 247,938 | 310,000 | 310,000 | 310,000 |
| (Decreases) | | | | | | | | |
| Personal Services | 98,948 | 149,950 | 154,545 | 161,337 | 161,021 | 170,294 | 173,505 | 174,397 |
| Operations | 88,603 | 66,336 | 72,715 | 60,349 | 85,885 | 161,310 | 178,816 | 176,228 |
| Transfers Out | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | - | - | - | - |
| Miscellaneous, other | 2,579 | 2,495 | 3,230 | - | - | - | - | - |
| Total Decreases | 190,130 | 218,781 | 230,490 | 221,686 | 246,906 | 331,604 | 352,321 | 350,625 |
| Adjustments to Beginning Retained Earnings | 2,652 | - | (40,179) | 427 | - | - | - | - |
| Ending Retained Earnings | 202,841 | 241,635 | 205,765 | 230,806 | 231,838 | 210,234 | 167,913 | 127,288 |
| Total Contributed Capital | 105,626 | 105,626 | 105,626 | 105,626 | 105,626 | 105,626 | 105,626 | 105,626 |
| Total Fund Equity | 308,467 | 347,261 | 311,391 | 336,432 | 337,464 | 315,860 | 273,539 | 232,914 |
| Unreserved Fund Balance | | | | | | | | |

60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6)

| | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| | 31,259 | 36,048 | 37,877 | 36,948 | 41,151 | 55,267 | 58,720 | 58,438 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

| Major Fee: | Local | Variable fee, as follows: | |
|--|----------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|------------------------------|
| Government Report Filing Fee: | | | | | | | | | | 2-7-514, MCA & ARM 8.94.4102 |
| Annual revenues less than \$200,000 and federal financial assistance is less than or equal to \$25,000 | \$0 | \$0 | N/A | |
| Annual revenues less than \$200,000 and federal financial assistance is greater than \$25,000 | \$225 | \$225 | N/A | |
| Annual revenues less than \$200,000 | N/A | N/A | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Annual revenues equal to or greater than \$200,000, but less than \$500,000 | \$225 | \$225 | \$175 | \$175 | \$175 | \$175 | \$175 | \$175 | \$175 | |
| Annual revenues equal to or greater than \$500,000, but less than \$1,000,000 | \$425 | \$425 | \$375 | \$375 | \$375 | \$375 | \$375 | \$375 | \$375 | |
| Annual revenues equal to or greater than \$1,000,000, but less than \$1,500,000 | \$575 | \$575 | \$525 | \$525 | \$525 | \$525 | \$525 | \$525 | \$525 | |
| Annual revenues equal to or greater than \$1,500,000, but less than \$2,500,000 | \$650 | \$650 | \$600 | \$600 | \$600 | \$600 | \$600 | \$600 | \$600 | |
| Annual revenues equal to or greater than \$2,500,000, but less than \$5,000,000 | \$725 | \$725 | \$675 | \$675 | \$675 | \$675 | \$675 | \$675 | \$675 | |
| Annual revenues equal to or greater than \$5,000,000, but less than \$10,000,000 | \$775 | \$775 | \$725 | \$725 | \$725 | \$725 | \$725 | \$725 | \$725 | |
| Annual revenues are equal to or greater than \$10,000,000 | \$825 | \$825 | \$775 | \$775 | \$775 | \$775 | \$775 | \$775 | \$775 | |
| Minor Fee: | Auditor Roster | | | | | | | | | 2-7-506, MCA & ARM 8.94.4106 |
| Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | Annual Fee: | |
| Annual Fee | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | |
| Defalcation Audit Revenues | \$65,000 | \$65,000 | \$65,000 | \$65,000 | \$65,000 | \$65,000 | \$65,000 | \$65,000 | \$65,000 | 2-7-503, MCA |

Proprietary Rates

Program Description

The Local Government Assistance Administration Program provides the Local Government Services Division with professional administration and legal services. The program supervises the Community Development and the Local Government Audit Review and Systems bureaus. Supervised programs include the Montana Coal Board, Community Development Block Grant Program, Community Technical Assistance Program, Hard Rock Mining Impact Board, Treasure State Endowment Program, Local Government Audit Review Program, and Local Government Accounting Systems Program. The Local Government Assistance Administration Program functions under multiple federal and state authorities that enable and mandate the individual programs functioning in the Local Government Assistance Division.

The Local Government Assistance Administration Program is funded from a proprietary fund that receives revenue from recharges paid by the Hard Rock Mining Impact and Coal boards, and the Community Development and Local Government Services divisions.

Revenues and Expenses

The actual operating costs of this administrative unit are charged to each of the supervised divisions and programs based upon the amount of time dedicated to the program. Recharges are billed on the basis of reported time on the pay period time sheets. Generally, the Local Government Assistance Administration Program does not budget for administrative costs beyond those directly associated with personal services in combination with a minimal part of the operating costs. These costs, primarily incurred by either the administrator or the legal counsel, are billed directly to the program activity supported.

Rate Explanation

The Local Government Assistance Administration Program rate is calculated by dividing the program's total cost by supported programs' requested budgets. The calculated rate is the lowest possible rate. The negative fund balance is a reflection of non-budgeted activities, including compensated absences. The 60-day working capital calculation was not considered in the determination of rates.

There has been no change in the services provided to supported divisions and programs, nor have there been appreciable changes in fees since the last biennium. Recharges to supported boards and programs fund the 2.50 administrative FTE.

Significant Present Law

DP 48 - LGA Administrative Costs - This proposal would increase operating expenses within the division. Increases include indirect costs and the division's share of department server replacement.

| | |
|------------------------|---|
| LFD COMMENT | For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
|------------------------|---|

Report on Internal Service & Enterprise Funds, 2003 Biennium

| | | | | |
|-------------|-------------------------|---------------|------------------------|----------------|
| Fund Number | Fund Name | Agency Number | Agency Name | Program Name |
| 06536 | LGA Administrator I-G S | 6501 | Department of Commerce | Administrative |

Fund Balance Information

| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Beginning Retained Earnings | (32,331) | (31,304) | (35,697) | (33,213) | (36,647) | (41,545) | (37,106) | (35,279) |
| Increases | | | | | | | | |
| Fee Revenue | 118,625 | 124,041 | 128,897 | 132,625 | 142,133 | 150,924 | 166,017 | 165,287 |
| Investment Earnings | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | - | - | - | - |
| Miscellaneous, other | - | - | - | - | - | - | - | - |
| Total Increases | 118,625 | 124,041 | 128,897 | 132,625 | 142,133 | 150,924 | 166,017 | 165,287 |
| (Decreases) | | | | | | | | |
| Personal Services | 106,320 | 115,448 | 112,014 | 118,895 | 130,513 | 127,011 | 141,380 | 143,197 |
| Operations | 11,278 | 12,986 | 14,399 | 17,178 | 16,257 | 19,474 | 22,810 | 21,700 |
| Transfers Out | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | - | - | - | - |
| Miscellaneous, other | - | - | - | - | - | - | - | - |
| Total Decreases | 117,598 | 128,434 | 126,413 | 136,073 | 146,770 | 146,485 | 164,190 | 164,897 |
| Adjustments to Beginning Retained Earnings | - | - | - | 14 | (261) | - | - | - |
| Ending Retained Earnings | (31,304) | (35,697) | (33,213) | (36,647) | (41,545) | (37,106) | (35,279) | (34,889) |
| Total Contributed Capital | - | - | - | - | - | - | - | - |
| Total Fund Equity | (31,304) | (35,697) | (33,213) | (36,647) | (41,545) | (37,106) | (35,279) | (34,889) |
| Unreserved Fund Balance | (31,304) | (35,697) | (33,213) | (36,676) | (41,023) | (36,584) | (34,757) | (34,367) |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | 19,600 | 21,406 | 21,069 | 22,679 | 24,462 | 24,414 | 27,365 | 27,483 |

Fee/Rate Information for Legislative Action:

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Requested Rates for Internal Service Funds | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY03 |
| | 1.41% | 1.57% | 1.77% | 1.78% | 1.33% | 1.33% | 1.38% | 1.38% |

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

Allocation Methodoloov: Costs of this administrative unit are allocated to supervised programs based upon estimates of the amount of time dedicated to each program. The revenue objective of A/E 06536 is to maintain the lowest possible fund balance and recharge cost to supervised bureaus and programs. The negative fund balance associated with this accounting entity is because budgeted amounts (appropriations or subclasses) do not recognize non-budgeted liabilities such as compensated absences.

Authority: The LGA Administration program operates under multiple state and federal enabling statutes.

| Program Proposed Budget | | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|--|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 | |
| FTE | 58.00 | 0.00 | 0.00 | 58.00 | 0.00 | 0.00 | 58.00 | 58.00 | |
| Personal Services | 1,979,444 | 225,094 | 0 | 2,204,538 | 237,480 | 0 | 2,216,924 | 4,421,462 | |
| Operating Expenses | 772,984 | 172,658 | 0 | 945,642 | 140,871 | 0 | 913,855 | 1,859,497 | |
| Equipment | 81,882 | 49,909 | 0 | 131,791 | 46,118 | 0 | 128,000 | 259,791 | |
| Total Costs | \$2,834,310 | \$447,661 | \$0 | \$3,281,971 | \$424,469 | \$0 | \$3,258,779 | \$6,540,750 | |
| State/Other Special | 2,834,310 | 447,661 | 0 | 3,281,971 | 424,469 | 0 | 3,258,779 | 6,540,750 | |
| Total Funds | \$2,834,310 | \$447,661 | \$0 | \$3,281,971 | \$424,469 | \$0 | \$3,258,779 | \$6,540,750 | |

Program Description

The Building Codes Division establishes and enforces minimum building codes, including accessibility, plumbing, mechanical, electrical, energy, elevator, and boiler codes. When possible, the division approves and certifies local government code enforcement programs to utilize codes adopted by the division. The division also assists the Board of Plumbers and the State Electrical Board with license law enforcement by checking for proper licensing when inspecting projects for code compliance.

Funding

The Building Codes Division is funded entirely from inspection fees deposited in the state special revenue fund.

| Present Law Adjustments | | | | | | | | | | |
|--|-------------|------------|------------------|-----------------|-----------------------|-------------|------------|------------------|-----------------|------------------|
| -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | | |
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 286,816 | | | | | 299,585 |
| Vacancy Savings | | | | | (61,722) | | | | | (62,105) |
| Inflation/Deflation | | | | | (300) | | | | | (252) |
| Fixed Costs | | | | | (20,247) | | | | | (25,255) |
| Total Statewide Present Law Adjustments | | | | | \$204,547 | | | | | \$211,973 |
| DP 5 - Vehicle Replacements | 0.00 | 0 | 45,118 | 0 | 45,118 | 0.00 | 0 | 46,118 | 0 | 46,118 |
| DP 10 - Inspector Travel | 0.00 | 0 | 41,000 | 0 | 41,000 | 0.00 | 0 | 41,000 | 0 | 41,000 |
| DP 25 - Computer Replacements | 0.00 | 0 | 30,000 | 0 | 30,000 | 0.00 | 0 | 0 | 0 | 0 |
| DP 31 - Bldg Codes Education | 0.00 | 0 | 19,000 | 0 | 19,000 | 0.00 | 0 | 19,000 | 0 | 19,000 |
| DP 49 - Building Codes Administrative Costs | 0.00 | 0 | 107,996 | 0 | 107,996 | 0.00 | 0 | 106,378 | 0 | 106,378 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$243,114 | \$0 | \$243,114 | 0.00 | \$0 | \$212,496 | \$0 | \$212,496 |
| Grand Total All Present Law Adjustments | | | | | \$447,661 | | | | | \$424,469 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Vehicle Replacements - The department requests an increase in state special revenue authority in order to replace 9 division-owned vehicles each year of the biennium. This proposal would replace four pickups and three sedans in fiscal 2002, and eight pickups and one sedan in 2003.

**LFD
ISSUE**

The proposed expenditures for vehicle replacement total \$127,000 and \$128,000 in fiscal 2002 and 2003 respectively, an increase of approximately \$45,000 over base year expenditures. If the legislature wishes to appropriate funding each biennium for specific replacement costs based on department need, then the appropriation should be designated as one-time-only.

DP 10 - Inspector Travel - The department requests an increase in state special revenue authority to meet travel-related costs for its inspection staff. During the base year, vacancies resulted in travel expenditures below those that would be expended under full staffing. The division is requesting additional travel authority to provide for division duties given full staffing levels.

DP 25 - Computer Replacements - The department requests an increase in state special revenue authority to replace 15 personal computers in fiscal 2002.

**LFD
ISSUE**

Base year expenditures of \$4,452 for replacement computers were included in the budget request for fiscal 2002 and fiscal 2003. Therefore, this request should be reduced by \$4,452 in fiscal 2002.

DP 31 - Bldg Codes Education - The department requests an increase in state special revenue for costs related to providing building codes education and training as mandated by HB 245.

**LFD
COMMENT**

HB 245, as passed by the Fifty-sixth Legislature, requires the department to place 0.5 percent of building permit fees in a special fund to be administered by the division purposes of providing building codes education opportunities and training for such individuals as building officials, design professionals, and contractors. HB 245 became effective October 1, 1999. Therefore, program funds and expenditures are not equal to those that would be made during a full year of operation. Total revenue from all sources for the education and training fund is projected to be approximately \$27,000 in a typical year. The department requests an increase to bring overall authority to \$27,000 during each year of the biennium.

DP 49 - Building Codes Administrative Costs - The department requests an increase in state special revenue authority to fund increased rental charges resulting from the move to the Federal Building, and to cover indirect costs and the division's share of department server replacement.

**LFD
COMMENT**

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Proprietary Rates

Program Description

The Montana Health Facility Authority (MHFA) was created by the 1983 legislature to assist health care facilities in containing future health care costs. This is to be accomplished by offering debt financing or refinancing for buildings and capital equipment at low-cost, tax-exempt interest rates. The MHFA is governed by a 7-member quasi-judicial board appointed by the Governor, with the advice and consent of the Senate. The MHFA issues revenue bonds, or notes, to finance or refinance projects involving construction, renovation, or equipment purchases for eligible public or private non-profit facilities. Eligible facilities include hospitals, clinics, nursing homes, centers for the developmentally disabled, pre-release centers or other facilities as defined in 50-5-101, MCA. The Health Facility Authority is mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

The MHFA is funded entirely by proprietary funds (enterprise type) from revenues collected from interest, fees, and charges paid by participating institutions in connection with making and servicing lease agreements, loan agreements, and other indebtedness. Operating costs are reimbursed with these fees.

Revenues and Expenses

The MHFA collects interest, fees, and charges paid by participating institutions in connection with making and servicing lease agreements, loan agreements, and other indebtedness. By statute, interest, fees, and charges are limited to the amounts required to pay the costs of the MHFA, including operating and administrative expenses, with reasonable allowances for losses, bond financing costs, and making loans.

The 60-day working capital calculation is not reasonably applicable to the MHFA because national bond rating agencies, national bond insurers and institutional investors expect the Authority to reserve two year's operating capital in order to assure that it can financially operate between legislative sessions.

MHFA revenues provide funding for 2.00 FTE, which is anticipated to remain constant for the 2003 biennium.

Rate Explanation

Annual planning service fees are paid on the first and succeeding anniversary dates of the sale and issuance of a bond, note, or loan. The annual planning service fee cannot exceed 0.15 percent of the outstanding principal amount of the bonds, notes, or loans.

Significant Present Law

DP 50 - MHFA Administrative Costs - This proposal would adjust for increased administrative expenses, to include salaries, per diem, overtime, rent, special projects, agency indirect costs, and the program's share of departmental purchases of computer hardware and servers.

| | |
|------------------------|---|
| LFD COMMENT | For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
|------------------------|---|

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 23.00 | 1.50 | 0.00 | 24.50 | 1.50 | 0.00 | 24.50 | 24.50 |
| Personal Services | 599,574 | 274,738 | 0 | 874,312 | 281,020 | 0 | 880,594 | 1,754,906 |
| Operating Expenses | 369,468 | 530,089 | 0 | 899,557 | 379,707 | 0 | 749,175 | 1,648,732 |
| Equipment | 17,201 | 10,792 | 0 | 27,993 | 23,889 | 0 | 41,090 | 69,083 |
| Grants | 17,193,473 | 40,488,116 | 0 | 57,681,589 | 43,467,499 | 0 | 60,660,972 | 118,342,561 |
| Total Costs | \$18,179,716 | \$41,303,735 | \$0 | \$59,483,451 | \$44,152,115 | \$0 | \$62,331,831 | \$121,815,282 |
| Federal Special | 18,179,723 | 41,303,728 | 0 | 59,483,451 | 44,152,108 | 0 | 62,331,831 | 121,815,282 |
| Proprietary | (7) | 7 | 0 | 0 | 7 | 0 | 0 | 0 |
| Total Funds | \$18,179,716 | \$41,303,735 | \$0 | \$59,483,451 | \$44,152,115 | \$0 | \$62,331,831 | \$121,815,282 |

Program Description

The Housing Division, established on July 1, 1995, consolidates housing programs within the Department of Commerce into one division. The Division includes the Home Investment Partnerships Program (HOME), the Section 8 Tenant-based and Project-based Housing programs, and the Board of Housing and its programs.

- ?? The HOME Program provides grant funds to eligible local governments and Community Housing Development Organizations, allowing them to provide assistance in financing new construction or rehabilitation of individual homes or rental units, tenant-based rental assistance, and other eligible activities.
- ?? The Section 8 Housing Program provides rental assistance through Housing and Urban Development (HUD) Section 8 authority, on behalf of low-income families and the elderly.
- ?? The Board of Housing is a 7-member, quasi-judicial board appointed by the Governor, and which is administratively attached to the Department of Commerce. The board administers the Low-Income Housing Tax Credit, Multi-Family Loan, Reverse Annuity Mortgage, and Single Family programs.

Funding

The HOME and Section 8 Housing portions of the Housing Division are funded entirely with federal funds. The Board of Housing portion of the Housing Division is funded by proprietary (enterprise type) funds derived from an administrative charge applied to mortgages financed. The proprietary funds are not appropriated in HB 2, and therefore are not listed in the funding tables. For further information on these funds, refer to the discussion on proprietary rates at the end of this section.

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|------------|---------------|---------------------|---------------------|-----------------------|------------|---------------|---------------------|---------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 254,820 | | | | | 261,154 |
| Vacancy Savings | | | | | (23,189) | | | | | (23,379) |
| Inflation/Deflation | | | | | 1,501 | | | | | 2,353 |
| Fixed Costs | | | | | 20,955 | | | | | 9,067 |
| Total Statewide Present Law Adjustments | | | | | \$254,087 | | | | | \$249,195 |
| DP 2 - Section 8 Project-Based Program | 0.00 | 0 | 0 | 32,642,492 | 32,642,492 | 0.00 | 0 | 0 | 33,645,585 | 33,645,585 |
| DP 3 - Section 8 Tenant-Based Program | 1.50 | 0 | 0 | 2,886,823 | 2,886,823 | 1.50 | 0 | 0 | 4,033,011 | 4,033,011 |
| DP 19 - Section 8 Computer Replacements | 0.00 | 0 | 0 | 8,000 | 8,000 | 0.00 | 0 | 0 | 8,000 | 8,000 |
| DP 51 - Section 8 Administrative Costs | 0.00 | 0 | 0 | 5,512,333 | 5,512,333 | 0.00 | 0 | 0 | 6,216,324 | 6,216,324 |
| Total Other Present Law Adjustments | 1.50 | \$0 | \$0 | \$41,049,648 | \$41,049,648 | 1.50 | \$0 | \$0 | \$43,902,920 | \$43,902,920 |
| Grand Total All Present Law Adjustments | | | | | \$41,303,735 | | | | | \$44,152,115 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Section 8 Project-Based Program - This request for an increase in federal special revenue authority would accommodate the division's contract with HUD to administer the Section 8 Project-Based Program.

LFD COMMENT

The 1999 legislature approved a contingent, restricted, federal appropriation for Section 8 Project-based Housing Assistance received from HUD, and included the following language:

?? "The appropriation in item 9b is restricted to providing federal housing grants and for providing administrative assistance to existing housing assistance recipients as their Housing and Urban Development Administration Section 8 contracts expire and are renegotiated as tenant-based assistance. The addition of funding for up to 1.50 FTE in fiscal 2000 and 2.50 FTE in fiscal 2001 is contingent upon the Housing Division experiencing the anticipated volume of expiring contracts. The FTE may not be added until the workload justifies the addition."

The division received notification of its selection, and is now under contract with HUD for this program. As contracts between owners and HUD expire, they will either be extended for a five-year period at reduced rental rates (project-based), or converted to tenant-based assistance. This decision package reflects the projected permanent status of these federally-funded housing projects. Further, this package carries forward the 2.50 FTE approved by the 1999 legislature, and realigns the 4.5 FTE approved by the 1999 legislature for the Tenant-Based Program with Section 8 Project-based Housing Assistance Program.

DP 3 - Section 8 Tenant-Based Program - This request for an increase in federal special revenue authority and 1.50 FTE would accommodate the division's contract with HUD to administer the Section 8 Tenant-based Program.

**LFD
COMMENT**

The 1999 legislature approved a contingent, restricted, federal appropriation for Section 8 Tenant-based Housing Assistance received from HUD, and included the following language:

?? "The appropriation in item 9c is restricted to administering Housing and Urban Development (HUD) Administration housing assistance payment contracts that HUD anticipates no longer administering but passing to others through devolution. The appropriation, including funding for up to 4.50 FTE in each year, is contingent upon the Housing Division being the successful bidder for this function."

The division received notification of its selection, and is now under contract with HUD for this program. As contracts between owners and HUD expire, they will either be extended for a five-year period at reduced rental rates (project-based), or converted to tenant-based assistance. This decision package reflects the projected permanent status of these federally funded housing projects. Further, this package realigns the 4.50 FTE approved by the 1999 legislature with the Project-based Program, and requests 1.50 FTE for the Tenant-based Program.~

DP 19 - Section 8 Computer Replacements - This request for an increase in federal special revenue would replace four personal computers each year of the biennium, per the division's four-year replacement plan.

DP 51 - Section 8 Administrative Costs - An increase in federal special revenue authority is requested to accommodate a projected increase in Section 8 funding/costs during the upcoming biennium. Anticipated increases include contracted services, grant increases, agency indirect costs, and the program's share of departmental purchases of computer hardware and servers.

**LFD
COMMENT**

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Proprietary Rates**Program Description**

The Montana Board of Housing is a quasi-judicial board created by the Montana Housing Act of 1975, attached to the Department of Commerce for administrative purposes, and appointed by the Governor. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing programs. These programs include the Single Family, Recycled Single Family, Multifamily Loan, Low Income Housing Tax Credit and the Reverse Annuity Mortgage programs.

The Board of Housing is funded by proprietary (enterprise type) funds derived from an administrative charge applied to mortgages financed. Under the Housing Act, the board does not receive any general fund and is completely self-supporting.

Revenues and Expenses

?? The Single Family Program earns the bulk of its revenue from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds (1.5 percent for pre-1980 program, 1.125 for post-1980 program). The board also charges a reservation fee amounting to 0.5 percent of the loan amount reserved. Extension fees of 0.25 percent of the loan amount and late fees of 0.5 percent of the loan amount are also occasionally charged.

- ?? Cash Assistance Program loans are used to assist borrowers with down-payment costs. The rates on these loans range from five to seven percent.
- ?? The Multifamily Program can earn a 1.5 percent spread between the mortgage yield and the bond yield. Under the Multifamily Program, the board can also charge a reservation fee on new loans of up to 1 percent of the principal balance.
- ?? The board charges 4.5 percent of the amount of the tax credits reserved for Low Income Housing Tax Credits, and also charges \$20 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program.
- ?? The Reverse Annuity Mortgage Program allows elderly homeowners to receive monthly payments, for 10 years, to assist them with their living expenses. The loans accrue interest at five to seven percent.

Operations for the next biennium are anticipated to be approximately \$4.1 million for Fiscal 2002 and \$4.5 million for Fiscal 2003. Operating expenses include servicing fees, board operating expenses, and personal services. Board functions include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. The board operates with a staff of 16 FTE.

The board anticipates that investment income may increase by \$500,000. In fiscal 2000, the board earned approximately \$11,000,000 on its investments. During the latter part of fiscal 2000, the board entered into a repurchase agreement on its Single Family II Indenture. Prior to this investment agreement, the board was earning 5.60 percent on its investments. The repurchase agreement is at 6.43 percent for 30 years. It is anticipated that this will result in an increase of approximately \$500,000 per year.

Fund Balance

The major component of the board's fund balance (retained earnings), is its single-family program. Net income over and above bond debt service, operating costs, and servicing fees is used to write down the rates on special programs or to fund programs such as the Reverse Annuity Mortgage and Cash Assistance programs, which assist the lowest income home buyers.

Significant Present Law

DP 18 - Board of Housing Software - The purchase of the Application Oriented Design (AOD) "Cash Management" System is proposed. This system works with the board's current AOD software packages. This system would audit the trustees' monthly statements, and replace manual reconciliation sheets prepared for each account within the bond issues.

DP 52 - MBOH Administrative Costs - The Executive Budget includes a proposal to increase operating expenses within the Board of Housing. Increases would include per diem for board members, contracted services to complete scanning and indexing of loan files, legal services, foreclosure fees, usage fees for Information Services Division hardware/software, repair and maintenance fees, property management fees, agency indirect costs, and the board's share of departmental purchases of computer hardware and servers.

| | |
|------------------------|---|
| LFD COMMENT | For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division. |
|------------------------|---|

DP 20 - MBOH Computer Replacements - This proposal would fund the replacement of six personal computers each year of the biennium, per it's the four-year replacement schedule. This proposal would also replace the board's LAN server in fiscal 2002.

New Proposals

DP 8 - Board of Housing FTE - This proposal would fund the addition of 2.5 FTE to the Board of Housing staff. This position would address increased workload in the Single Family and Multifamily programs. The positions added would include a 1.0 FTE Multifamily Program Specialist, a 1.0 FTE Single-Family Program Specialist, and a 0.50 FTE Administrative Assistant. The Board of Housing currently has a 0.50 FTE position that is combined with a 0.50 FTE position in the Section 8 Program. This proposal would separate the Board of Housing and Section 8 position and create a full time administrative support position for the Board of Housing.

| Report on Internal Service & Enterprise Funds, 2003 Biennium | | | | | | | | | |
|--|--|-------------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|
| Fund Number | Fund Name | Agency Number | Agency Name | Program Name | | | | | |
| 06030 | Financial Programs | 6501 | Department of Commerce Board of Housing | | | | | | |
| 06031 | Housing Trust Fund | 6501 | Department of Commerce Board of Housing | | | | | | |
| Fund Balance Information | | | | | | | | | |
| | | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
| Beginning Retained Earnings | | 79,913,301 | 84,590,866 | 89,111,812 | 96,980,862 | 99,646,416 | 104,489,533 | 110,489,533 | 116,089,533 |
| Increases | | | | | | | | | |
| Fee Revenue | | 41,570 | 166,170 | 80,118 | 106,155 | 244,733 | 200,000 | 200,000 | 200,000 |
| Investment Earnings | | 11,161,490 | 10,229,124 | 9,912,370 | 11,033,021 | 10,885,713 | 11,500,000 | 11,500,000 | 11,500,000 |
| GASB 31 Gain/Loss | | - | - | 2,856,485 | (2,508,599) | (1,187,740) | - | - | - |
| Transfers In | | - | 70,000 | 150,000 | - | - | - | - | - |
| Miscellaneous, operating | | 28,301,787 | 29,520,689 | 31,921,186 | 32,216,071 | 34,902,870 | 37,000,000 | 39,000,000 | 41,000,000 |
| Miscellaneous, other | | - | 9,636 | 11,836 | 11,886 | 24,929 | - | - | - |
| Total Increases | | 39,504,847 | 39,995,619 | 44,931,995 | 40,858,534 | 44,870,505 | 48,700,000 | 50,700,000 | 52,700,000 |
| (Decreases) | | | | | | | | | |
| Personal Services | | 407,928 | 440,929 | 474,100 | 440,929 | 568,579 | 600,000 | 600,000 | 600,000 |
| Operations | | 2,039,285 | 2,142,988 | 2,304,271 | 2,575,987 | 2,876,839 | 3,100,000 | 3,500,000 | 3,900,000 |
| Transfers Out | | - | 70,000 | 150,000 | - | - | - | - | - |
| Miscellaneous, operating | | 32,380,069 | 32,820,756 | 34,104,462 | 35,176,064 | 36,581,970 | 39,000,000 | 41,000,000 | 43,000,000 |
| Miscellaneous, other | | - | - | 38,828 | - | - | - | - | - |
| Total Decreases | | 34,827,282 | 35,474,673 | 37,071,661 | 38,192,980 | 40,027,388 | 42,700,000 | 45,100,000 | 47,500,000 |
| Adjustments to Beginning Retained Earnings | | - | - | 8,716 | - | - | - | - | - |
| Ending Retained Earnings | | 84,590,866 | 89,111,812 | 96,980,862 | 99,646,416 | 104,489,533 | 110,489,533 | 116,089,533 | 121,289,533 |
| Total Contributed Capital | | - | - | - | - | - | - | - | - |
| Total Fund Equity | | 84,590,866 | 89,111,812 | 96,980,862 | 99,646,416 | 104,489,533 | 110,489,533 | 116,089,533 | 121,289,533 |
| Unreserved Fund Balance | | | | | | | | | |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | | 5,804,547 | 5,900,779 | 6,147,139 | 6,365,497 | 6,671,231 | 7,116,667 | 7,516,667 | 7,916,667 |
| Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge. | | | | | | | | | |
| FEF/ CHARGE DESCRIPTION | | FY 00 FEE/CHARGE | Y01 FEE/CHARGE | Y02 FEE/CHARGE | Y03 FEE/CHARGE | Y04 FEE/CHARGE | Y05 FEE/CHARGE | Y06 FEE/CHARGE | AUTHORITY |
| Reservation fees-Single Family Program | 1/2 of 1% of the loan amount reserved | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Reservation fees-Low Income Tax Credit Program (LITC) | 4 1/2% of the tax credit amount reserved | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Compliance monitoring fee-Low Income Tax Credit Program Extension Fee | \$5 per unit | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Late Fee | 1/4 of 1% of the loan amount | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Late Fee | 1/2 of 1% of the loan amount | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Pre 1980 Single Family Programs | 1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 & IRC Section 143(g)(2) |
| Post Single Family Programs | 1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 & IRC Section 143(g)(2) |
| Post 1986 Multifamily Program | 1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 & IRC regs 1.148-2(d)(2)(iii) |
| Pre 1986 Multifamily Program | 1 1/2% spread between the mortgage interest rate and the bond yield. No limit on | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 & IRC Section 143(f)(2) |
| Multifamily Reservation Fee | up to 1% of the loan amount reserved | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Interest income on reverse annuity mortgage loans (RAM) | 5% (new) 7% (old) loans | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-503 and 104 |
| Interest income on Cash Assistance loans(CAP) | variable rates ranging from 5% to 7% | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |
| Interest on Investments | STIP investment rate | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | Same fee as 2000 | MCA 90-6-104 |

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 0.50 | (0.50) | 0.00 | 0.00 | (0.50) | 0.00 | 0.00 | 0.00 |
| Personal Services | 13,078 | (13,078) | 0 | 0 | (13,078) | 0 | 0 | 0 |
| Operating Expenses | 19,901 | (19,901) | 0 | 0 | (19,901) | 0 | 0 | 0 |
| Debt Service | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$32,979 | (\$32,979) | \$0 | \$0 | (\$32,979) | \$0 | \$0 | \$0 |
| State/Other Special | 32,979 | (32,979) | 0 | 0 | (32,979) | 0 | 0 | 0 |
| Total Funds | \$32,979 | (\$32,979) | \$0 | \$0 | (\$32,979) | \$0 | \$0 | \$0 |

Program Description

The Board of Investments staff manages the Unified Investment Program for public funds, established under Article VIII, Section 13 of the Montana Constitution. Six investment pools and several individual portfolios are managed. The six investment pools include the Retirement Funds Bond, Trust Funds Bond, Short Term Investment, Montana Stock, Montana International Equity, and Montana Real Estate pools. Annual audited financial statements are prepared for each investment pool. Investments that are not managed in pools are included in an "all other funds" financial statement. The In-state Investment Program consists of Montana residential mortgages and commercial loans. The Board also issues bonds and lends the proceeds to eligible government agencies for a variety of purposes.

Funding

The Board of Investments is funded with both enterprise and internal service-type proprietary funds. Further information on this funding is contained in the proprietary rates discussion below.

| Present Law Adjustments | -----Fiscal 2002----- | | | | -----Fiscal 2003----- | | | | | |
|--|-----------------------|------------|-------------------|-----------------|-----------------------|---------------|------------|-------------------|-----------------|-------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 12,826 | | | | | 12,911 |
| Vacancy Savings | | | | | (671) | | | | | (673) |
| Inflation/Deflation | | | | | (3) | | | | | (3) |
| Fixed Costs | | | | | (3,231) | | | | | (3,231) |
| Total Statewide Present Law Adjustments | | | | | \$8,921 | | | | | \$9,004 |
| DP 751 - MT Sci. & Tech. Alliance trans. to Brd of Invest. | (0.50) | 0 | (41,900) | 0 | (41,900) | (0.50) | 0 | (41,983) | 0 | (41,983) |
| Total Other Present Law Adjustments | (0.50) | \$0 | (\$41,900) | \$0 | (\$41,900) | (0.50) | \$0 | (\$41,983) | \$0 | (\$41,983) |
| Grand Total All Present Law Adjustments | | | | | (\$32,979) | | | | | (\$32,979) |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 751 – MSTA to Investment - This adjustment would eliminate 0.50 FTE and state special revenue authority related to the Montana Science and Technology Alliance from base year expenditures. The Montana Science and Technology Alliance will be administered by Board of Investments during the upcoming biennium.

Proprietary Rates

Revenues and Expenses

The revenue objective of the Investment Program is to assess the costs of operations to each portfolio while maintaining a 60-day working capital reserve.

Nearly all bond program revenues are generated by the difference between interest rates on bonds sold and the interest rates charged on loans made to borrowers. Since revenues are received from the trustee on an annual basis, a 270-day fund balance for the Enterprise Fund is required in order to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the Board's contract with the Montana Health Facility Authority.

The Board of Investments does not receive any direct appropriations. Internal service funding is generated entirely from charges to each portfolio invested by the board, and finances the Investment Program. Enterprise funding revenue is generated from the difference between interest earned from loans to borrowers and interest paid to bond holders, in addition to the monthly contract revenues received from the Montana Health Facility Authority. Non-budgeted revenues are used to finance statutorily-appropriated debt-service expenditures.

Rate Explanation

The Board of Investments assesses its costs to the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2. This methodology is to be continued during the 2003 biennium to provide a comparison with historical financial activity.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow. There are 29.00 FTE in the program.

At the proposed level of expenditures, the Board projects a fiscal 2003 ending unreserved fund balance of \$340,594, or approximately a 62.5-day working capital reserve for the internal service fund.

Significant Present Law

DP 53 - BOI Administrative Costs - This proposal would increase operating expenses within the Board of Investments. Increases would provide for personal services costs for a broad-band pay plan, overtime, per diem, agency indirect costs, and the board's share of departmental purchases of computer hardware and servers. This proposal would increase the board's operating expenditures by approximately \$150,000 in fiscal 2002, and by \$138,000 in fiscal 2003.

LFD COMMENT

For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

New Proposals

DP 15 - BOI Modified FTE - This request would make 3.00 modified FTE permanent. In FY 2000, the Board added 3.00 modified FTE positions: two grade 16 securities analyst, and 1 grade 11 administrative support positions. This adjustment would make these positions permanent, and would increase operating costs by over \$130,000 each year.

DP 16 - BOI Accounting Support - The Executive Budget includes a proposal to add a 1.00 FTE grade 13 accountant position. Duties performed would include managing the outstanding Montana Science and Technology portfolio, which was transferred to the Board of Investments in the 1999 biennium as a result of the passage of HB 578. This proposal would increase board-operating costs by over \$34,000 each year.

LFD COMMENT

Portfolios managed by the Board of Investments have doubled from \$4.5 billion in fiscal 1994 to \$9 billion at the end of fiscal 2000. In fiscal 1994, base FTE were 28. Base FTE for fiscal 2000 were 29.

LFD ISSUE

These three proposals combine to increase Board of Investment expenditures by over \$300,000 in each year of the biennium. Of this increase, \$200,000 is for personal services, resulting in a 20 percent increase in personal services funding over the 2001 biennium. Likewise, overall requested administration charges increase by 30 percent over the 2001 biennium.

The pay plan increase of \$40,000 each year would permanently increase the personal services baseline funding of the board, and has already been approved for use within the Board of Investments. The intent of the broad-band pay plan is to aid the board with recruiting/retention of employees. In fiscal 2000, the board had approximately 13 percent of its allocated hours unspent, a vacancy rate comparable to similarly-staffed programs that have not requested the pay plan increase. The legislature may wish the department to report on specific factors that make this pay plan necessary for adequate recruitment and retention of employees.

Report on Internal Service & Enterprise Funds, 2003 Biennium

| | Fund Number 06014 | Fund Name Industrial Revenue Bond I-95 | Agency Number 6501 | Agency Name Department of Commerce | Program Name Bd. Of Investments | | | |
|--|----------------------|---|-----------------------|---------------------------------------|------------------------------------|---------------------------|---------------------------|---------------------------|
| Fund Balance Information | | | | | | | | |
| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
| Beginning Retained Earnings | 1,866,569 | 2,133,539 | 2,543,398 | 3,036,705 | 3,851,692 | 4,478,060 | 5,355,518 | 6,232,976 |
| Increases | | | | | | | | |
| Fee Revenue | 61,699 | 70,334 | 7,070 | 10,477 | 10,812 | 10,000 | 10,000 | 10,000 |
| Investment Earnings | 845,951 | 630,059 | 673,732 | 596,617 | 459,239 | 650,000 | 650,000 | 650,000 |
| Transfers In | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | 2,416,080 | 2,364,028 | 2,915,352 | 3,320,151 | 3,758,048 | 3,750,000 | 3,750,000 | 3,750,000 |
| Miscellaneous, other | - | - | - | - | - | - | - | - |
| Total Increases | 3,323,730 | 3,064,421 | 3,596,154 | 3,927,245 | 4,228,099 | 4,410,000 | 4,410,000 | 4,410,000 |
| (Decreases) | | | | | | | | |
| Personal Services | 133,247 | 117,370 | 124,213 | 133,606 | 148,018 | 150,000 | 150,000 | 154,000 |
| Operations | 65,332 | 59,028 | 81,646 | 94,397 | 289,266 | 287,284 | 287,284 | 287,284 |
| Transfers Out | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | 2,860,758 | 2,477,913 | 2,953,273 | 2,883,576 | 3,095,258 | 3,095,258 | 3,095,258 | 3,095,258 |
| Miscellaneous, other | 281 | 251 | - | - | - | - | - | - |
| Total Decreases | 3,059,618 | 2,654,562 | 3,159,132 | 3,111,579 | 3,532,543 | 3,532,542 | 3,532,542 | 3,536,542 |
| Adjustments to Beginning Retained Earnings | 2,858 | - | 56,285 | (679) | (69,188) | - | - | - |
| Ending Retained Earnings | 2,133,539 | 2,543,398 | 3,036,705 | 3,851,692 | 4,478,060 | 5,355,518 | 6,232,976 | 7,106,434 |
| Total Contributed Capital | 23,478 | 23,478 | 23,478 | 23,478 | 23,478 | 23,478 | 23,478 | 23,478 |
| Total Fund Equity | 2,157,017 | 2,566,876 | 3,060,183 | 3,875,170 | 4,501,538 | 5,378,996 | 6,256,454 | 7,129,912 |
| Unreserved Fund Balance | 2,133,539 | 2,543,398 | 3,036,705 | 3,851,692 | 4,451,577 | 5,329,035 | 6,206,493 | 7,079,951 |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | 509,890 | 442,385 | 526,522 | 518,597 | 588,757 | 588,757 | 588,757 | 589,424 |

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

Nearly all budgeted program revenue is generated by a spread between the interest rates on bonds sold and the interest charged on loans made eligible governments. These revenues are received from the trustee annually. Consequently, a 270 day fund balance is required to fund the program between draws. Remaining revenues are received periodically, typically monthly, throughout the year. The requested fee is for budgeted operational costs and do not include monies to fund debt service.

Authority
17-5-1504(16)
17-5-1611(5)(6)
17-5-1621(6)
MCA

Report on Internal Service & Enterprise Funds, 2003 Biennium

| | | | | |
|----------------------|----------------------------------|-----------------------|---------------------------------------|------------------------------------|
| Fund Number 06527 | Fund Name Investment Division | Agency Number 6501 | Agency Name Department of Commerce | Program Name Bd. Of Investments |
|----------------------|----------------------------------|-----------------------|---------------------------------------|------------------------------------|

Fund Balance Information

| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Beginning Retained Earnings | 250,969 | 184,796 | 163,241 | 206,953 | 202,788 | 162,018 | 139,645 | 283,558 |
| Increases | | | | | | | | |
| Fee Revenue | 1,544,901 | 1,651,778 | 1,876,066 | 1,894,203 | 2,191,032 | 2,077,427 | 2,765,000 | 2,710,000 |
| Investment Earnings | - | - | - | - | - | - | - | - |
| Transfers In | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | 1,635 | 200 | 200 | 200 |
| Miscellaneous, other | - | - | - | - | - | - | - | - |
| Total Increases | 1,544,901 | 1,651,778 | 1,876,066 | 1,894,203 | 2,192,667 | 2,077,627 | 2,765,200 | 2,710,200 |
| (Decreases) | | | | | | | | |
| Personal Services (+ Pay Plan) | 1,166,066 | 1,206,076 | 1,234,043 | 1,355,712 | 1,472,193 | 1,475,000 | 1,778,505 | 1,785,677 |
| Operations | 442,674 | 462,929 | 491,159 | 536,603 | 750,879 | 625,000 | 842,782 | 755,972 |
| Transfers Out | - | - | - | - | - | - | - | - |
| Miscellaneous, operating | - | - | - | - | - | - | - | - |
| Miscellaneous, other | 105 | 138 | - | 6,167 | - | - | - | - |
| Total Decreases | 1,608,845 | 1,669,143 | 1,725,202 | 1,898,482 | 2,223,072 | 2,100,000 | 2,621,287 | 2,541,649 |
| Adjustments to Beginning Retained Earnings | (2,229) | (4,190) | (107,152) | 114 | (10,366) | - | - | - |
| Ending Retained Earnings | 184,796 | 163,241 | 206,953 | 202,788 | 162,018 | 139,645 | 283,558 | 452,109 |
| Total Contributed Capital | 11,060 | 20,073 | 18,298 | 18,298 | 18,298 | 18,298 | 18,298 | 18,298 |
| Total Fund Equity | 195,856 | 183,314 | 225,251 | 221,086 | 180,316 | 157,943 | 301,856 | 470,407 |
| Unreserved Fund Balance | | | | | | | | |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | 268,123 | 278,168 | 287,534 | 315,386 | 370,512 | 350,000 | 436,881 | 423,608 |

Fee/Rate Information for Legislative Action:

| Requested Rates for Internal Service Funds | -----Estimated----- | | | | | | | | Authority |
|--|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY03 | |
| BOI Admin Charge | \$ 1,544,901 | \$ 1,651,778 | \$ 1,876,066 | \$ 1,894,203 | \$ 2,192,667 | \$ 2,077,627 | \$ 2,765,200 | \$ 2,710,200 | 17-6-201(7) MCA |

Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge.

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.

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 31.50 | 0.00 | 0.00 | 31.50 | 0.00 | 0.00 | 31.50 | 31.50 |
| Personal Services | 1,263,022 | (2,791) | 0 | 1,260,231 | 9,004 | 0 | 1,272,026 | 2,532,257 |
| Operating Expenses | 5,201,527 | 916,016 | 437,000 | 6,554,543 | 1,068,575 | 661,000 | 6,931,102 | 13,485,645 |
| Equipment | 46,677 | 321,870 | 0 | 368,547 | (28,977) | 0 | 17,700 | 386,247 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Service | 231,724 | 913,854 | 0 | 1,145,578 | 913,853 | 0 | 1,145,577 | 2,291,155 |
| Total Costs | \$6,742,950 | \$2,148,949 | \$437,000 | \$9,328,899 | \$1,962,455 | \$661,000 | \$9,366,405 | \$18,695,304 |
| Proprietary | 6,742,950 | 2,148,949 | 437,000 | 9,328,899 | 1,962,455 | 661,000 | 9,366,405 | 18,695,304 |
| Total Funds | \$6,742,950 | \$2,148,949 | \$437,000 | \$9,328,899 | \$1,962,455 | \$661,000 | \$9,366,405 | \$18,695,304 |

Program Description

The Montana State Lottery Program designs and markets lottery games that allow players to purchase chances to win a prize. The lottery presently offers a variety of games, some in cooperation with other lotteries through the Multi-state Lottery Association (MUSL). Montana Cash is exclusive to Montana. A five-member State Lottery Commission, appointed by the Governor, sets policy and oversees program activities and procedures. The remaining net revenue, after sales commissions and operating expenses, is deposited in the general fund on a quarterly basis.

Program Narrative

The Fifty-sixth Legislature passed SB 55, which changed the requirement to submit a budget and establish appropriations for certain proprietary funds that transfer excess revenues to the general fund. The Montana State Lottery Proprietary Fund falls under that requirement. The appropriation will be established by the legislature during the HB 2 process.

Funding

The Montana State Lottery is funded from an enterprise fund with revenue derived primarily from the sale of lottery tickets. The lottery also assesses a one-time \$50 fee to applicants for lottery retailer licenses. This fee is established in state statute.

The fees charged are established by the State Lottery Commission as authorized by Title 23, Chapter 7, Part 202 (5), MCA. The commission has set the price of each on-line game ticket at \$1.00. Scratch ticket games cost either \$1.00 or \$2.00, depending upon the specific game. Lottery revenues provide funding for 31.50 FTE. A 60-day working capital balance is used to maintain operations because receivables are collected on a 7 to 30-day basis. Winners may be paid daily and the on-line gaming vendors must be paid weekly. The fund equity balance only includes contributed capital.

LFD ISSUE Since the lottery transfers all net revenue to the general fund each quarter, any change in expenditures or revenues has a potential impact on general fund. In fiscal 1998, the Lottery Fund transferred \$6.6 million to the general fund. In fiscal 2000, the Lottery Fund transferred \$5.8 million. The executive proposes increases of \$5.2 million over the biennium, most of which are proposed as system/game enhancements with the intent of eventually increasing revenues. If revenues do not increase as a result of the enhancements, the lottery's net contribution to the general fund would be significantly reduced. The legislature may desire a Lottery Division report on the proposals, projected revenue increases, and program benefits before considering the request. In considering the present law adjustments and new proposals below, the legislature may wish to consider whether each proposal provides a justifiable payback through increased revenues.

| Present Law Adjustments | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|------------|---------------|-----------------|--------------------|-----------------------|------------|---------------|-----------------|--------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | (18,716) | | | | | (11,546) |
| Vacancy Savings | | | | | (33,825) | | | | | (34,040) |
| Inflation/Deflation | | | | | 217 | | | | | 396 |
| Fixed Costs | | | | | 69,432 | | | | | (32,955) |
| Total Statewide Present Law Adjustments | | | | | \$17,108 | | | | | (\$78,145) |
| DP 8 - Scratch Games Support | 0.00 | 0 | 0 | 0 | 251,400 * | 0.00 | 0 | 0 | 0 | 256,240 * |
| DP 22 - Public Relations Outreach | 0.00 | 0 | 0 | 0 | 51,844 * | 0.00 | 0 | 0 | 0 | 53,844 * |
| DP 24 - On-Line Terminals | 0.00 | 0 | 0 | 0 | 345,000 * | 0.00 | 0 | 0 | 0 | 0 |
| DP 26 - Marketing Research | 0.00 | 0 | 0 | 0 | 22,000 * | 0.00 | 0 | 0 | 0 | 72,000 * |
| DP 27 - Lottery Retailer Support | 0.00 | 0 | 0 | 0 | 59,475 * | 0.00 | 0 | 0 | 0 | 63,660 * |
| DP 35 - Building Lease | 0.00 | 0 | 0 | 0 | 7,800 * | 0.00 | 0 | 0 | 0 | 23,400 * |
| DP 36 - Computer Replacements | 0.00 | 0 | 0 | 0 | 13,600 * | 0.00 | 0 | 0 | 0 | 13,600 * |
| DP 54 - Administrative Costs | 0.00 | 0 | 0 | 0 | 1,380,722 * | 0.00 | 0 | 0 | 0 | 1,557,856 * |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$0 | \$0 | \$2,131,841 | 0.00 | \$0 | \$0 | \$0 | \$2,040,600 |
| Grand Total All Present Law Adjustments | | | | | \$2,148,949 | | | | | \$1,962,455 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 8 - Scratch Games Support - An increase to cover administrative costs is requested in support of the scratch games. Increases include printing services, travel costs, and incentive-related personal services expenses.

LFD ISSUE Scratch ticket sales generated \$9,000,000 in fiscal 2000. Lottery scratch ticket sales (not including enhanced games addressed in DP 10 below) are projected to generate \$9,200,000 in fiscal 2002, with a decrease to \$9,150,000 in fiscal 2003. This proposal would increase expenses by more than \$250,000 each year. The legislature may wish to consider the ratio of investment to return relative to increased administrative costs when addressing this proposal.

LFD COMMENT The Employee Incentive Program, in effect since 1990, awards incentive pay to the 11 members of the Lottery Program's sales staff for incremental increases in ticket sales over an established quarterly base. For each 2 percent increase in sales over their quarterly base, the employee will receive 0.8 percent of their annual salary as incentive pay, up to a cap of 8 percent of their annual salary for any quarterly sales period. Over the past six fiscal years, incentive bonuses have equaled .450 percent of revenues from scratch ticket sales, ranging from .100 percent in fiscal 1995 to .900 percent in fiscal 1998.

**LFD
ISSUE**

Lottery scratch ticket sales are influenced by many factors, of which sales staff involvement is one. The information provided by the department shows a correlation between scratch ticket sales and incentive payments, but does not clearly show that increased revenues are a direct result of sales staff performance. In fact, information provided for the scratch games enhancements proposal indicates that introduction of new games is the major factor influencing revenues. When considering this proposal, the legislature may wish to answer the following question:

?? In light of the lack of data directly tying sales staff performance to scratch game revenues, should the Incentive Program be funded?

DP 22 - Public Relations Outreach - An expansion of the Lottery's current public relations outreach is being proposed. Funded activities would include adding two additional college interns to the staff during the summer months, increased sponsorship of American West Hockey League teams, and meeting the anticipated increases in University of Montana and Montana State University sponsorship costs. Also included would be increased travel, promotional, and retailer clerk expenses.

**LFD
ISSUE**

The department provided justification for use of public relation tools when publicizing the lottery, but did not provide any data directly tying public relations outreach to increased sales. The legislature may wish to consider this when addressing this proposal, which would increase public relations expenditures.

DP 24 - On-Line Terminals - The Executive Budget includes a proposal to purchase additional on-line gaming system terminals. The terminals would be used in locations currently selling on-line tickets via a dedicated circuit, which is costly due to the remoteness of the location. The terminals would also be used in locations currently selling scratch games only, and would be offered as upgrades that would allow the location to sell certain on-line tickets as well. At this time, the Lottery Program anticipates that as many as 75 locations would be eligible for this type of terminal.

**LFD
ISSUE**

This proposal does not constitute an ongoing expense. Therefore, if approved, this appropriation should be designated as one-time-only.

DP 26 - Marketing Research - This proposal would fund on-going research, which is used to analyze the market, measure product appeal, test new game designs, identify players' desires, and develop an understanding of the gaming environment in Montana.

DP 27 - Lottery Retailer Support - This proposal would fund expanded support for lottery retailers. Proposed increases include point-of-sale (POS) materials, permanent and disposable signage, promotions, training, and sales staff travel expenses. This proposal would supplement the support already being provided by the Lottery.

DP 35 - Building Lease - This proposal would provide additional authority to accommodate anticipated increases in the division's current lease contract at 2525 N. Montana Avenue.

DP 36 - Computer Replacements - This proposal would fund the replacement of 8 personal computers each year of the biennium, per the division's four-year replacement schedule.

DP 54 - Administrative Costs - This proposal would fund the increased operating expenses of the Montana State Lottery. Increases and the approximate values would include:

- 1) Carry-over of per diem - \$1,350 each year;
- 2) Contract services for Lottery Vendor Fees - \$480,000/\$660,000 in fiscal 2002/2003;
- 3) Reestablishment of principal payments and reduction of interest payments from base year, for a net increase of \$900,000 per year (fiscal 2000 expenditures total \$900,000, but did not carry over into base expenditures);
- 4) Indirect costs - \$7,000/\$8,000 in fiscal 2002/2003;
- 5) A reduction in equipment funding from the base year - -\$28,000 each year; and
- 6) The program's share of departmental purchases of computer hardware and servers - \$9,000 in fiscal 2002 only.

LFD COMMENT For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

| New Proposals | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | | |
|------------------------------------|-----------------------|------------|------------|---------------|--------------------|-----------------------|------------|------------|---------------|-----------------|--------------------|
| | Prgm | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| DP 10 - Scratch Games Enhancements | | | | | | | | | | | |
| 77 | 0.00 | 0 | 0 | 0 | 337,000 * | 0.00 | 0 | 0 | 0 | 0 | 561,000 * |
| DP 12 - On-Line Enhancements | | | | | | | | | | | |
| 77 | 0.00 | 0 | 0 | 0 | 100,000 * | 0.00 | 0 | 0 | 0 | 0 | 100,000 * |
| Total | 0.00 | \$0 | \$0 | \$0 | \$437,000 * | 0.00 | \$0 | \$0 | \$0 | \$0 | \$661,000 * |

New Proposals

DP 10 - Scratch Games Enhancements - This proposal would fund an increase in the number of scratch games offered to players. This increase would support ticket production and purchase ticket dispensers designed to display and secure the new tickets.

LFD ISSUE The department provided information showing scratch ticket revenue increases in fiscal 1998 (\$1.7 million) and fiscal 2000 (\$1.7 million) that coincide with additions of games with different price points and types. This proposal would provide authority to implement additional scratch games. The department projects revenues from the new games at \$2.9 million in fiscal 2002 and \$4.8 million in fiscal 2003, which would reflect an increase of nearly 50 percent over fiscal 2000 revenues. The information provided by the department did not include justification for the increased revenues. The legislature may wish to ask the department for an update on planned enhancements and revenue projections tied to the proposal.

DP 12 - On-Line Enhancements - The Executive Budget includes a proposal to fund increased operating costs relative to the addition of at least one new on-line game per year of the biennium. The addition of new on-line games requires advertising and promotional support, and might require dues for game participation, particularly if this is a multi-state game. These games would be offered in addition to existing on-line games.

**LFD
ISSUE**

The lottery provided tentative data on revenue projections tied to this proposal, as designs for new games were on-going. At the time of this analysis, revenues were projected to increase by \$8 million in fiscal 2002 and \$1.5 million in fiscal 2003. The legislature may wish to ask the department for an update on the status of on-line enhancement planning and projected revenues.

**LFD
ISSUE**

The Lottery Fund's net revenues are transferred to the general fund on a quarterly basis. The legislature's general fund projection, as approved by the Revenue and Taxation Committee, is based on present law, and does not include new proposals. Therefore, approving these new proposals would effectively reduce the general fund projection by the same amount.

| Program Proposed Budget | | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 | |
| FTE | 3.78 | 0.00 | 0.00 | 3.78 | 0.00 | 0.00 | 3.78 | 3.78 | 3.78 |
| Personal Services | 105,333 | 36,197 | 0 | 141,530 | 37,226 | 0 | 142,559 | 284,089 | |
| Operating Expenses | 93,117 | 6,712 | 0 | 99,829 | 6,319 | 0 | 99,436 | 199,265 | |
| Equipment | 0 | 599 | 0 | 599 | 0 | 0 | 0 | 599 | |
| Total Costs | \$198,450 | \$43,508 | \$0 | \$241,958 | \$43,545 | \$0 | \$241,995 | \$483,953 | |
| State/Other Special | 198,450 | 43,508 | 0 | 241,958 | 43,545 | 0 | 241,995 | 483,953 | |
| Total Funds | \$198,450 | \$43,508 | \$0 | \$241,958 | \$43,545 | \$0 | \$241,995 | \$483,953 | |

Program Description

The Board of Horse Racing Program is responsible for:

- 1) regulating the live and simulcast horse racing industry;
- 2) ensuring the compliance of approximately 3,500 licensees with state laws and board rules;
- 3) licensing all racing personnel, establishing race dates for various communities, and establishing veterinary practices and standards in connection with horse racing meets; and
- 4) the auditing, supervision, and investigations related to the pari-mutuel racing system in Montana.

Funding

The Board of Horse Racing is funded with state special revenues derived from a 1 percent tax on gross betting receipts from pari-mutuel betting. For simulcast facilities, the tax is the greater of 1 percent of gross betting receipts or the actual cost to the board for regulating the meet.

| Present Law Adjustments | | | | | | | | | | |
|--|-------------|------------|----------------|-----------------|-----------------------|-------------|------------|----------------|-----------------|-----------------|
| -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | | |
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 38,366 | | | | | 39,427 |
| Vacancy Savings | | | | | (3,886) | | | | | (3,918) |
| Inflation/Deflation | | | | | (153) | | | | | (153) |
| Fixed Costs | | | | | 2,558 | | | | | 2,235 |
| Total Statewide Present Law Adjustments | | | | | \$36,885 | | | | | \$37,591 |
| DP 55 - Board of Horse Racing Administrative Costs | 0.00 | 0 | 6,623 | 0 | 6,623 | 0.00 | 0 | 5,954 | 0 | 5,954 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$6,623 | \$0 | \$6,623 | 0.00 | \$0 | \$5,954 | \$0 | \$5,954 |
| Grand Total All Present Law Adjustments | | | | | \$43,508 | | | | | \$43,545 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 55 - Board of Horse Racing Administrative Costs - This proposal would fund an increase in state special revenue authority for administrative cost increases, including overtime, per diem, and the division's share of department server replacement and indirect costs.

LFD COMMENT For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 5.25 | 0.00 | 0.00 | 5.25 | 0.00 | 0.00 | 5.25 | 5.25 |
| Personal Services | 165,703 | 41,476 | 0 | 207,179 | 43,787 | 0 | 209,490 | 416,669 |
| Operating Expenses | 102,250 | 93,182 | 0 | 195,432 | 92,317 | 0 | 194,567 | 389,999 |
| Equipment | 0 | 2,156 | 0 | 2,156 | 0 | 0 | 0 | 2,156 |
| Total Costs | \$267,953 | \$136,814 | \$0 | \$404,767 | \$136,104 | \$0 | \$404,057 | \$808,824 |
| General Fund | 243,246 | 30,167 | 56,354 | 329,767 | 29,457 | 56,354 | 329,057 | 658,824 |
| State/Other Special | 24,707 | 106,647 | (56,354) | 75,000 | 106,647 | (56,354) | 75,000 | 150,000 |
| Total Funds | \$267,953 | \$136,814 | \$0 | \$404,767 | \$136,104 | \$0 | \$404,057 | \$808,824 |

Program Description

The Consumer Affairs Office advocates on the behalf of Montana consumers in matters of unfair or deceptive acts in the conduct of any business. The office investigates consumer complaints and provides an informal mediation process for consumer complaints against businesses. The office enforces Montana consumer protection laws and regulations relating to telemarketing, personal solicitation of sales, the New Motor Vehicle Warranty, Consumer Protection, and Unfair Trade Practices acts.

Funding

The Consumer Affairs Office is funded from the general fund and state special revenue funds. HB 63, passed by the 1997 legislature, established funding for the Motor Vehicle Warranty Program from a portion of the tax on new vehicle sales. Other state special revenue is typically derived from court settlements received as a result of litigation of consumer law violations. This revenue will fluctuate depending upon the number and size of settlements. Such settlements are generally restricted to the promotion of greater consumer awareness by the courts.

| Present Law Adjustments | | | | | | | | | | |
|--|-----------------------|-----------------|-----------------|-----------------|-----------------------|-------------|-----------------|-----------------|-----------------|------------------|
| | -----Fiscal 2002----- | | | | -----Fiscal 2003----- | | | | | |
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 47,336 | | | | | 49,719 |
| Vacancy Savings | | | | | (5,860) | | | | | (5,932) |
| Inflation/Deflation | | | | | 73 | | | | | 185 |
| Fixed Costs | | | | | 8,465 | | | | | 7,892 |
| Total Statewide Present Law Adjustments | | | | | \$50,014 | | | | | \$51,864 |
| DP 56 - Consumer Affairs Administrative Costs | 0.00 | 25,803 | 3,715 | 0 | 29,518 | 0.00 | 23,255 | 3,715 | 0 | 26,970 |
| DP 791 - Consumer Settlements | 0.00 | 0 | 57,282 | 0 | 57,282 | 0.00 | 0 | 57,270 | 0 | 57,270 |
| Total Other Present Law Adjustments | 0.00 | \$25,803 | \$60,997 | \$0 | \$86,800 | 0.00 | \$23,255 | \$60,985 | \$0 | \$84,240 |
| Grand Total All Present Law Adjustments | | | | | \$136,814 | | | | | \$136,104 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 56 - Consumer Affairs Administrative Costs - The Executive Budget includes requests for an increase in general fund revenue authority in order to meet anticipated administrative cost increases. These increases and their approximate amounts, include:

- 1) Update consumer reference law library/Lexis Legal Database access - \$2,015 per year;
- 2) Projected increase in administrative hearings - \$8,000 per year;
- 3) Projected communications/TV advertising increase - \$4,000 per year;
- 4) Travel increases resulting from increased education and legal work - \$6,000 per year;
- 5) increased education and training costs for investigative and legal staff \$1,500 per year;
- 6) The division's share of departmental server replacement - \$3,000 in fiscal 2000 only; and
- 7) The division's share of indirect costs - \$6,000 per year.

LFD COMMENT For more information on the department's allocation of server replacement costs, please see the Funding Issues Section in the Agency Overview. For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

LFD ISSUE This proposal includes \$3,715 of state special revenue funding. The increase in the state special revenue account offsets a negative in the account after vacancy savings were applied. The net result of this proposal is an increase entirely funded with general fund.

LFD ISSUE This proposal increases operating expenses by approximately 25 percent over base-year expenditures. The legislature may wish to consider this increase concurrently with the new proposals to switch state special revenue funding to general fund, in order to ensure funding consistent with legislative intent for the programs.

DP 791 - Consumer Settlements - This proposal would increase special revenue authority in order to accommodate expenditures resulting from the anticipated receipt of up to \$75,000 in class action settlements during each year of the biennia. Past uses of these receipts have included advertising and public service announcements.

| New Proposals | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | | |
|-------------------------------------|-----------------------|-----------------|-------------------|---------------|-----------------|-----------------------|-----------------|-------------------|---------------|-----------------|-------------|
| | Prgm | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| DP 11 - Telemarketing Funding Shift | | | | | | | | | | | |
| 79 | 0.00 | 25,000 | (25,000) | 0 | 0 | 0.00 | 25,000 | (25,000) | 0 | 0 | |
| DP 13 - Lemon Law Funding Shift | | | | | | | | | | | |
| 79 | 0.00 | 31,354 | (31,354) | 0 | 0 | 0.00 | 31,354 | (31,354) | 0 | 0 | |
| Total | 0.00 | \$56,354 | (\$56,354) | \$0 | \$0 * | 0.00 | \$56,354 | (\$56,354) | \$0 | \$0 * | |

New Proposals

DP 11 - Telemarketing Funding Shift - The Executive Budget includes a request for an increase in general fund, which would replace \$25,000 in state special revenue funding in anticipation of the inability to collect in full civil fines levied against telemarketers.

**LFD
ISSUE**

The Telemarketing Program was established by the Telemarketing Registration and Fraud Prevention Act, effective October 1, 1999. The law's focus is consumer education and awareness relative to the prevention of scams against Montana consumers. The program is primarily funded by the general fund, though the funding does include \$25,000 in state special revenues from the collection of civil fines levied against telemarketers.

The \$25,000 estimate was based upon the 200 complaints received from consumers and litigated against telemarketers by the department in one year. To date, the department has received more than 210 consumer telephone calls and letters of inquiry involving telemarketing. Over 30 complaint forms have been mailed to consumers, and the department has commenced three formal investigations. Due to the out-of-state location and frequent relocation of non-legitimate telemarketing operations, the department believes it unlikely that they will levy and collect the \$25,000 in fines necessary to fund the program. The department estimates that Montana consumers have been saved over \$70,000 through education efforts, but there are no reliable means to measure the success of the Telemarketing Program. In light of the predicted inability to fund a portion of the program with state special revenue, the legislature may wish to consider the following policy issues:

- 1) Should the telemarketing program be fully funded (100 percent) by the general fund?
- 2) What, if any, measure of success should be used to determine the effectiveness of the Telemarketing Program?

If the legislature wishes to fully fund the program through a full biennium of operation, and then reevaluate the program, the appropriation should be designated as restricted, one-time-only, and readdressed by the 2003 legislature.~

DP 13 - Lemon Law Funding Shift - This proposal would shift funding for the Lemon Law Program from state special revenue to the general fund.

**LFD
ISSUE**

The mission of the Motor Vehicle Warranty Program (Lemon Law Program) is to provide qualified Montana consumers with an arbitration procedure under the Montana New Motor Vehicle Warranty Act. HB 63, passed by the 1997 legislature, established funding for the program from a portion of the sales tax imposed on new vehicles. HB 540, passed by the Fifty-sixth Legislature, proposed a referendum to the voters of Montana revising vehicle taxation within the state, and eliminating the sales tax on new vehicles. The referendum passed in the November election, and effectively removed funding for this program. This proposal would move all funding for the Lemon Law Program from state special revenue to the general fund. Policy issues the legislature may wish to address are:

- 1) In fiscal 2000, the department handled two arbitration processes for Montana consumers. In light of the removal of the funding source and the limited number of arbitrations in the base year, should the Lemon Law Program be continued?
- 2) If continued, should the program be fully funded (100 percent) from the general fund?

If the legislature wishes to fully fund the program through a full biennium of operation and then re-evaluate the program, the appropriation should be designated as restricted, one-time-only, and readdressed by the 2003 legislature.~

| Program Proposed Budget | | | | | | | | |
|-------------------------|-------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------------|
| Budget Item | Base Budget Fiscal 2000 | PL Base Adjustment Fiscal 2002 | New Proposals Fiscal 2002 | Total Exec. Budget Fiscal 2002 | PL Base Adjustment Fiscal 2003 | New Proposals Fiscal 2003 | Total Exec. Budget Fiscal 2003 | Total Exec. Budget Fiscal 02-03 |
| FTE | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Operating Expenses | 0 | 346,850 | 0 | 346,850 | 266,350 | 0 | 266,350 | 613,200 |
| Total Costs | \$0 | \$346,850 | \$0 | \$346,850 | \$266,350 | \$0 | \$266,350 | \$613,200 |
| General Fund | 0 | 99,100 | 0 | 99,100 | 76,100 | 0 | 76,100 | 175,200 |
| State/Other Special | 0 | 173,425 | 0 | 173,425 | 133,175 | 0 | 133,175 | 306,600 |
| Federal Special | 0 | 74,325 | 0 | 74,325 | 57,075 | 0 | 57,075 | 131,400 |
| Total Funds | \$0 | \$346,850 | \$0 | \$346,850 | \$266,350 | \$0 | \$266,350 | \$613,200 |

Program Description

The Director's Office/Management Services Division consists of two programs.

- 1) The Director's Office assists the department with executive, administrative, legal, and policy guidance. The office acts as a liaison, working with private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.
- 2) The Management Services Division provides internal support to all agency programs, including accounting and fiscal, budgeting and information systems, contracting and purchasing, human resource administration, payroll, and training services.

Funding

The Director's Office/Management Services Division is funded by an internal service type proprietary fund derived from indirect costs charged to all agency programs.

| | -----Fiscal 2002----- | | | | | -----Fiscal 2003----- | | | | |
|--|-----------------------|-----------------|------------------|-----------------|------------------|-----------------------|-----------------|------------------|-----------------|------------------|
| | FTE | General | State Special | Federal Special | Total Funds | FTE | General | State Special | Federal Special | Total Funds |
| DP 14 - Federal Bldg. Rent | 0.00 | 75,100 | 131,425 | 56,325 | 262,850 | 0.00 | 76,100 | 133,175 | 57,075 | 266,350 |
| DP 16 - Federal Bldg. Move | 0.00 | 24,000 | 42,000 | 18,000 | 84,000 | 0.00 | 0 | 0 | 0 | 0 |
| Total Other Present Law Adjustments | 0.00 | \$99,100 | \$173,425 | \$74,325 | \$346,850 | 0.00 | \$76,100 | \$133,175 | \$57,075 | \$266,350 |
| Grand Total All Present Law Adjustments | | | | | \$346,850 | | | | | \$266,350 |

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 14 - Federal Bldg. Rent - This request for increased authority would accommodate anticipated rent increases related to moving specific divisions into the Federal Building. Most of the divisions and programs involved in the move will incur significant increases in rental expenditures, particularly those programs currently housed in state-owned space. This request represents an estimated increase of \$262,850 in FY 2002 and \$266,350 in FY 2003.

DP 16 - Federal Bldg. Move - Increased authority is requested to accommodate moving specific divisions into the Federal Building. Moving, wiring, and signage costs are estimated to be \$84,000 for HB 2 programs. The executive recommends that this appropriation be designated as one-time-only.

**LFD
COMMENT**

In fiscal 2002 most of the divisions, bureaus, and programs within the department will be moving into the Federal Building located at 301 South Park, from multiple locations in the Helena area. The following units would participate in the move to the Federal Building: the Weights & Measures Bureau; Economic Development Division; Travel Montana Division; Community Development Division; Local Government Administration; Building Codes Division; Housing Division; Board of Horse Racing; Consumer Affairs; and Directors Office/Management Services Division.

All of these programs are currently located at 1424 9th Avenue, with the exception of the Banking & Financial Institutions Division, which is currently located at 846 Front Street. The aforementioned programs will join the Building Codes Division, the Local Government Services Division, and the Professional and Occupational Licensing Division, which have already moved. For simplicity, the department has compiled all HB 2 requirements for the department into this program. The department will transfer authority to each division during the biennium.

Proprietary Rates

Rate Explanation

The Director's Office/Management Services Division is funded by an internal service fund with revenues from charges allocated to programs supported by the indirect cost plan. Indirect costs are allocated to supported programs based upon federally- and legislatively-approved indirect cost rates applied against the actual personal service expenditures of the supported programs.

The revenue objective of division management is to maintain the lowest possible indirect cost charge to supported divisions, bureaus, and programs while maintaining a nominal working capital reserve. The department has historically used the same methodology in calculating indirect rates because federal requirements mandate that those calculations be used to charge federally-funded programs for indirect costs.

There have been no significant changes in the services provided to supported programs or appreciable changes to fees from the last biennium. In fiscal 2001, 22.50 FTE are funded through indirect charges, and proposals are included in the Executive Budget to add 2.00 FTE during the 2003 biennium.

Indirect costs are charged to divisions, bureaus, and programs on a monthly basis. Since indirect cost collections lag by at least one month, the division maintains a working capital reserve adequate to pay operating costs. At the proposed 10.25% rate, the department projects a fiscal 2003 ending unreserved fund balance of \$265,537.

Significant Present Law

DP 57 - Administrative Costs - This request would fund increased operating expenses within the Director's Office/Management Services Division. Increases would include a carry-over of overtime expenditures from the base year, and provide for an increase in contracted services used to address the Human Resources Section's work backlog. This proposal would effect an approximate rate increase of 0.07 percent over the 2003 biennium.

DP 15 - Federal Building Rent - Most of the divisions and programs involved in the move to the Federal Building will see significant increases in rental expenditures - particularly programs currently in state-owned space. For the departments HB576-funded programs, this represents an estimated increase of \$112,650 in FY 2002 and \$114,150 in FY 2003. This proposal would effect an approximate rate increase of 0.68 percent over the 2003 biennium.

DP 17 - Federal Building Move - This request would fund an increase to meet operating expenses related to moving specific divisions into the Federal Building. Moving, wiring, and signage costs are estimated at \$36,000 in fiscal 2002 for HB 576 programs. This proposal would effect an approximate rate increase of 0.23 percent in fiscal 2002.

New Proposals

DP 9 - Daily Support/Web Programmer FTE - This request would fund an additional 2.0 FTE. The positions include a grade 15 programmer analyst and a grade 11 personnel/daily support position. Duties performed by the programmer analyst would include maintaining, updating, and enhancing the department's web site. The grade 11 personnel/daily support position would be used to accommodate the additional payroll and accounting processing workload in the Human Resources and Accounting/Fiscal units. This proposal would effect an approximate rate increase of 0.53 percent over the 2003 biennium.

| Report on Internal Service & Enterprise Funds, 2003 Biennium | | | | | | | | | |
|--|---|------------------|------------------|------------------|------------------|---------------------------|---------------------------|---------------------------|-----------|
| Fund Number | | Fund Name | | Agency Number | | Agency Name | | Program Name | |
| 06542 | | Central Services | | 6501 | | Department of Commerce | | Central Services | |
| Fund Balance Information | | | | | | | | | |
| | FY96 | FY97 | FY98 | FY99 | FY00 | Estimated FY01 | Estimated FY02 | Estimated FY03 | |
| Beginning Retained Earnings | 238,358 | 181,129 | 89,993 | 37,892 | 120,823 | 215,793 | 242,946 | 246,409 | |
| Increases | | | | | | | | | |
| Fee Revenue | 824,520 | 890,208 | 1,061,406 | 1,191,612 | 1,293,827 | 1,325,000 | 1,457,300 | 1,458,000 | |
| Investment Earnings | - | - | - | - | - | - | - | - | |
| Transfers In | - | - | - | - | - | - | - | - | |
| Miscellaneous, operating | - | - | 399 | - | - | - | - | - | |
| Miscellaneous, other | - | - | - | - | - | - | - | - | |
| Total Increases | 824,520 | 890,208 | 1,061,805 | 1,191,612 | 1,293,827 | 1,325,000 | 1,457,300 | 1,458,000 | |
| (Decreases) | | | | | | | | | |
| Personal Services | 730,564 | 835,842 | 871,006 | 902,345 | 1,043,009 | 1,112,847 | 1,158,217 | 1,162,439 | |
| Operations | 152,341 | 145,502 | 192,404 | 175,599 | 155,848 | 185,000 | 295,620 | 276,433 | |
| Transfers Out | - | - | - | - | - | - | - | - | |
| Miscellaneous, operating | - | - | - | 31,302 | - | - | - | - | |
| Miscellaneous, other | - | - | - | - | - | - | - | - | |
| Total Decreases | 882,905 | 981,344 | 1,063,410 | 1,109,246 | 1,198,857 | 1,297,847 | 1,453,837 | 1,438,872 | |
| Adjustments to Beginning Retained Earnings | | | | | | | | | |
| | 1,156 | - | (50,496) | 565 | - | - | - | - | |
| Ending Retained Earnings | 181,129 | 89,993 | 37,892 | 120,823 | 215,793 | 242,946 | 246,409 | 265,537 | |
| Total Contributed Capital | 22,267 | 22,267 | 13,587 | 13,587 | 21,188 | 21,188 | 21,188 | 21,188 | |
| Total Fund Equity | 203,396 | 112,260 | 51,479 | 134,410 | 236,981 | 264,134 | 267,597 | 286,725 | |
| Unreserved Fund Balance | 181,129 | 89,993 | 37,892 | 120,823 | 215,793 | 242,946 | 246,409 | 265,537 | |
| 60 Days of Expenses (i.e. total of personnel services, operations, and miscellaneous operating divided by 6) | | | | | | | | | |
| | 147,151 | 163,557 | 177,235 | 184,874 | 199,809 | 216,308 | 242,306 | 239,812 | |
| Fee/Rate Information for Legislative Action: | | | | | | | | | |
| | | | | | | -----Estimated----- | | | Authority |
| Requested Rates for Internal Service Funds | FY96 | FY97 | FY98 | FY99 | FY00 | FY01 | FY02 | FY03 | |
| Federal Programs | 8.20% | 8.20% | 9.68% | 9.63% | 9.85% | 9.85% | 10.25% | 10.25% | See below |
| State Programs | 7.75% | 8.20% | 9.68% | 9.63% | 9.85% | 9.85% | 10.25% | 10.25% | See below |
| Agency Charges (Provided as Information Only for both types of funds -- i.e. the Internal Service Funds [primary service to agencies within state government] and to Enterprise funds [primary service to outside state government]). If applicable, provide authority for the charge. | | | | | | | | | |
| Allocation Methodology: | Indirect costs for the Director's Office/Management Services Division are allocated to supported programs via a federally approved indirect cost rate for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures. | | | | | | | | |
| Authority: | Federally negotiated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. FY02 - FY03 federal rate is an estimated negotiated rate. | | | | | | | | |