

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	145.38	1.75	0.54	147.67	1.75	0.54	147.67	147.67
Personal Services	6,146,865	967,134	105,739	7,219,738	960,885	(247,230)	6,860,520	14,080,258
Operating Expenses	7,423,915	1,111,715	1,848,289	10,383,919	1,250,948	(224,800)	8,450,063	18,833,982
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	23,313	0	0	23,313	0	0	23,313	46,626
Grants	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	1,177,627	0	0	1,177,627	(1,145,577)	0	32,050	1,209,677
Total Costs	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$652,256	(\$854,199)	\$15,965,567	\$35,369,936
General Fund	4,195,717	439,722	(860,969)	3,774,470	488,722	(878,041)	3,806,398	7,580,868
State/Other Special	2,673,474	638,473	300,649	3,612,596	665,357	300,651	3,639,482	7,252,078
Federal Special	503,119	29,932	2,379,657	2,912,708	28,944	130,531	662,594	3,575,302
Capital Projects	933,055	11,542	(433,055)	511,542	18,369	(433,055)	518,369	1,029,911
Proprietary	7,862,145	545,180	185,728	8,593,053	(549,136)	25,715	7,338,724	15,931,777
Total Funds	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$652,256	(\$854,199)	\$15,965,567	\$35,369,936

Agency Description

The Department of Administration provides central services for state agencies in the following areas:

- o Accounting and financial reporting
- o Warrant writing
- o Technical assistance and training to local government accounting and financial personnel
- o Audit review and enforcement for local governments
- o Consumer affairs
- o State bonded indebtedness administration
- o State treasury services
- o Capitol complex building maintenance and security
- o State financial institution oversight and regulation
- o Montana State Lottery
- o Insurance coverage and Tort Claims Act administration
- o Information systems development, telecommunications, and data processing
- o Personnel management and labor relations
- o Purchasing and surplus property administration
- o Duplicating, mail, and messenger services

The department also administers the state Long-Range Building Program and state employee group benefits program. The Board of Examiners, the State Tax Appeal Board, the Appellate Defender, the Public Employees' Retirement Board, and the Teachers' Retirement Board are attached to the department for administrative purposes only.

Agency Discussion

<p>Department of Administration Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Proposes establishing an indirect cost pool for centralized service provided by the Administrative Financial Services Division for other programs and attached agencies that would save \$591,000 general fund for the biennium ○ Total fund budget increases 7.5 percent from the 2003 biennium to the 2005 biennium with an 8.2 percent reduction of general fund ○ Personal services increase by 2.29 FTE with: 1) 1.13 FTE eliminated; 2) 7.33 FTE moved to non-budgeted proprietary funding; and 3) 10.75 FTE added ○ A request related to public safety communications would add \$2.25 million federal funds for the biennium
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ The budget for the Banking and Financial Division increases by 46 percent ○ Insurance rates increase by 84.0 percent for fiscal 2004 and 92.6 percent for fiscal 2005 over the fiscal 2002 level ○ Telemarketer funding change ○ Local government services funding ○ High fund balance in central stores proprietary fund

Indirect Cost Pool

The executive has proposed a funding shift to fund portions of the Director's Office and other centralized service functions of the Administrative Financial Services Division with proprietary funds via an indirect cost pool. These functions are currently funded with general fund and would be funded with internal service type proprietary funds derived from fees paid by all programs (and all funding sources) of the department and the Appellate Defender's Office. The indirect cost pool would fund the expenses of the Director's Office and other centralized functions that prepare agency budgets, coordinate fiscal notes, and pay bills for programs without dedicated accounting staff. General fund would be reduced due to utilization of other fund sources.

New proposal decision packages are included in all programs to implement this indirect cost pool proposal. Figure 1 summarizes the proposal and identifies the requested amounts and the corresponding decision package numbers for all programs. On the surface, it appears that this initiative would result in a general fund reduction of nearly \$914,000 for the biennium. However, other factors would reduce the savings to the general fund to just over \$591,000 for the biennium:

- Net revenues from the State Lottery are transferred to the general fund, so increasing lottery costs reduces the general fund transfer
- A portion of this indirect charge would be funded by programs currently funded with proprietary costs, increasing the amount they must collect. Since a portion of the proprietary revenue is from general funded programs, general fund will pay a portion of this increased cost

Instead of reviewing each proposal separately, the legislature may wish to consider all adjustments together as one inclusive proposal.

Figure 1 Summary of Costs for Establishing Indirect Cost Pool for Centralized Services 2005 Biennium Amounts							
Program	New Proposal DP Number	General Fund	State Special Revenue	Federal Special Revenue	Proprietary Funds		Total
					Lottery	Other	
Adjustments to move funding from HB 2 to proprietary funding in the new internal service funded indirect cost pool							
03 - Administration and Financial Services Division	315	\$ (913,878)	\$ -	\$ -	\$ -	\$ -	\$ (913,878)
03 - Administration and Financial Services Division	316	-	-	-	-	918,065	918,065
Net increase during funding switch							\$ 4,187
Adjustments to make payments to the new indirect cost pool							
Department of Administration							
03 - Administration and Financial Services Division	317	47,422	3,846	148	-	298	51,714
03 - Administration and Financial Services Division	318	-	-	-	-	45,662	45,662
04 - Architecture and Engineering Program	318	-	16,592	-	-	-	16,592
06 - General Services Program	317	15,362	-	-	-	-	15,362
06 - General Services Program	318	-	-	-	-	122,836	122,836
07 - Information Technology Services Division	317	1,858	-	-	-	-	1,858
07 - Information Technology Services Division	318	-	-	-	-	445,832	445,832
14 - Banking and Financial Division	317	-	44,179	-	-	-	44,179
15 - Montana State Lottery	317	-	-	-	51,443	-	51,443
23 - State Personnel Division	317	16,108	380	-	-	-	16,488
23 - State Personnel Division	318	-	-	-	-	23,570	23,570
24 - Risk Management and Tort Defense	318	-	-	-	-	68,943	68,943
37 - State Tax Appeal Board	317	8,262	-	-	-	-	8,262
Appellate Defender	317	5,321	-	-	-	-	5,321
Total adjustment to make payments to the indirect cost pool		\$ 94,333	\$ 64,997	\$ 148	\$ 51,443	\$ 707,141	\$ 918,062
Increased general fund expense to make payments to the indirect cost pool							
Other proprietary funds (assumes general fund pays for 25 percent of revenues for the proprietary funds)			176,785				
Lottery increase			51,443				
Direct general fund increase			94,333				
Effective increased general fund payments to the indirect cost pool		\$ 322,561					
Effective general fund reduction to establish the indirect cost pool		\$ 591,317					

Personal Services

Statewide adjustments for personal services for all programs of the department are divided into two adjustments, shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development snapshot was taken and also to adjust for pay plan increases scheduled to occur between the time the snapshot was taken and the budgets would be implemented. These adjustments are for both pay scale increases and employee health insurance increases paid by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in amount and percentage growth over the base. Figure 2 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The figure shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in the pay plan bill of the 2001 legislature (HB 13); 3) impacts of actual vacancies in the base year (Vacancies); and 4) impacts because the base included only a partial year of broadband pay plan increases (Broadband Pay Plan).

The broadband pay plan is an alternative classification and compensation system for state employees authorized by the legislature. (For a further discussion, see Volume 1 of the LFD Executive Budget Analysis.) When salary increases under the broadband plan are given during the base year, the higher salaries are used to develop the personal services budgets for the next biennium, in this case the 2005 biennium. However, if the salary increases are only effective for a portion of the base year, the difference between the base and the present law personal services budget is higher. The

broadband pay plan column of Figure 2 shows the portion of the increase due to these partial year broadband plan pay increases.

Figure 2
Department of Administration
HB 2 - Personal Services Changes

Program	Change Amount	Total Change	Makeup of Change			
			Hour Difference	HB 13	Vacancies	Broadband Plan
Admin Financial Services (03)	\$ 213,463	14.9%	1.5%	8.0%	1.6%	3.8%
Architectural & Engineering (04)	171,054	21.5%	0.7%	3.7%	17.1%	
General Services (06)	39,799	9.5%	1.1%	6.2%	2.2%	
Information Technology Services (07)	18,940	20.2%	0.3%	1.4%	8.5%	10.0%
Banking and Financial (14)	244,734	23.4%	1.6%	8.5%	8.3%	5.0%
Montana State Lottery (15)	110,897	8.8%	0.6%	3.4%	3.0%	1.8%
State Personnel (23)	157,900	17.4%	1.5%	8.2%	7.7%	
State Tax Appeal Board (37)	86,674	46.7%	0.7%	4.4%	41.6%	

The legislature may wish to consider the factors for the growth of personal services budgets when evaluating the statewide present law adjustments for the department. For example, when one of the factors shows a relatively high contribution to growth, as in the vacancies for the Architectural & Engineering and State Tax Appeal Board programs, the legislature may wish to justify the need for the positions in programs that show high levels of vacancies. For the State Tax Appeal Board, one factor would be the historical patterns of tax appeals that replicate the property tax reappraisal cycle. Since the Department of Revenue has just completed the most recent reappraisal cycle, a higher level of tax appeals would be expected for the 2005 biennium than for the 2003 biennium. This would result in higher workloads for the board and board staff and lower vacancies. Other change factors relate to Legislative Fiscal Division issues contained in the program narratives. For the Banking and Financial Program, an issue is identified for present law DP 1402, Financial Institution Examiner Career Ladder, and directly relates to the 5 percent growth identified in Figure 2 for the broadband plan.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2005 Biennium Executive Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Cap Projects	Proprietary	Grand Total	Total %
General Services Program	\$ 1,231,455	\$ -	\$ -	\$ 1,000,000	\$ -	\$ 2,231,455	6.3%
Admin Financial Serv Division	2,910,473	315,561	325,302	-	87,464	3,638,800	10.3%
Architecture & Engineering Pgm	-	2,441,348	-	29,911	-	2,471,259	7.0%
Information Tech Serv Division	313,158	-	3,250,000	-	-	3,563,158	10.1%
Banking And Financial Division	-	4,433,474	-	-	-	4,433,474	12.5%
State Personnel Division	2,416,245	61,695	-	-	-	2,477,940	7.0%
State Tax Appeal Board	657,087	-	-	-	-	657,087	1.9%
Montana State Lottery	-	-	-	-	15,844,313	15,844,313	44.8%
Governor Elect Program	50,000	-	-	-	-	50,000	0.1%
Grand Total	\$ 7,578,418	\$ 7,252,078	\$ 3,575,302	\$ 1,029,911	\$ 15,931,777	\$ 35,367,486	100.0%

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Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	145.38	1.75	0.54	147.67	1.75	0.54	147.67	147.67
Personal Services	6,146,865	967,134	105,739	7,219,738	960,885	(247,230)	6,860,520	14,080,258
Operating Expenses	7,423,915	1,111,715	1,848,289	10,383,919	1,248,498	(224,800)	8,447,613	18,831,532
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	23,313	0	0	23,313	0	0	23,313	46,626
Grants	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	1,177,627	0	0	1,177,627	(1,145,577)	0	32,050	1,209,677
Total Costs	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$649,806	(\$854,199)	\$15,963,117	\$35,367,486
General Fund	4,195,717	439,722	(860,969)	3,774,470	486,272	(878,041)	3,803,948	7,578,418
State/Other Special	2,673,474	638,473	300,649	3,612,596	665,357	300,651	3,639,482	7,252,078
Federal Special	503,119	29,932	2,379,657	2,912,708	28,944	130,531	662,594	3,575,302
Capital Projects	933,055	11,542	(433,055)	511,542	18,369	(433,055)	518,369	1,029,911
Proprietary	7,862,145	545,180	185,728	8,593,053	(549,136)	25,715	7,338,724	15,931,777
Total Funds	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$649,806	(\$854,199)	\$15,963,117	\$35,367,486

New Proposals

The "New Proposals" table 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 Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 303 - Return to Federal Portion of State Fund Dividend										
03	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 311 - Fund Switch 0.33 FTE - HB 2										
03	(0.33)	(16,745)	0	0	(16,745)	(0.33)	(16,696)	0	0	(16,696)
DP 315 - Indirect Cost Allocation - HB 2										
03	(6.00)	(456,981)	0	0	(456,981)	(6.00)	(456,897)	0	0	(456,897)
DP 317 - Indirect Cost Allocation - HB2										
03	0.00	23,698	1,922	74	25,694	0.00	23,724	1,924	74	25,722
DP 317 - Indirect Cost Allocation - HB 2										
06	0.00	7,677	0	0	7,677	0.00	7,685	0	0	7,685
DP 317 - Indirect Cost Allocation - HB 2										
07	0.00	929	0	0	929	0.00	929	0	0	929
DP 317 - Indirect Cost Allocation - HB 2										
14	0.00	0	22,078	0	22,078	0.00	0	22,101	0	22,101
DP 317 - Indirect Cost Allocation-HB2										
15	0.00	0	0	0	25,728*	0.00	0	0	0	25,715*
DP 317 - Indirect Cost Allocation-HB2										
23	0.00	8,056	190	0	8,246	0.00	8,052	190	0	8,242
DP 317 - Indirect Cost Allocation-HB2										
37	0.00	4,129	0	0	4,129	0.00	4,133	0	0	4,133
DP 318 - Indirect Cost Allocation - HB576										
04	0.00	0	8,298	0	8,298	0.00	0	8,294	0	8,294
DP 611 - Use Capitol Land Grant for Major Maintenance										
06	0.00	(419,857)	0	0	(852,912)*	0.00	(433,870)	0	0	(866,925)*
DP 614 - FTE for PeopleSoft Procurement Module										
06	0.50	33,130	0	0	33,130	0.50	29,771	0	0	29,771
DP 701 - Public Safety Communications (Biennial)										
07	3.00	0	0	2,250,000	2,250,000	3.00	0	0	0	0
DP 709 - Statewide Roadway Centerline GIS - HB 2										
07	0.00	0	0	29,583	29,583	0.00	0	0	30,457	30,457
DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE										
14	1.50	0	66,925	0	66,925	1.50	0	66,782	0	66,782
DP 1407 - 4.00 FTE Bank Examiners										
14	4.00	0	198,384	0	198,384	4.00	0	197,603	0	197,603
DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO)										
15	0.00	0	0	0	160,000*	0.00	0	0	0	0
DP 2304 - Lease Rate for State Sponsored Daycare										
23	0.00	0	2,852	0	2,852	0.00	0	3,757	0	3,757
DP 2306 - Eliminate 1.13 vacant FTE										
23	(1.13)	(45,005)	0	0	(45,005)	(1.13)	(44,872)	0	0	(44,872)
Total	1.54	(\$860,969)	\$300,649	\$2,379,657	\$1,572,010*	1.54	(\$878,041)	\$300,651	\$130,531	(\$854,199)*

Program Proposed Budget									
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05	
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Operating Expenses	0	0	0	0	50,000	0	50,000	50,000	
Total Costs	\$0	\$0	\$0	\$0	\$50,000	\$0	\$50,000	\$50,000	
General Fund	0	0	0	0	50,000	0	50,000	50,000	
Total Funds	\$0	\$0	\$0	\$0	\$50,000	\$0	\$50,000	\$50,000	

Program Description

The Governor Elect Program pays start-up costs for the incoming Governor, as required by 2-15-221, MCA.

Program Narrative

Department of Administration Governor-Elect Program Major Budget Highlights
<ul style="list-style-type: none"> ○ \$50,000 general fund only in fiscal 2005

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Governor Elect Program				
	Base Fiscal 2002	Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
Program Funding				
01100 General Fund	\$ -	\$ -	\$ 50,000	100.0%
Grand Total	-	-	\$ 50,000	100.0%

The Governor Elect Program is fully funded with general fund.

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 201 - Governor-elect appropriation	0.00	0	0	0	0	0.00	50,000	0	0	50,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$50,000	\$0	\$0	\$50,000
Grand Total All Present Law Adjustments					\$0					\$50,000

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 201 - Governor-elect appropriation - The executive recommends \$50,000 general fund in fiscal 2005 for startup costs of a Governor-elect and their staff from the general election to inauguration in the event a new Governor is elected in the 2004 general election.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	31.92	1.75	(6.33)	27.34	1.75	(6.33)	27.34	27.34
Personal Services	1,435,246	216,453	(393,143)	1,258,556	213,824	(392,130)	1,256,940	2,515,496
Operating Expenses	452,632	54,071	45,111	551,814	30,333	44,259	527,224	1,079,038
Local Assistance	22,133	0	0	22,133	0	0	22,133	44,266
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,910,011	\$270,524	(\$348,032)	\$1,832,503	\$244,157	(\$347,871)	\$1,806,297	\$3,638,800
General Fund	1,774,799	140,340	(450,028)	1,465,111	120,432	(449,869)	1,445,362	2,910,473
State/Other Special	54,405	104,581	1,922	160,908	98,324	1,924	154,653	315,561
Federal Special	39,775	22,859	100,074	162,708	22,745	100,074	162,594	325,302
Proprietary	41,032	2,744	0	43,776	2,656	0	43,688	87,464
Total Funds	\$1,910,011	\$270,524	(\$348,032)	\$1,832,503	\$244,157	(\$347,871)	\$1,806,297	\$3,638,800

Program Description

The Administrative Financial Services Division consists of several units. The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Legal Unit provides legal services to agency and administratively attached programs. The Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting, and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, processes warrants for all state agencies, and prepares the state Comprehensive Annual Financial Report (CAFR). The Management Support Bureau and Personnel function provides financial, budgeting, accounting, personnel, payroll, and data processing functions for the department. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel and defines, reviews, and enforces auditing requirements for Montana's local governments. The Consumer Affairs Office advocates on behalf of Montana's consumers in matters of unfair or deceptive business actions.

Program Narrative

<p>Department of Administration Administrative Financial Services Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Total fund budget is reduced by 1.0 percent with general fund reduced \$442,040 or 13.2 percent from the 2003 biennium ○ Moves budgeted functions to a proprietary funded indirect cost pool ○ 6.33 FTE are transferred to proprietary funding ○ 1.75 FTE are added
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Telemarketer funding change ○ Local government services funding Major LFD Issue - 1 goes here

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Admin Financial Serv Division						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 1,774,799	92.9%	\$ 1,465,111	80.0%	\$ 1,445,362	80.0%
02017 Montana Ia Disaster Fund - Nb	-	-	-	-	-	-
02140 Consumer Education Settlement	49,348	2.6%	155,851	8.5%	149,596	8.3%
02317 Financial Advisor Fees	5,057	0.3%	5,057	0.3%	5,057	0.3%
03320 Cmia Funds	17,642	0.9%	40,575	2.2%	40,461	2.2%
03369 Flood Control Payments	22,133	1.2%	22,133	1.2%	22,133	1.2%
03978 Federal Portion Of State Divid	-	-	100,000	5.5%	100,000	5.5%
06042 Single Audit Review - Hb328	-	-	-	-	-	-
06043 Local Gov'T. Audit & Systems	-	-	-	-	-	-
06527 Investment Division	<u>41,032</u>	<u>2.1%</u>	<u>43,776</u>	<u>2.4%</u>	<u>43,688</u>	<u>2.4%</u>
Grand Total	<u>\$ 1,910,011</u>	<u>100.0%</u>	<u>\$ 1,832,503</u>	<u>100.0%</u>	<u>\$ 1,806,297</u>	<u>100.0%</u>

The Administrative Financial Services Division is funded with general fund, state and federal special revenues, and proprietary funds. For the 2005 biennium, general fund would provide 80.0 percent of program funding while state special revenue would provide 8.7 percent, federal special revenue 8.9 percent, and proprietary funds the remaining 2.4 percent. State special revenue would primarily come from consumer education settlements with a smaller amount from financial advisor fees. Federal special revenue would be from federal Cash Management Improvement Act funds, flood control payments, and the federal portion of State Fund dividends. The division would also be funded with a direct appropriation of Board of Investments proprietary fund for services the Treasury Unit provides to the board.

LFD
ISSUE

Increase Fees to Fund Operations of Consumer Affairs Office

In the base year, the Consumer Affairs Office was funded 82 percent with general fund and 18 percent with state special revenue. For the 2005 biennium, this funding split has changed to 63 percent general fund and 37 percent state special revenue. The Consumer Protection Act requires telemarketers to register prior to conducting business in the state. However, telemarketers are not required to pay a fee to cover the cost of administrating telemarketer registrations. In fiscal 2002, the telemarketer portion of the Consumer Affairs Office was funded 37 percent with general fund and 63 percent with state special revenue from consumer education settlements.

The legislature may wish to implement a telemarketer registration fee to cover the cost of the telemarketer program. If the entire telemarketer program were funded with state special revenue, the general fund would see additional savings of nearly \$83,000 for the 2005 biennium.

LFD
ISSUE

General fund Support for Local Government Services

The technical assistance and training provided by the Local Government Services bureau to local government accounting and financial personnel and the audit related services provided to local governments are funded with general fund. The legislature may wish to implement a fee for this service or deduct costs for these services from the entitlement payments provided to local governments. In fiscal 2002, the Local Government Services Bureau expended \$422,964 with funding from the general fund.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					213,463					210,926
Vacancy Savings					(65,948)					(65,845)
Inflation/Deflation					3,162					3,197
Fixed Costs					(21,977)					(27,386)
Total Statewide Present Law Adjustments					\$128,700					\$120,892
DP 301 - Rent Increase LGS -GF	0.00	6,333	0	0	6,333	0.00	6,460	0	0	6,460
DP 306 - Fund Burial Preservation Board	0.25	38,090	0	0	38,090	0.25	28,070	0	0	28,070
DP 307 - Increase FTE for Consumer Protection	1.50	0	77,290	0	77,290	1.50	0	71,111	0	71,111
DP 309 - Indirect Fixed Costs	0.00	(10,120)	30,213	18	20,111	0.00	(10,163)	30,219	18	20,074
DP 310 - Police Retirement Fund Reduction	0.00	0.00	0.00	0.00	0.00	0.00	(2,450)	0.00	0.00	(2,450)
Total Other Present Law Adjustments	1.75	\$34,303	\$107,503	\$18	\$141,824	1.75	\$21,917	\$101,330	\$18	\$123,265
Grand Total All Present Law Adjustments					\$270,524					\$244,157

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 301 - Rent Increase LGS -GF - An increase of \$12,793 general fund for the biennium is requested for rent increases for space the Local Government Services Bureau occupies in the old federal building in Helena. Rent in the old Federal Building is increasing because federal agencies are moving out of the building into the new Federal Office Building and Federal Courthouse. The federal agencies have been paying for the common areas and for at least one central conference room on each floor of the building. In the 2005 biennium, the state would occupy the entire building and would assume the cost for the common areas plus the conference rooms on each floor. The costs of the common areas and conference rooms will be allocated to tenant agencies and programs based on the ratio of used space to total used space.

DP 306 - Fund Burial Preservation Board - An increase of \$66,160 general fund for the biennium is requested to fund an additional 0.25 FTE administrative support and contracted services to hire hearings officers to support work under the Montana Repatriation Act. The board would provide a mechanism through which culturally affiliated human skeletal remains or funerary objects taken from burial sites would be returned to family members.

DP 307 - Increase FTE for Consumer Protection - An increase of \$148,401 consumer education settlement state special revenue for the biennium is requested to fund an additional 1.50 FTE and operating costs to address workload increases experienced enforcing the Consumer Protection Act. The staffing would be for 0.50 FTE paralegal and 1.00 FTE investigator.

DP 309 - Indirect Fixed Costs - An increase of \$40,185 for the biennium is requested for increases in department indirect and administrative costs for services received from other proprietary funded centralized service functions of the agency. Funding includes a reduction of \$20,283 general fund and increases of \$60,432 state special revenue and \$36 federal special revenue.

DP 310 - Police Retirement Fund Reduction - A reduction of \$2,450 general fund is recommended to remove funding in fiscal 2005 for an actuarial report on the Police Retirement Fund. The report is done only once a biennium so funding in fiscal 2005 would not be needed.

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 303 - Return to Federal Portion of State Fund Dividend										
03	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 311 - Fund Switch 0.33 FTE - HB 2										
03	(0.33)	(16,745)	0	0	(16,745)	(0.33)	(16,696)	0	0	(16,696)
DP 315 - Indirect Cost Allocation - HB 2										
03	(6.00)	(456,981)	0	0	(456,981)	(6.00)	(456,897)	0	0	(456,897)
DP 317 - Indirect Cost Allocation - HB2										
03	0.00	23,698	1,922	74	25,694	0.00	23,724	1,924	74	25,722
Total	(6.33)	(\$450,028)	\$1,922	\$100,074	(\$348,032)*	(6.33)	(\$449,869)	\$1,924	\$100,074	(\$347,871)*

New Proposals

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

DP 303 - Return to Federal Portion of State Fund Dividend - An increase of \$200,000 federal special revenue for the biennium is requested so the department can return State Fund dividends to the Health and Human Services Federal Program through a warrant. The federal government has requested that the federal share of State Fund dividends received for state agencies with good workers' compensation claim experiences be returned through a warrant instead of the previous practice of reducing the draw of federal funds on individual programs by the amount of the State Fund dividend.

LFD ISSUE	<p>Restrict only for Workers' Compensation Dividend Refunds</p> <p>The amount of any State Fund dividend and the potential for dividends to be provided are purely speculative at this time. Because of the uncertainty for dividends to occur, this request can be viewed as budget authority that is only needed if a certain circumstance occurs. As such, the legislature may wish to consider restricting this authority only for returning State Fund dividends to the federal government.</p>
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DP 311 - Fund Switch 0.33 FTE - HB 2 - A reduction of \$33,441 general fund for the biennium is recommended to switch funding for an existing 0.33 FTE from general fund to warrant writer proprietary fund. This funding switch would more closely tie the funding to the functions performed by the position.

DP 315 - Indirect Cost Allocation - HB 2 - A funding switch with a reduction of \$913,878 general fund for the biennium is recommended to fund portions of the Director's Office and the Management Support Bureau as an indirect cost pool with proprietary funds derived from charging an indirect cost rate to other programs of the department and administratively attached agencies and boards. This funding switch would remove funding in HB 2 for 6.00 FTE and associated operating costs. The indirect cost pool would fund the expenses of the Director's Office and other centralized functions that prepare agency budgets, coordinate fiscal notes, and pay bills for those programs without dedicated accounting staff.

LFD COMMENT	<p>Indirect Cost Pool</p> <p>The August 2002 Special Session passed HB 21, which required agencies to fully recover indirect costs of federal assistance programs and private assistance. Costs of the Director's Office and the Management Support Bureau are costs that were previously funded with general fund but which are indirect costs eligible for reimbursements covered by HB 21. This decision package and decision packages in other programs of the department provide the funding change to allow the indirect costs to fund the functions of the program that support other programs of the agency and administratively attached agencies and boards. A further discussion is included in the agency section of this narrative.</p>
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DP 317 - Indirect Cost Allocation - HB2 - Increases of \$47,422 general fund, \$3,846 state special revenue, and \$148 federal special revenue are requested for the biennium to fund the division's share of the indirect cost pool formed in new proposal DP 315 of this program.

Language Recommendations

"Item 1 includes \$267,661 general fund in fiscal year 2004 and \$257,641 general fund in fiscal year 2005. In accordance with 17-2-108 MCA, the general fund is to be reduced by the amount of money received from nonfederal sources and the state special revenue increased by a like amount, as approved by the approving authority. Decision package 309 in the Consumer Affairs function within Administrative Financial Services requests a fund switch from state special revenue to general fund. In fiscal year 2002, the consumer protection counsel brought in \$526,000 to the general fund. "

LFD COMMENT

Suggested Language Wording Change

The legislature may wish to consider alternative language to the language provided by the executive. The last two sentences are editorial and add no legal value to the purpose of the language or the legislative intentions it requests.

More appropriate language would be:

"Item 1 includes \$267,661 in general fund money in fiscal year 2004 and \$257,641 in fiscal year 2005. The approving authority shall reduce general fund money and increase state special revenue by the amounts of money received from nonfederal sources received from consumer protection act settlements up to these amounts."

Proprietary Rates

Internal Service Funds

LFD COMMENT

The proprietary programs for the Accounting and Management Support Program are grouped into two categories: 1) internal service funds; and 2) enterprise funds. For the general appropriations act, Montana law specifies different legislative action for each category.

For internal service funds, the legislature establishes fiscal policy for the programs through its approval of the maximum rates programs may charge during the biennium. The legislature does this by reviewing the financial condition of the fund and the revenue and expenditure patterns of the program. The legislature reviews historical and planned operations of the program and approves rates that it determines provide financial support for the program at the level the legislature deems appropriate. The legislature also provides legislative policy direction for the program, including appropriateness of fund balances.

For enterprise funds, the legislature reviews earnings and contributed capital, projected operations and charges, and projected fund balances. The legislature does not approve the rates being charged, but provides legislative policy direction for the program, including appropriateness of charges and fund balances.

Legal Services Unit (Fund 06504)

Program Description

The Legal Services Unit advises all divisions within the department and those administratively attached to the department on legal matters. The unit receives funding from the general fund and through the legal services internal service fund. Only the portion of the unit funded by the internal service fund is discussed below. The general fund portion supporting 0.17 FTE is shown on the main budget tables and discussed in the HB 2 portion of the division narrative.

Revenues and Expenses

The Legal Services Unit receives revenues via an allocation of anticipated expenses of the unit to all non-general fund divisions of the department and administratively attached agencies and boards. The allocation is based on a time study

of work performed. In fiscal 2002, revenues of just over \$172,000 were received from the following funding sources in the percentages and approximate amounts shown:

- State special revenue (18 percent), \$3,700
- Proprietary funds (62 percent), \$127,300
- Trust funds (20 percent), \$41,000

In fiscal 2002, revenues funded personal services for 1.58 FTE and operating costs. Personal services of approximately \$138,100 comprised 90.0 percent of expenses, with operating expenses making up the remaining \$15,000 or 10.0 percent of unit expenses.

Fiscal 2002 revenues and expenses show proportional increases that reflect the addition of 0.75 FTE that resulted when programs of the Department of Commerce were moved into the Department of Administration after the 2001 legislature passed SB 445. SB 445 reorganized the Department of Commerce and reassigned four of its programs to the Department of Administration. As a result, the Legal Services Unit increased to the current 1.58 FTE funded with proprietary funds. The revenues and expenses for the 2005 biennium assume legislative approval to fund an additional 0.50 FTE with this fund.

Allocation of Legal Services Unit anticipated costs is done during July of each fiscal year. Because collection is done once a year at the beginning of the year, rates are developed to only recover expenses on a breakeven basis. However, in fiscal 2002, expenses were over recovered by nearly \$20,000. The unit proposes to use these extra revenues to accumulate fund balance to offset a liability due to a large amount of accrued leave. The table for fund 06504 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund 06504	Fund Name Legal Services	Agency # 61010	Agency Name Dept. of Administration	Program Name Legal Unit
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	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	91,024	91,143	172,409	179,024	149,097	149,097
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	91,024	91,143	172,409	179,024	149,097	149,097
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	91,024	91,143	172,409	179,024	149,097	149,097
Operating Expenses:						
Personal Services	88,521	91,334	138,067	126,810	144,046	143,615
Other Operating Expenses	8,861	7,934	14,688	22,154	19,810	20,208
Miscellaneous, operating	(75)	(4)	(29)	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	97,307	99,264	152,726	148,964	163,856	163,823
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	97,307	99,264	152,726	148,964	163,856	163,823
Operating Income (Loss)	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	(18,325)	(22,602)	(30,723)	(11,040)	23,794	9,035
Adjustments to Beginning retained Earnings	2,006	-	-	4,774	-	-
Net Income (Loss)	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Retained Earnings/Fund Balances - June 30	(22,602)	(30,723)	(11,040)	23,794	9,035	(5,691)
60 days of expenses (Total Operating Expenses divided by 6)	16,218	16,544	25,454	24,827	27,309	27,304

Rate Explanation

The financial objective of the Legal Services Unit is to operate on a break-even basis. The unit charges other non-general funded divisions in the department a percentage of its operations budget based on a time-use study. A fixed amount attributable to the percentage the service is used by a program is requested as the rate.

Figure 3A shows the historical and requested rates for the Legal Services Unit.

Figure 3A
Historical and Requested Rates
Legal Services Unit (Fund 06504)

Program	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Teachers' Retirement	20%	20%	\$ 20,071	\$ 20,071
Personnel Division	26%	26%	21,504	21,504
Risk Management & Tort Defense	2%	2%	1,434	1,434
General Services	7%	7%	5,018	5,018
Architecture & Engineering	18%	18%	15,770	15,770
Information Services	27%	27%	19,354	19,354
Consumer Affairs			35,841	35,841
Banking Division			8,602	8,602
Lottery			14,336	14,336
Local Government Services			<u>7,168</u>	<u>7,168</u>
			\$ 149,098	\$ 149,098

For the 2003 biennium, the approved rates were a percentage allocation of Legal Services Unit expenses.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Legal Services Unit expenses totaling \$60,837 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the Legal Services Unit or to determine the impacts of changing the rate allocation methodology.

Adjustments included in the rate request are:

- o A net increase totaling \$3,140 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$57,697 for the biennium for funding to add 0.50 FTE lawyer to the unit

Management Services Unit (Fund 06534)

Program Description

The Management Services Unit coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning (OBPP) and its presentation to the legislature, processes budget change documents on approved budgets through OBPP, and monitors approved budgets for compliance with state law and legislative intent. The unit also provides accounting assistance to the non-general funded divisions within the department.

Revenues and Expenses

In fiscal 2002, the Management Services Unit had revenues of nearly \$59,000 from fees paid by divisions of the department. These revenues were received from the following funding sources in the percentages and approximate amounts shown:

- o General fund (10 percent), \$5,900
- o State special revenue (40 percent), \$23,600
- o Proprietary funds (50 percent), \$29,500

In fiscal 2002, revenues funded personal services for 1.00 FTE and operating costs. Personal services of about \$43,400 were nearly 87.0 percent of expenses, with operating expenses making up the remaining \$6,500 or roughly 13.0 percent of unit expenses. The unit was formed when programs of the Department of Commerce were moved into the Department of Administration through passage of SB 445 by the 2001 legislature. The table for fund 06534 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06534	Management Services	61010	Dept. of Administration	Management Support Bureau

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	58,737	49,512	503,219	503,126
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	-	-	58,737	49,512	503,219	503,126
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	-	-	58,737	49,512	503,219	503,126
Operating Expenses:						
Personal Services	-	-	39,787	44,850	421,922	420,825
Other Operating Expenses	-	-	6,498	6,000	92,316	93,523
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	-	-	46,285	50,850	514,238	514,348
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	-	-	46,285	50,850	514,238	514,348
Operating Income (Loss)	-	-	12,452	(1,338)	(11,019)	(11,222)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	-	-	12,452	(1,338)	(11,019)	(11,222)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	-	-	-	8,843	12,831	1,812
Adjustments to Beginning retained Earnings	-	-	(3,609)	5,326	-	-
Net Income (Loss)	-	-	12,452	(1,338)	(11,019)	(11,222)
Retained Earnings/Fund Balances - June 30	-	-	8,843	12,831	1,812	(9,410)
60 days of expenses (Total Operating Expenses divided by 6)	-	-	7,714	8,475	85,706	85,725

Rate Explanation

In the 2003 biennium, the unit supported department budget functions for divisions and workload is driven by appropriation factors. As such the operations of the unit were financed with a rate based on a percentage of appropriations in divisions.

For the 2005 biennium, the executive proposes a funding switch that would move 6.00 FTE from HB 2 funding to funding from the management services proprietary fund. This proposal would form an indirect cost pool for functions of the Director's Office and other centralized services functions of the department. This proposal would increase both revenues and expenses of the fund. The adjustments to implement this proposal and the impacts on the requested rates are described below in more detail.

Figure 3B shows the requested 2005 biennium rates for the Management Services Unit.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Management Services Unit expenses totaling \$921,515 for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$3,450 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$918,065 to move existing 6.00 FTE from HB 2 funding to funding from the management services proprietary fund. This funding switch would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and a accounting/fiscal manager to an indirect cost pool. Expenses of the cost pool would be charged to all divisions of the department and to administratively attached boards and agencies. The indirect cost pool would share the costs of the Director's Office and would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

Program	Fiscal 2004	Fiscal 2005
Administrative Financial Services	\$ 48,662	\$ 48,713
Architecture & Engineering	8,298	8,294
General Services	69,111	69,088
Information Services	223,900	223,790
Personnel Division	20,034	20,026
Risk Management & Tort Defense	34,480	34,463
Banking Division	22,078	22,102
Lottery	25,728	25,715
State Tax Appeal Board	4,129	4,133
Appellate Defender	2,659	2,662
Totals	\$ 459,079	\$ 458,986

Network Support Unit (Fund 06560)

Program Description

The Network Support Unit administers all data processing functions of the department except those of the Information Technology Services Division. The unit installs software and hardware, responds to computer problems, and answers software questions. The unit also provides computer-programming services.

Revenues and Expenses

In fiscal 2002, the Network Support Unit had revenues of roughly \$175,000 from fees paid by divisions of the department. These revenues were received from the following funding sources in the percentages and approximate amounts shown:

- o General fund (35.3 percent), \$61,800
- o State special revenue (14.3 percent), \$25,000
- o Proprietary funds (50.4 percent), \$88,200

Revenues from fees are received in July and August of each fiscal year, and the unit draws down this cash balance during the fiscal year to pay for operating expenses. In fiscal 2002 the division received \$22,000 more in revenues than expenses or 14.5 percent of annual expenses.

In fiscal 2002, revenues funded personal services for 3.50 FTE and operating costs. Personal services of nearly \$119,700 were roughly 79.0 percent of expenses, with operating costs making up the remaining \$31,600 or roughly 21.0 percent of unit expenses. Operating expenses are comprised of fixed costs, computer equipment, and software. During the 2003 biennium, 1.00 FTE was added when programs of the Department of Commerce were moved into the Department of Administration after SB 445 was passed by the 2001 legislature. The table for fund 06560 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06560	DP Unit Proprietary Fund	61010	Dept. of Administration	Management Support Bureau		
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
	Net Fee Revenue				118,220	115,283
	Investment Earnings				-	-
	Securities Lending Income				-	-
	Premiums				-	-
	Other Operating Revenues				-	-
	Total Operating Revenues				118,220	115,283
Intrafund Revenue						
	Net Operating Revenues				118,220	115,283
Operating Expenses:						
	Personal Services				91,672	93,617
	Other Operating Expenses				19,351	17,389
	Miscellaneous, operating				435	-
	Miscellaneous, other				-	(54)
	Total Operating Expenses				111,458	111,006
Intrafund Expense						
	Net Operating Expenses				111,458	111,006
Operating Income (Loss)						
					6,762	4,277
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets						
					-	-
Federal Indirect Cost Recoveries						
					-	-
Other Nonoperating Revenues (Expenses)						
	Net Nonoperating Revenues (Expenses)				-	-
Income (Loss) Before Operating Transfers						
					6,762	4,277
Contributed Capital						
					-	-
Operating Transfers In (Note 13)						
					-	-
Operating Transfers Out (Note 13)						
					-	-
Retained Earnings/Fund Balances - July 1 - As Restated						
					12,693	5,418
Adjustments to Beginning retained Earnings						
					(14,037)	(3,300)
Net Income (Loss)						
					6,762	4,277
Retained Earnings/Fund Balances - June 30						
					5,418	6,395
60 days of expenses						
	(Total Operating Expenses divided by 6)				18,576	18,501
Fee/Rate Information for Legislative Action:						
Requested Rates for Internal Service Funds						
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
	Support per computer				\$668	\$668
					\$714	\$732
					\$690	\$688
The financial objective of the Network Support Unit is to operate on a break-even basis. This unit charges other divisions in the department a fixed fee per computer to cover the costs of providing network support services, which it bills in July of each fiscal year to build up the working capital balance it requires. It charges a set fee per hour for computer programming, which it bills on an actual-hours-used basis.						

Rate Explanation

For the 2003 biennium, fees were assessed on a per computer and server basis. However, the department is consolidating servers to be more cost effective. With the server consolidation, fees for the Network Support Unit would be assessed on a per user basis. Also, the additional users added as a result of SB 445 have increased the base of users. As such, fees for the 2005 biennium are reduced from those charged in the 2003 biennium. For reference, the unit charged \$714 per computer in fiscal 2002 and \$732 per computer in fiscal 2003. This was in addition to charges of

\$1,072 per server in fiscal 2002 and \$1,098 per server in fiscal 2003.

The executive recommends legislative approval of \$690 per user in fiscal 2004 and \$688 per user in fiscal 2005 as the maximum rates for the 2005 biennium.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Network Support Unit expenses totaling roughly \$6,442 for the 2005 biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department.

Warrant Writer Program (Fund 06564)

Program Description

The department provides the services of the Warrant Writer Program to most state agencies for check writing and automatic-deposit capabilities for financial transactions. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing.

The system handles about two million payment transactions per year. Payment transactions include warrant writing and electronic transfers for vendor payments, retirement payments for public employees and teachers, payroll, worker's compensation, income tax refunds, special refunds, and public assistance benefit payments. In addition, the program maintains a central payee file to facilitate payment processing. The program is also responsible for consolidation of 1099-MISC information for the Internal Revenue Service. The program coordinates compliance with IRS rules governing 1099 MISC-filings and error reports.

The program is authorized through 17-8-305, MCA. Statute does not allow for an alternative for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system.

Revenues and Expenses

In fiscal 2002, the Warrant Writer Program had revenues of roughly \$922,400 from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (36.2 percent), \$333,900
- State special revenue (10.4 percent), \$95,900
- Federal special revenue (19.7 percent), \$181,700
- Proprietary funds (14.6 percent), \$134,700
- All other funds (19.1 percent), \$176,200

Revenues from fees are typically received within 45 days of each monthly billing. In fiscal 2002, the program received \$183,000 more in revenues than expenses or just less than 25 percent of annual expenses. This over recovery was primarily due to higher volumes of transactions experienced than were projected and is a factor for reducing the rates requested for the 2005 biennium.

In fiscal 2002, revenues funded personal services for 6.00 FTE and operating costs. Personal services of roughly \$142,700 were about 19 percent of expenses, with operating costs making up the majority of costs at roughly \$568,200 or nearly 77 percent of unit expenses. Major cost drivers include contract printing of warrants, warrant stock, and postage to mail warrants. Warrant stock cost and Information Technology Services Division print rates are expected to remain the same as in fiscal 2002 and postage is projected to increase 3 cents per item.

The table for fund 06564 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that for the 2005 biennium anticipated operating revenues from rates and other charged revenues would be less than anticipated operating expenses, resulting in operating losses in each year totaling \$160,600 for the biennium. These

losses would draw on fund balance accumulated with net operating gains of \$222,700 in the 2003 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06564	Warrant	61010	Dept. of Administration	Agency Financial Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Warrant Processing	-	-	-	831,766	855,883	873,501
Net Fee Revenue	729,763	735,164	922,385	831,766	855,883	873,501
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	350	-	98	-	-	-
Total Operating Revenues	730,113	735,164	922,483	831,766	855,883	873,501
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	730,113	735,164	922,483	831,766	855,883	873,501
Operating Expenses:						
Personal Services	132,254	139,070	142,711	161,309	189,085	189,488
Other Operating Expenses	595,740	587,082	568,155	580,248	728,965	702,071
Miscellaneous, operating	48,449	45,881	28,880	50,260	39,968	40,402
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	776,443	772,033	739,746	791,817	958,018	931,961
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	776,443	772,033	739,746	791,817	958,018	931,961
Operating Income (Loss)	(46,330)	(36,869)	182,737	39,949	(102,135)	(58,460)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(1,248)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(1,248)	-	-	-	-
Income (Loss) Before Operating Transfers	(46,330)	(38,117)	182,737	39,949	(102,135)	(58,460)
Contributed Capital	20,779	20,779	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	48,099	1,769	(15,569)	167,168	207,117	104,982
Net Income (Loss)	(25,551)	(17,338)	182,737	39,949	(102,135)	(58,460)
Retained Earnings/Fund Balances - June 30	22,548	(15,569)	167,168	207,117	104,982	46,522
60 days of expenses (Total Operating Expenses divided by 6)	129,407	128,672	123,291	131,970	159,670	155,327

Fee/Rate Information for Legislative Action:

Requested ALLOCATED	FY2000	FY2001	FY2002	-----Estimated-----	Authority
Mailer Warrants	0.50277	0.50143	0.61700	0.58377	0.58624 0.58017 17-8-301
Non-Mailer Warrants	0.18230	0.18190	0.20800	0.19523	0.17803 0.17195
Duplicate Warrants	0.05360	0.50320	5.66320	5.37928	5.63949 5.63768
External Warrants	0.14960	0.14920	0.18500	0.17338	0.15523 0.14915
Emergency Warrants	3.30190	3.30060	4.13290	3.92540	4.26759 4.26588
Budget is distributed as a fixed cost to agencies based on FY 2002 actuals					

Rate Explanation

Demand for each warrant category is made by comparing two biennia of actual activity to project usage for the upcoming biennium. Mailer warrants factor in warrant stock cost, postage, and printing, while non-mailer warrants factor in

warrant stock cost and printing. Both types of warrants pay for the required reconciliation between the accounts payable module of the state accounting system and the state's bank account. Direct deposits pay a \$0.05 charge for bank processing. Duplicate and emergency warrants pay for personnel time to process each individual request. All categories share equally in general operating expenses of the program based on projected transaction volume.

The historical and requested rates for the Warrant Writer Program are shown at the bottom of the table for fund number 06564. These rates include the impacts of moving 0.33 FTE from funding in HB 2 to funding from the warrant writer proprietary fund.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Warrant Writer Program expenses totaling roughly \$140,400 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the Warrant Writer Program.

Adjustments included in the rate request are:

- A net increase totaling \$22,954 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$84,000 for the biennium for increased postage costs that went into effect after the base year
- An increase of \$33,441 for the biennium for funding to move an existing 0.33 FTE from general fund in HB 2 to funding from the warrant writer proprietary fund (offset to new proposal DP 311)

Human Resource Unit (Fund 06570)

Program Description

The Human Resource Unit processes payroll and provides new employee orientation for all divisions of the department and agencies administratively attached to the department, assists with recruitment and selection, classifies positions, and develops personnel policies and procedures.

Revenues and Expenses

In fiscal 2002, the Human Resource Unit had revenues of roughly \$116,800 from fees paid by divisions served. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- State special revenue (22.2 percent), \$26,000
- Proprietary funds (68.3 percent), \$79,800
- Trust funds (9.5 percent), \$11,000

In fiscal 2002, revenues funded personal services for 2.75 FTE and operating costs. Personal services of roughly \$122,900 were 82 percent of expenses, with operating costs making up the remaining \$20,900 or 18 percent of unit expenses. Fiscal 2002 revenues and expenses show increases proportional to adding 1.00 FTE that resulted when programs of the Department of Commerce were moved into the Department of Administration after the 2001 legislature passed SB 445.

General funded divisions do not pay a fee for this program. Instead, general funded programs are supported with 0.25 FTE funded by a direct appropriation of general fund in the Administrative Financial Services Division. The general fund position is included in the main budget tables for the division. The table for fund 06570 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

on a fixed amount of revenues the program could collect, but specified the program could allocate the costs based on FTE served.

For the 2005 biennium, the executive recommends maximum rates of \$330 per FTE in fiscal 2004 and \$331 per FTE in fiscal 2005 for the Human Resources Unit.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Human Resource Unit expenditures for a net reduction of \$1,377 for the 2005 biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department.

Enterprise Funds

Audit Review and Defalcation Audit Programs (Fund 06042/06043)

Program Description

The Audit Review Program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for all Montana 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 program determines 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:

- 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 that are required to submit audits pay the filing fee.
- 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 fee revenues support a staff of 4.00 FTE.

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 audited local government entities.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06042, 06043	Local Government Audits	61010	Dept. of Administration	Agency Financial Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	247,536	260,608	259,376	245,000	259,000	259,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	402	-	2	-	-	-
Total Operating Revenues	247,938	260,608	259,378	245,000	259,000	259,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	247,938	260,608	259,378	245,000	259,000	259,000
Operating Expenses:						
Personal Services	161,022	167,207	178,410	184,282	195,311	196,432
Other Operating Expenses	46,099	52,174	57,323	43,537	-	-
Miscellaneous, operating	39,669	34,696	18,920	132,691	236,906	87,026
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	246,790	254,077	254,653	360,510	432,217	283,458
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	246,790	254,077	254,653	360,510	432,217	283,458
Operating Income (Loss)	1,148	6,531	4,725	(115,510)	(173,217)	(24,458)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(688)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(688)	-	-	-	-
Income (Loss) Before Operating Transfers	1,148	5,843	4,725	(115,510)	(173,217)	(24,458)
Contributed Capital	105,626	105,626	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	231,131	232,279	343,748	348,473	232,963	59,746
Net Income (Loss)	106,774	111,469	4,725	(115,510)	(173,217)	(24,458)
Retained Earnings/Fund Balances - June 30	337,905	343,748	348,473	232,963	59,746	35,288
60 days of expenses (Total Operating Expenses divided by 6)	41,132	42,346	42,442	60,085	72,036	47,243

The executive included present law adjustments and new proposals for increased expenses totaling \$170,315 for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$5,794 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$150,000 for the biennium to convert its current audit program software from Informix to Oracle
- o An increase of \$14,521 for the biennium for rent increases of space in the old Helena federal building

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.00	0.00	0.00	17.00	0.00	0.00	17.00	17.00
Personal Services	794,977	132,413	0	927,390	131,293	0	926,270	1,853,660
Operating Expenses	296,554	(470)	8,298	304,382	8,369	8,294	313,217	617,599
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,091,531	\$131,943	\$8,298	\$1,231,772	\$139,662	\$8,294	\$1,239,487	\$2,471,259
State/Other Special	1,091,531	120,401	8,298	1,220,230	121,293	8,294	1,221,118	2,441,348
Capital Projects	0	11,542	0	11,542	18,369	0	18,369	29,911
Total Funds	\$1,091,531	\$131,943	\$8,298	\$1,231,772	\$139,662	\$8,294	\$1,239,487	\$2,471,259

Program Description

The Architecture and Engineering Division (A&E) manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The division also formulates a long-range building plan for legislative consideration each session.

Program Narrative

Department of Administration Architecture & Engineering Program Major Budget Highlights	
o	Total fund budget increases \$170,312 or 7.4 percent (no general fund) from the 2003 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Architecture & Engineering Pgm							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
02030 Arch & Engin Construction	\$ 1,091,531	100.0%	\$ 1,220,230	99.1%	\$ 1,221,118	98.5%	
05007 Long Range Building Program	-	-	11,542	0.9%	18,369	1.5%	
Grand Total	\$ 1,091,531	100.0%	\$ 1,231,772	100.0%	\$ 1,239,487	100.0%	

The Architecture and Engineering Division is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					171,054					169,888
Vacancy Savings					(38,641)					(38,595)
Inflation/Deflation					1,162					1,829
Fixed Costs					5,599					13,774
Total Statewide Present Law Adjustments					\$139,174					\$146,896
DP 401 - Other Fixed Costs	0.00	0	(7,231)	0	(7,231)	0.00	0	(7,234)	0	(7,234)
Total Other Present Law Adjustments	0.00	\$0	(\$7,231)	\$0	(\$7,231)	0.00	\$0	(\$7,234)	\$0	(\$7,234)
Grand Total All Present Law Adjustments					\$131,943					\$139,662

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 401 - Other Fixed Costs - The executive recommends a reduction of roughly \$14,500 state special revenue for the biennium for indirect/administrative costs for services received from other proprietary funded centralized service functions of the agency.

Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 318 - Indirect Cost Allocation - HB576										
04	0.00	0	8,298	0	8,298	0.00	0	8,294	0	8,294
Total	0.00	\$0	\$8,298	\$0	\$8,298 *	0.00	\$0	\$8,294	\$0	\$8,294 *

New Proposals

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

DP 318 - Indirect Cost Allocation - HB576 - An increase of \$16,592 state special revenue for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.05	0.00	(0.50)	9.55	0.00	(0.50)	9.55	9.55
Personal Services	419,643	21,422	(25,607)	415,458	20,708	(25,515)	414,836	830,294
Operating Expenses	465,124	57,910	(404,480)	118,554	73,245	(421,785)	116,584	235,138
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100
Total Costs	\$1,849,872	\$79,332	(\$812,105)	\$1,117,099	\$93,953	(\$829,469)	\$1,114,356	\$2,231,455
General Fund	916,817	79,332	(379,050)	617,099	93,953	(396,414)	614,356	1,231,455
Capital Projects	933,055	0	(433,055)	500,000	0	(433,055)	500,000	1,000,000
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$1,849,872	\$79,332	(\$812,105)	\$1,117,099	\$93,953	(\$829,469)	\$1,114,356	\$2,231,455

Program Description

The General Services Division is composed of four bureaus responsible for providing certain internal services to government agencies and the public.

The Facilities Management Bureau manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, lease negotiation, security, janitorial, recycling, pest control, and garbage collection.

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act.

The Print Services Bureau provides printing services to state agencies by operating a central facility for duplicating and binding, desktop publishing, layout and design, graphic illustration, and forms design. It operates three quick-copy centers, administers the state photocopy pool, and approves the procurement of all printing and printing-related purchases for state agencies.

Mail services for state agencies in the Helena area are provided through a centralized facility that manages incoming, outgoing, and interagency mail. In addition, the bureau operates a full service contract United States post office in the state capitol building. The Property and Supply Bureau manages the Central Stores program and the State and Federal Surplus Property programs. The division also manages the state's vehicle fueling, energy procurement, and procurement card functions.

Program Narrative

<p>Department of Administration General Services Division Major Budget Highlights</p>
<ul style="list-style-type: none"> o Total fund budget is reduced by \$1.5 million or 39.8 percent, with general fund reduced by \$0.6 million or 33.1 percent, from the 2003 biennium o A net 0.5 FTE reduction o Reorganization combined several divisions <ul style="list-style-type: none"> o Former General Services o Former Procurement & Printing Division o Former Mail & Distribution Bureau
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> o Predictability of capitol land grant trust fund as a funding source o Maintenance contract cost increases o General fund subsidy for fueling program o High fund balance in central stores proprietary fund o Need for central stores o Alternatives for approving rate requests <ul style="list-style-type: none"> o Mail Services Section o External printing

Program Reorganization

During the 2003 biennium, the General Services Program was combined with the Mail and Distribution Bureau and the Procurement and Printing Division to form the General Services Division. All three functions continue to provide the same services as before the reorganization. The main difference is that division management was consolidated under fewer managers.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
General Services Program						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
<u>Program Funding</u>	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 916,817	49.6%	\$ 617,099	55.2%	\$ 614,356	55.1%
05008 Capital Land Grant	<u>933,055</u>	<u>50.4%</u>	<u>500,000</u>	<u>44.8%</u>	<u>500,000</u>	<u>44.9%</u>
Grand Total	<u>\$ 1,849,872</u>	<u>100.0%</u>	<u>\$ 1,117,099</u>	<u>100.0%</u>	<u>\$ 1,114,356</u>	<u>100.0%</u>

The General Services Division is funded with general fund, capitol land grant trust fund, and proprietary funds. General fund provides funding for the procurement bureau and facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's Mansion, public display areas in the Historical Society Museum, and some office space in the museum building. Capitol land grant trust fund was used in the 2003 biennium to supplement rental rates to the Department of Administration for all agencies but would be used in the 2005 biennium to supplement only the general fund support for common areas.

The following programs are funded with proprietary funds and are not shown on the main budget tables but are discussed in the proprietary rates section for the division:

- o Mail services
- o Print services
- o Property and supply
- o Central stores
- o Facilities management
- o Surplus property
- o State fueling network
- o State procurement card

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					39,799					39,055
Vacancy Savings					(18,377)					(18,347)
Inflation/Deflation					899					910
Fixed Costs					57,772					73,112
Total Statewide Present Law Adjustments					\$80,093					\$94,730
DP 601 - Adjust Management Services Fixed Costs	0.00	(761)	0	0	(761)	0.00	(777)	0	0	(777)
Total Other Present Law Adjustments	0.00	(\$761)	\$0	\$0	(\$761)	0.00	(\$777)	\$0	\$0	(\$777)
Grand Total All Present Law Adjustments					\$79,332					\$93,953

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 601 - Adjust Management Services Fixed Costs - The executive recommends a reduction of roughly \$1,500 general fund for the biennium for indirect/administrative costs for services received from other proprietary funded centralized services functions of the agency.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2	06	0.00	7,677	0	0	7,677	0.00	7,685	0	0	7,685
DP 611 - Use Capitol Land Grant for Major Maintenance	06	0.00	(419,857)	0	0	(852,912)*	0.00	(433,870)	0	0	(866,925)*
DP 612 - Transfer & Fund FTE in Fueling Program	06	(1.00)	0.00	0	0	0.00	(1.00)	0.00	0	0	0.00
DP 614 - FTE for PeopleSoft Procurement Module	06	0.50	33,130	0	0	33,130	0.50	29,771	0	0	29,771
Total	(0.50)	(\$379,050)	\$0	\$0	(\$812,105)*	(0.50)	(\$396,414)	\$0	\$0	(\$829,469)*	

New Proposals

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

DP 317 - Indirect Cost Allocation - HB 2 - An increase of \$15,362 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management

Support Bureau that provide centralized service functions for divisions of the department.

DP 611 - Use Capitol Land Grant for Major Maintenance - The executive recommends reductions of \$0.9 million general fund and \$0.9 capitol land grant trust funds for the biennium. This would leave a net \$1.0 million for the biennium of capitol land grant trust funds for major maintenance costs of the Facilities Management Bureau. All told, \$1.7 million for the biennium less maintenance would be done on common areas of the capitol complex.

**LFD
COMMENT**

Use of Capitol Land Grant Funds

The enabling act for the capitol land grant trust fund only allows these funds to be used for specific purposes, one of which is major maintenance such as permanent improvement of state buildings. In the 2003 biennium, the Facilities Management Bureau was funded with \$1.9 million of capitol land grant funds, but fewer funds are available for the 2005 biennium. The major source of revenue to the capitol land grant trust is proceeds for timber sales on state lands. Sale of fire salvage timber from the 2000 fire season provided higher revenues in the 2003 biennium than are available for the 2005 biennium since most of the viable timber has been harvested. Also, the capitol land grant funds were used in the 2003 biennium to subsidize rent payments from capitol complex tenants. This has changed for the 2005 biennium with the executive applying the subsidy to general fund support of common areas and not subsidizing the rent payments made by all tenant agencies. The approach taken for the 2005 biennium provides a direct benefit for the general fund instead of benefiting all fund types as was done in the 2003 biennium. The Executive Budget did not specify what maintenance activities would be impacted by this reduced capitol land grant transfer.

DP 612 - Transfer & Fund FTE in Fueling Program - The executive recommends transferring funding for 1.00 FTE from the Procurement Bureau to the Statewide Fueling Network Program. The executive also requests authority for a transfer of general fund to the Statewide Fueling Network Program equivalent to the amount of funding for the position moved. The result would be no funding impact for general fund or the proprietary fund.

**LFD
ISSUE**

General Fund Subsidy for Fueling Program

The executive request removes the funding for the position that administers the Statewide Fueling Network Program, a proprietary funded program, to the proprietary fund. However the request does not remove this funding from the budget but provides for a transfer of general fund to subsidize the proprietary funds via a contribution of capital. The practice of subsidizing the Statewide Fueling Network Program with general fund has been identified in the past three legislative audits of the program. The audit recommendations were for the proprietary program to recover full costs through the charges of the program.

If the legislature wants the proprietary program to stand on its own without general fund support, it may wish to remove general fund in the amounts of \$51,037 for fiscal 2004 and \$50,886 for fiscal 2005 from this decision package. To make the program whole for this adjustment, the legislature would need to adjust the rates being requested for this proprietary program. A discussion for this adjustment is provided in the proprietary rate discussion for the Statewide Fueling Network that follows.

DP 614 - FTE for PeopleSoft Procurement Module - An increase of \$62,901 general fund for the biennium is requested to fund the addition of 0.50 FTE for duties associated with the procurement module of the statewide accounting, budgeting, and human resource system (SABHRS). The position would manage system data, trouble-shoot hardware and software problems, test upgrades and software fixes, train bureau and agency staff, and adapt internal processes to the software requirements.

Proprietary Rates

Program Description

The General Services Division provides the following functions funded with proprietary fund. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- Facilities management
- Mail services
- Print services
- Surplus property

- Central Stores
- Statewide Fueling Network
- Procurement Card

Facilities Management Bureau (Fund 06528)

Program Description

The Facilities Management Bureau is custodian of all state property in the state capitol area, which is the geographic area within a 10-mile radius of the state capitol. The bureau provides facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and provides statewide leasing assistance to agencies to negotiate co-location of agencies to procure leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

Revenues and Expenses

In fiscal 2002, the Facilities Management Bureau had revenues of roughly \$4.8 million from rent payments paid by tenant agencies. Rent payments make up 78.5 percent of revenues for the bureau. These rent payments were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (50.2 percent), \$2,400,000
- State special revenue (15.1 percent), \$709,000
- Federal special revenue (15.0 percent), \$704,000
- Proprietary funds (19.3 percent), \$905,000
- All other funds (0.4 percent), \$16,000

Also in fiscal 2002, a transfer of \$933,055 from capitol land grant trust fund revenues funded an additional 15.4 percent of the operations of the program. This same amount is also planned for fiscal 2003. Because timber sale revenues are expected to decrease from those seen in the 2003 biennium, the executive proposes reducing the support from the capitol land grant trust fund to \$500,000 per year of the 2005 biennium. (The timber sale revenues were high during the 2003 biennium because of timber sales in burn areas of the 2000 fire season.)

In fiscal 2002, revenues funded personal services for 23.10 FTE and operating costs. Personal services of roughly \$0.9 million were 16.5 percent of expenses. The lion's share of costs was for operating expenses amounting to \$4.5 million or 83.3 percent of program expenses. Operating expenses are comprised of utilities, repair and maintenance, and contracted services. The program contracts for these functions: insurance, janitorial, mechanical, elevator, pest control, and security services. All contracted costs are expected to increase in the 2005 biennium as contracts are renewed and because of the state taking over ownership of the old National Guard armory building in Helena during the 2003 biennium.

The table for fund 06528 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows operating revenues from rates and other charged revenues are less than operating expenses resulting in operating losses in every year. These losses were addressed in the 2003 biennium and partially addressed in the 2005 biennium with planned transfers from the capitol land grant trust fund. The result is a fund balance adequate to finance roughly one month of operating expenses.

LFD ISSUE

Capitol Land Grant Trust

The capitol land grant trust funds should not be relied on as a predictable source of revenue to finance the maintenance functions of the capitol complex. The amount of available funds from this trust is very dependant on timber sales on state lands and can fluctuate significantly from one year to the next. For example, following the 2000 fire season, significant revenues were generated from salvage logging in burned areas. As a result, the revenues and fund balance grew significantly. However, high revenues were not sustained. The reduction of the capitol land grant trust fund transfer between the 2003 and 2005 biennia is an example of the lack of predictability of this funding source.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund 06528	Fund Name Facilities Management	Agency # 61010	Agency Name Dept. of Administration	Program Name General Services
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	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	-	-	-	4,171,683	5,436,086	5,653,965
Revenue from Warehouse Rental Rate	-	-	-	190,361	207,144	208,969
Revenue from Recycling Revenue	-	-	-	10,000	10,000	10,000
Revenue from Handyman Charges	-	-	-	85,000	45,000	45,000
Revenue from Project Work	-	-	-	55,000	55,000	55,000
Net Fee Revenue	5,107,350	5,513,037	5,125,035	4,512,044	5,753,230	5,972,934
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,120	1	339	-	-	-
Total Operating Revenues	5,108,470	5,513,038	5,125,374	4,512,044	5,753,230	5,972,934
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	5,108,470	5,513,038	5,125,374	4,512,044	5,753,230	5,972,934
Operating Expenses:						
Personal Services	816,699	932,942	887,839	963,361	1,001,198	1,003,705
Other Operating Expenses	4,209,811	4,682,905	4,452,582	4,242,065	5,290,690	5,507,877
Miscellaneous, operating	82,863	81,797	110,871	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	5,109,373	5,697,644	5,451,292	5,205,426	6,291,888	6,511,582
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	5,109,373	5,697,644	5,451,292	5,205,426	6,291,888	6,511,582
Operating Income (Loss)	(903)	(184,606)	(325,918)	(693,382)	(538,658)	(538,648)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(719)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(719)	-	-	-	-	-
Income (Loss) Before Operating Transfers	(1,622)	(184,606)	(325,918)	(693,382)	(538,658)	(538,648)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	44,430	-	933,055	933,055	500,000	500,000
Operating Transfers Out (Note 13)	(410,953)	(1,848)	(418,000)	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	773,800	398,415	207,200	396,337	636,010	597,352
Net Income (Loss)	(368,145)	(186,454)	189,137	239,673	(38,658)	(38,648)
Retained Earnings/Fund Balances - June 30	405,655	211,961	396,337	636,010	597,352	558,704
60 days of expenses (Total Operating Expenses divided by 6)	851,562	949,607	908,549	867,571	1,048,648	1,085,264

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

Agency Number: 61010							
Fund Number: 06528							
	FYE 00	FYE 01	FYE 02	Budgeted FY 03	-----Requested----- FY 04	FY 05	AUTHORITY
Office Rent (per sq. ft.)	5.13	5.37	4.766	4.881	5.988	6.228	MCA 2-17-101
Storage Rent (per sq. ft.t)	2.12	2.12	2.12	2.12	2.27	2.29	MCA 2-17-101
Project Mgmt (In-house)	15%	15%	15%	15%	15%	15%	
Project Mgmt (Contracted)	5%	5%	5%	5%	5%	5%	

Rate Explanation

Rent is assessed on a cost per square foot basis to each agency occupying space in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services, operating expenses

including maintenance and equipment. Project work completed for agencies by in-house staff or contracted with an outside vendor is on a cost recovery basis.

Figure 6A shows the historical rates and requested rates requested for the 2005 biennium.

Description	Billing Basis	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
		2000 Actual	2001 Actual	2002 Actual	2003 Budget	2004 Request	2005 Request
Office rent	\$ per sq. ft.	5.130	5.370	4.766	4.881	6.310	6.545
Storage rent	\$ per sq. ft.	2.120	2.120	2.120	2.120	2.270	2.290
Project management (in-house)	percent of project cost	15	15	15	15	15	15
Project management (contracted)	percent of project cost	5	5	5	5	5	5

LFD COMMENT Rental Rates Subsidized in the 2003 Biennium
 Figure 6A shows lower office rent rates for the 2003 biennium than for the 2001 biennium. This reduction was due to roughly \$933,000 from the capitol land grant trust fund being used to subsidize the 2003 biennium rates. Had the legislature approved rates for the 2003 biennium that reflected the same average annual growth rate of 4.7 percent that existed from fiscal 2000 to fiscal 2001, the rates would have been \$6.159 for fiscal 2004 and \$6.448 for fiscal 2005. The rates being requested reflect an average annual growth rate of 5 percent, which is 0.3 percent higher than the growth rate from fiscal 2000 to fiscal 2001.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Facilities Management Bureau expenses totaling \$1,274,511 for the 2005 biennium. No information was provided to determine the impact these adjustments would have on rates of the bureau.

Adjustments included in the rate request are:

- o A net increase totaling \$93,437 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$1,181,074 for the biennium for additional operating costs of facilities management broken down as: 1) janitorial contract increases; 2) maintenance contracts for elevator maintenance, mechanical maintenance, and pest control services; 3) security protection; 4) security training for state employees; 5) fire suppression services and fire sprinkler system and fire alarm system inspections; 6) utilities of new buildings brought into state ownership during the base year; and 7) increased cost for lease of land at the Helena Regional Airport

LFD ISSUE Contract Cost Increases
 Contract cost increases in excess of 10 percent are anticipated for several of the maintenance contracts of the department. In light of the double digit increases in maintenance contracts funded by rent payments, the legislature may want to consider undertaking a study to determine if maintenance of state buildings is more cost effective by contracting with the private sector or by use of state employees and resources.

Mail Services Section (Fund 06523)

Program Description

The Mail Services Section provides a centralized mailing service. Services provided by the program include: 1) mail pick-up and delivery in agency offices; 2) metering of out-going U.S. mail; 3) bar coding mailings that qualify for postal rate savings; 4) delivery of inter-agency printed communications, also known as "deadhead mail"; 5) operation of a

postal contract station with locked mail boxes in the Capitol Building; 6) United Parcel Service (UPS); and 7) express mail service. Customers include all agencies and units within state government.

Revenues and Expenses

The centralized mail operations, including pick-up and delivery, metering of out-going mail, bar coding operations, and express mail and United Parcel Service, provide 94 percent of mail services revenue; inter-agency mail accounts for 5 percent; and the contract station provides the remaining 1 percent of program revenue.

The U. S. Postal Service contributes to the operation of the postal contract station located in the Capitol Building.

In fiscal 2002, mail services had revenues of roughly \$3.4 million from postage fees collected from agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:³

- General fund (18 percent), \$602,600
- State special revenue (14 percent), \$468,700
- Federal special revenue (11 percent), \$368,200
- Proprietary funds (28 percent), \$937,300
- All other funds (29 percent), \$970,800

Also during fiscal 2002, mail services had revenues of roughly \$165,000 from fees collected for inter-agency mail. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (41 percent), \$67,800
- State special revenue (18 percent), \$28,800
- Federal special revenue (9 percent), \$15,500
- Proprietary funds (25 percent), \$41,700
- All other funds (7 percent), \$11,200

In fiscal 2002, revenues funded personal services for 16.76 FTE, operating costs, and equipment. Personal services of roughly \$464,300 were about 12.8 percent of expenses, with operating expenses of roughly \$2,891,100 or nearly 79.8 percent of expenses and equipment making up the remaining \$267,600 or 7.4 percent of expenses. Operating expenses are comprised primarily of postage and equipment repair and maintenance.

Postage expense for mail services operations has increased over the years due to U.S. Postal Service rate increases. Historically, agency mailings have remained fairly consistent and the executive projects no significant change in volume. Major areas where expenses cannot be predicted with relative certainty are unscheduled repair or replacement of equipment that may fail without prior warning.

The table for fund 06523 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows operating revenues from rates and other charged revenues are less than operating expenses resulting in operating losses in every year.

³ It should be noted that the data used to estimate the funding for mail services, excluding for interagency mail, is derived from an accounting system expenditure code that is used to record other postage-related costs, in addition to postage costs paid to the Mail Services Section. As such, an assumption was made that total expenditures on postage portrays the same funding profile as postage payments made to the Mail Services Section.

Report on Internal Service and Enterprise Funds, 2005 Biennium						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06523	Mail & Messenger	61010	Dept. of Administration	General Services		
			actual	actual	actual	budgeted
			FY00	FY01	FY02	FY03
						budgeted
						FY04
						FY05
Operating Revenues:						
Fee revenue						
	Post Office Contract		38,976	38,976	38,976	38,976
	Centralized Mail Operations		3,483,775	2,982,060	3,347,566	3,532,824
	Interagency Mail		164,951	170,773	168,063	151,467
	Net Fee Revenue		3,687,702	3,191,809	3,554,605	3,741,202
	Investment Earnings		-	-	-	-
	Securities Lending Income		-	-	-	-
	Premiums		-	-	-	-
	Other Operating Revenues		779	-	226	-
	Total Operating Revenues		3,688,481	3,191,809	3,554,831	3,741,202
	Intrafund Revenue		(444,211)	-	-	-
	Net Operating Revenues		3,244,270	3,191,809	3,554,831	3,741,202
						3,723,267
						3,723,267
Operating Expenses:						
	Personal Services		402,489	454,821	482,057	447,537
	Other Operating Expenses		3,009,177	2,795,750	2,933,346	3,177,370
	Miscellaneous, operating		9,277	9,439	10,727	10,274
	Equipment		-	-	-	267,563
	Total Operating Expenses		3,420,943	3,260,010	3,426,130	3,635,181
	Intrafund Expense		(444,211)	-	-	-
	Net Operating Expenses		2,976,732	3,260,010	3,426,130	3,635,181
						3,921,722
						3,925,432
	Operating Income (Loss)		267,538	(68,201)	128,701	106,021
						(198,455)
						(202,165)
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets		(500)	-	15,824	-
	Federal Indirect Cost Recoveries		-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-
	Net Nonoperating Revenues (Expenses)		(500)	-	15,824	-
						-
	Income (Loss) Before Operating Transfers		267,038	(68,201)	144,525	106,021
						(198,455)
						(202,165)
	Contributed Capital		-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-
	Retained Earnings/Fund Balances - July 1 - As Restated		525,309	792,347	724,146	868,671
	Net Income (Loss)		267,038	(68,201)	144,525	106,021
	Retained Earnings/Fund Balances - June 30		792,347	724,146	868,671	974,692
						776,237
						(198,455)
						(202,165)
	60 days of expenses					
	(Total Operating Expenses divided by 6)		570,157	543,335	571,022	605,864
						653,620
						654,239
Requested Rates for Internal Service Funds						
Fee/Rate Information for Legislative Action						
Fee Group			FY00	FY01	FY02	FY03
						FY04
						FY05
Centralized Mail Operations						
ID Code (each)						
1.	Letters under 1oz for barcoding		0.049 ea	0.049 ea	.05 ea	.05 ea
2.	Mixed weight letters 0-2 oz metering for barcoding		0.056	0.056	0.06	0.06
3.	1 st Class letters held until next day (full postage rate)		0.060	0.060		
4.	1 st Class letters held until next day (for barcoding)		0.041	0.041		
4a.	1st class permit mailing (for barcoding)				0.04	0.04
5.	Non barcoded in or out of state (full postage rate)		0.070	0.070		
5a.	Non barcodable letter (full postage rate) 1 oz or under				0.07	0.07
5b.	Non barcodable letter (full postage rate) mixed weight 0-5 oz				0.08	0.08
6.	Flats		0.143	0.143	0.15	0.15
7.	Manual Stamp Flats		0.155	0.155		
8.	Parcels (Bound Printed Matter-Standard Mail B)		0.150	0.150		
9.	Certified Mail		0.455	0.455	0.50	0.50
10.	Registered Mail		0.455	0.455	0.50	0.50
11.	International Mail		0.355	0.355	0.50	0.50
12.	Meter Labels		0.155	0.155		
13.	Special Handling		0.300	0.300		

Rate Explanation

For the 2005 biennium, the executive requests the legislature approve a rate for the inter-agency (deadhead) mail portion of the Mail Services Bureau, that is defined as the total amount allocated to agencies in fixed costs for messenger services in agency budgets.

LFD COMMENT

Meaning of Rate Request for Inter-Agency Mail

The Executive Budget contains allocations of \$134,012 in each year of the 2005 biennium for inter-agency mail fixed costs. It is a specified amount the legislature should approve as the maximum rate the bureau may receive in revenues for the operations of the inter-agency mail portion of the Mail Services Bureau operations.

For the 2005 biennium, the executive requests the legislature not approve specific postage rates for the remaining portions of the Mail Services Bureau operations, but an operating parameter that limits the program from charging postage rates that collect more than 60 days of working capital.

LFD ISSUE

Alternative Rate Approach for Mail Services Rates

A rate based on collecting no more than 60 days of working capital provides no budgetary limits on the operations of this program. Federal and state rules currently exist to limit proprietary funded programs from maintaining more than a 60-day working capital balance. Working capital is no more than an accounting term used to describe the balance remaining after short-term liabilities are deducted from short-term assets. The term roughly equates to the cash balance of a fund. Operating parameters can easily be manipulated to control this balance by increasing expenses to compensate for high revenue collections or increasing revenues to compensate for high expenses.

Since the legislature is charged with approving, in the General Appropriations Act, the maximum level of fees and charges for a proprietary funded program, it can be assumed to imply a legislative concern to indirectly control expenditures through the process of setting the level of fees and charges. Approving a working capital based rate does nothing to control the level of expenditure. Instead, it grants full control of program expenditures to the executive.

The main case the executive makes for "needing" a working capital rate instead of the legislature approving specific rates for the operations of the program are:

- The program does not have control over the volume of mail
- The program does not have control over the rate for postage charged by the U.S. Postal Service
- Equipment breakdowns cannot be anticipated

Mail Volume Risk

As the executive states in its budget submission, the volume of agency mailings has historically remained fairly constant. The bureau tracks mail volume and does not anticipate that this historical pattern will change during the 2005 biennium. As such, the financial risk associated with this concern is low.

Postal Rate Risk

Rates charged by the U.S. Postal Service are approved by the postal commission and not done on the spur of the moment. Postage rates that come out of the postal rate-setting process typically are determined far in advance of the rates taking effect. This delay would provide time for the bureau to either factor the anticipated rate increases in the rates submitted for legislative approval or minimize the time after legislative approval in which the bureau would be subjected to unanticipated postal rate increases. If postal rates increased above the level built into the legislatively approved rates, the bureau would still have options available to continue financing operations, such as to:

- Use fund balance
- Obtain a short-term loan

These options would allow the bureau to respond to unanticipated postal rate increases and still request adjustments during the next legislature to adjust rates. In fiscal 2002, payments for postage were \$2.6 million or 88.0 percent of operating expenses.

**LFD
ISSUE
(Cont.)***Unexpected Equipment Expense Risk*

In fiscal 2002, expenses on equipment were nearly seven times the average expenditure on equipment in the previous two fiscal years, and still equipment expenses were only 7.4 percent of all expenditures of the bureau. With equipment expenses making up a relatively low portion of the expenses of the bureau, even during a year with unusually high equipment expenses compared to historical equipment expenses, the uncertainty of any potential unexpected equipment costs outside the control of the bureau result in a low financial risk. If rates were not adequate to cover these unexpected expenses, the bureau would have the same options to address these cash flow needs as it would for unanticipated postal rate increases.

Legislative Alternatives

The uncertainty of the above factors is the reason the executive has requested a 60-day working capital rate for the Mail Services Bureau (other than the portion for inter-agency mail). However, Figure 6B that lists the historical and anticipated rate for the Mail Services Bureau, shows that the rates have not, nor are expected to change appreciably.

With this, the legislature may wish to consider another approach to funding the operations of the bureau. The legislature may wish to approve the following administrative overhead rate for the portion of the Mail Services Bureau for which a working capital rate is requested:

- Approve a rate to recover administrative overhead costs that can be charged as an adder to actual postage costs
- Specify that the Mail Services Bureau may bill agencies for actual expenses paid to the U.S. Postal Service and the United Parcel Service

The bureau has estimated costs for agency operations during the 2005 biennium. Based on these estimates and estimates by the bureau of mail volume (9.5 million pieces per year), administrative rates that would be needed to cover bureau's costs, exclusive of inter-agency mail and expenses to the U.S. Postal Service and United Parcel Service, are \$.0967 per piece in fiscal 2004 and \$.0971 per piece in fiscal 2005.

The executive has stated that they currently have processes in place to measure actual mail by piece. Currently, the bureau directly bills agencies for each piece and type of mail processed. With this process in place, there should be minimal impacts on the operations to bill agencies using this alternate rate methodology.

If the legislature wishes to apply this alternative, it may wish to have the executive verify these rates prior to legislative approval.

Figure 6B shows that the postal contract for the Capitol Building post office has remained constant for a number of years. The legislature may wish to direct the department to attempt to increase the federal support for this post office through negotiation of the contract.

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ISSUE
(Cont.)**

Figure 6B

Historical and Anticipated Rates
Mail Services Section

		Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Centralized Mail Operations							
1. Letters under 1oz for barcoding	each	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05
2. Mixed weight letters 0-2 oz metering for barcoding	each	0.06	0.06	0.06	0.06	0.06	0.06
3. 1 st Class letters held until next day (full postage rate)	each	0.06	0.06				
4. 1 st Class letters held until next day (for barcoding)	each	0.04	0.04				
4a. 1st class permit mailing (for barcoding)	each			0.04	0.04	0.04	0.04
5. Non barcoded in or out of state (full postage rate)	each	0.07	0.07				
5a. Non barcodable letter (full postage rate) 1 oz or under	each			0.07	0.07	0.07	0.07
5b. Non barcodable letter (full postage rate) mixed weight 0-5 oz	each			0.08	0.08	0.08	0.08
6. Flats	each	0.14	0.14	0.15	0.15	0.15	0.15
7. Manual Stamp Flats	each	0.16	0.16				
8. Parcels (Bound Printed Matter-Standard Mail B)	each	0.15	0.15				
9. Certified Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
10. Registered Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
11. International Mail	each	0.36	0.36	0.50	0.50	0.50	0.50
12. Meter Labels	each	0.16	0.16				
13. Special Handling	each	0.30	0.30				
14. UPS Handling	each	0.16	0.16	0.15	0.15	0.15	0.15
15. Express Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
16. Ltrs Standard A for Metering over 1/4" thick don't barcode	each	0.18	0.18				
17. OCR rejected mail sort (Use to add postage with 99999)	each	0.10	0.10	0.10	0.10	0.10	0.10
18. OCR rejected mail sort (postcards)	each	0.08	0.08				
19. Late day mail, no discount	each	0.08	0.08				
20. Standard (3 rd class)	each	0.03	0.03				
21. Book (special 4 th class)	each	0.05	0.05				
22. Library	each	0.04	0.04				
23. Insured mail	each	0.16	0.16	0.50	0.50	0.50	0.50
24. Handwritten letter	each	0.18	0.18				
25. 1 st class permit mailing (for barcode)	each	0.05	0.05				
26. Bulk mail (non barcode)	each	0.05	0.05	0.06	0.06	0.06	0.06
27. Postage due (foreign or insuff postage, add postage)	each	0.26	0.26	0.45	0.45	0.45	0.45
28. Priority	each	0.20	0.20	0.50	0.50	0.50	0.50
29. UPS Misc (for accounting use only)	each	0.05	0.05	0.05	0.05	0.05	0.05
30. Post cards	each	0.04	0.04	0.04	0.04	0.04	0.04
31. Fee due .50 rtn to sndr) Address change or correction	each	0.35	0.35	0.45	0.45	0.45	0.45
32. Administrative fee (for accounting use only)	each	5.50	5.50	5.50	5.50	5.50	5.50
33. Annual messenger service charges	each	0.00	0.00	0.00	0.00	0.00	0.00
34. Annual PO Box charges	each	0.00	0.00	0.00	0.00	0.00	0.00
35. USPS Parcels	each			0.15	0.15	0.15	0.15
36. Media Mail	each			0.15	0.15	0.15	0.15
Interagency Mail	per year	164,951	170,773	168,063	169,402	151,467	151,467
Capitol post office contract	per year	38,976	38,976	38,976	38,976	38,976	38,976

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Mail Services Bureau expenses totaling \$45,123 for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$18,123 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$27,000 for the biennium for overtime

Print Services Section (Fund 06530)

Program Description

The Print Services Section provides printing, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The Print Services Section has three basic components: 1) internal printing; 2) external (contracted) printing; and 3) photocopy pool. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is

requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 65 percent of printing expenditures are procured through commercial vendors.

Revenues and Expenses

The Print Services Section provides all services as presented in the program description. According to the department, the three basic service categories provide revenues for the operations of the program in the following percentages:

- Internal printing, which charges user agencies for graphic design and layout, desktop publishing, reprographics, duplicating, bindery, and quick copy - 27 percent of print services revenue
- External printing - 56 percent of revenue
- Photocopy pool - 17 percent of revenue

Since revenues for all of print services are recorded using one revenue code, these percentages could not be verified. To improve accountability, the legislature may wish to direct the bureau to account for revenues of each of the three major functions separately under different revenue accounts.

In fiscal 2002, print services had revenues of roughly \$5.2 million from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (24.3 percent), \$1,270,800
- State special revenue (36.7 percent), \$1,916,500
- Federal special revenue (22.7 percent), \$1,188,300
- Proprietary funds (9.5 percent), \$496,900
- All other funds (6.8 percent), \$354,400

In fiscal 2002, revenues funded personal services for 25.94 FTE, operating costs, and equipment. Personal services of \$750,600 were roughly 13.9 percent of expenses, with most of the remaining costs made up with operating costs of \$4,595,100 or 85.5 percent of expenses.

Major internal printing costs, excluding personal services, are for direct materials used in production, such as paper and ink, equipment repair and maintenance, and equipment replacement. Historical demand by agencies for printing services has remained fairly consistent with higher demand cycles when the legislature is in session. There are no changes or significant growth expected in the demand pattern. Unscheduled equipment repair or replacement provided the greatest amount of uncertainty to forecasting costs for internal printing.

For external printing the major expenses are pass-through costs of commercial print vendors. These costs have historically remained fairly consistent, but vary depending upon complexity and quantity of agency print projects.

Major expenses for the photocopy pool are pass-through photocopy costs, such as payments made to contracted vendors and personnel services.

Overhead costs for administration, accounting, and supplies are allocated to the three print services programs based on FTE.

Report on Internal Service and Enterprise Funds, 2005 Biennium							
Fund	Fund Name	Agency #	Agency Name	Program Name			
06530	Publications & Graphics	61010	Dept. of Administration	General Services			
		actual	actual	actual	budgeted	budgeted	budgeted
		FY00	FY01	FY02	FY03	FY04	FY05
Operating Revenues:							
Fee revenue							
	Printing Coordination	5,305,195	5,547,430	5,227,041	6,283,669	5,790,596	6,079,979
	Net Fee Revenue	5,305,195	5,547,430	5,227,041	6,283,669	5,790,596	6,079,979
	Investment Earnings	-	-	-	-	-	-
	Securities Lending Income	-	-	-	-	-	-
	Premiums	-	-	-	-	-	-
	Other Operating Revenues	1,569	18	448	-	-	-
	Total Operating Revenues	5,306,764	5,547,448	5,227,489	6,283,669	5,790,596	6,079,979
	Intrafund Revenue	-	-	-	-	-	-
	Net Operating Revenues	5,306,764	5,547,448	5,227,489	6,283,669	5,790,596	6,079,979
Operating Expenses:							
	Personal Services	802,793	801,401	750,604	1,030,550	868,039	953,259
	Other Operating Expenses	4,564,308	4,859,694	4,595,136	5,165,823	4,730,796	4,873,887
	Miscellaneous, operating	17,582	36,102	30,177	27,296	-	-
	Equipment	-	-	-	-	135,000	175,000
	Total Operating Expenses	5,384,683	5,697,197	5,375,917	6,223,669	5,733,835	6,002,146
	Intrafund Expense	-	-	-	-	-	-
	Net Operating Expenses	5,384,683	5,697,197	5,375,917	6,223,669	5,733,835	6,002,146
	Operating Income (Loss)	(77,919)	(149,749)	(148,428)	60,000	56,761	77,833
Nonoperating Revenues (Expenses):							
	Gain (Loss) Sale of Fixed Assets	(7,192)	(4,319)	5,178	-	-	-
	Federal Indirect Cost Recoveries	-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)	(7,192)	(4,319)	5,178	-	-	-
	Income (Loss) Before Operating Transfers	(85,111)	(154,068)	(143,250)	60,000	56,761	77,833
	Contributed Capital	-	-	-	-	-	-
	Operating Transfers In (Note 13)	-	-	-	-	-	-
	Operating Transfers Out (Note 13)	-	-	-	-	-	-
	Retained Earnings/Fund Balances - July 1 - As Restated	1,139,654	1,054,543	900,475	757,225	817,225	873,986
	Net Income (Loss)	(85,111)	(154,068)	(143,250)	60,000	56,761	77,833
	Retained Earnings/Fund Balances - June 30	1,054,543	900,475	757,225	817,225	873,986	951,819
	60 days of expenses (Total Operating Expenses divided by 6)	897,447	949,533	895,986	1,037,278	955,639	1,000,358

Rate Explanation

For the 2005 biennium, the executive requests the legislature not approve specific rates for the operations of the Print Services Bureau, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital.

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One Rate Requested for Three Distinct Functions

The Print Services Bureau has stated that it has a process to track both direct and indirect costs attributable to each of the three service functions: 1) external printing; 2) internal printing; and 3) photocopy pool. Each function is exposed to different sets of risks and operating conditions. However, the executive has requested one rate for the combined operation of all three functions. The Print Services Bureau incurs different costs for each function and bills customers using different rates and rate structures for each function.

The legislature may wish to approve rates separately for the three service functions listed above.

During the 2001 interim, the Legislative Finance Committee recommended to the executive that revenue and expenditure information for each fee or charge being billed to customers by internal service funded programs be provided with agency budget requests. Had this information been provided as requested, an analysis of these separate functions by the Legislative Fiscal Division would have been provided. Instead, aggregate information for the entire print services program was provided.

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External Printing

During the 2003 biennium, the bureau charged agencies a 6 percent markup on the cost of external print jobs. The bureau anticipates charging the same 6 percent markup during the 2005 biennium. Print services has minimal direct production involvement and the main costs incurred by the bureau for this function are personal services, overhead costs, and operating expenses directly attributable to each print job. As stated, the bureau has a process to track direct costs of each external print job and could directly bill agencies for these pass-through costs. A markup would allow the bureau to recover only costs to administer the external print contracts.

The legislature may wish to approve a percentage markup rate for the external printing portion of print services and allow the bureau to pass through to agencies the direct costs of each external print job. If it chose to do so, the legislature may want to direct the executive to provide documentation that shows costs and revenues separately for the external printing portion of print services and justify the need for a 6 percent markup.

By approving a separate rate for the external printing portion of the program, the legislature would approve the maximum rate for a fee that generates roughly 56 percent of program revenues. This one rate would exclude more than half the programs operations from being covered by the requested 60-day working capital rate. The rate the legislature approved would then be more closely tied to the actual operations of the program, as it would finance the administrative costs of the program and not provide total flexibility for the program to bill customers without a fee limit established by the legislature.

Internal Printing

Print services directly bills customers for each print job based on the volume of printing, the characteristics of the print job, and the optional production features. The historical fees for internal printing actually billed to customers and the anticipated fees for fiscal 2003 and the 2005 biennium are shown on Figure 6C. As illustrated, these fees have not changed and are not anticipated to change for the six fiscal years shown.

Figure 6C
Internal Printing Historical and Anticipated Rates
Print Services Bureau (Fund 06530)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Impression Cost						
1-20	0.024	0.024	0.055	0.055	0.055	0.055
21-100	0.024	0.024	0.024	0.024	0.024	0.024
101-1000	0.012	0.012	0.012	0.012	0.012	0.012
1001-5000	0.006	0.006	0.006	0.006	0.006	0.006
5000 +	0.003	0.003	0.003	0.003	0.003	0.003
Collating Machine	.005/sheet	0.005	0.006	0.006	0.006	0.006
Collating Hand	.45/min	0.45	0.50	0.50	0.50	0.50
Stapling Hand	.015/staple	0.015	0.015	0.015	0.015	0.015
Stapling In-line	.01/set	.01/set	.01/set	.01/set	.01/set	.01/set
Saddle Stitch	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Folding	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding Rt Angle	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding In-line	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Punching St 3 hole	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht
Punching Non St	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht
Cutting	.55/min	.55/min	.55/min	.55/min	.55/min	.55/min
Padding	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet
Scoring, perf, num	5.00+Dup rate					
Perfect Binding	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min
Tape Binding	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabs	.50/set	.50/set	.50/set	.50/set	.50/set	.50/set
Transparencies	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabbing	.01/each	.01/each	.01/each	.01/each	.01/each	.01/each
Address Labels	.01/each	.01/each	.01/each	.01/each	.01/each	.01/each
Ink Jet Address	.03/each	.03/each	.03/each	.03/each	.03/each	.03/each
Shrink Wrapping	.15/each	.015/each	.25/each	.25/each	.25/each	.25/each
Hand Bindery	.45/min	.45/min	.50/min	.50/min	.50/min	.50/min
Graphic Arts	28.00/hr	28.00/hr	32.00/hr	32.00/hr	32.00/hr	32.00/hr
Negatives Stripped						
10x12	11.30	11.30	11.30	11.30	11.30	11.30
12x20	19.15	19.15	19.15	19.15	19.15	19.15
20x24	34.85	34.85	34.85	34.85	34.85	34.85
Halftone						
10x12	16.05	16.05	16.05	16.05	16.05	16.05
PMT's Positive						
10x12	6.65	6.65	6.65	6.65	6.65	6.65
12x20	13.35	13.35	13.35	13.35	13.35	13.35
20x24	26.70	26.70	26.70	26.70	26.70	26.70
PMT's Halftone						
10x12	10.15	10.15	10.15	10.15	10.15	10.15
Metal Plates						
8.5x11	8.00	8.00	8.00	8.00	8.00	8.00
11x17	9.00	9.00	9.00	9.00	9.00	9.00
Silver Plates						
8.5x11	7.00	7.00	7.00	7.00	7.00	7.00
11x17	8.00	8.00	8.00	8.00	8.00	8.00

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Photocopy Pool

Figure 6D shows the rates that have been charged to customers from fiscal 2000 to fiscal 2002 and the rates the bureau anticipates charging to customers in fiscal 2003 and the 2005 biennium for the photocopy pool. Except for the changes between fiscal years 2001 and 2002, these rates have not changed. The change after fiscal 2001 was due to the movement to digital copiers.

Copiers offered through the photocopy pool are leased from local vendors and include a maintenance service agreement that covers the cost of repairs and equipment replacement during the lease period. Agencies pay for their own toner and copy paper. Agencies sign use agreements with print services to obtain a photocopier and in doing so agree to pay for the copier during the term of the agreement (one year). As such, agencies bare the greatest burden for cost and risks of the photocopy pool. Since the photocopy pool makes up a relatively small portion of the operations of print services (roughly 17 percent) and print services is subjected to minimal risks by its vendor contracts and agency agreements, unforeseen operating changes would have minimal impact on the integrity of the publications and graphics internal service fund by approving the separate rate shown on Figure 6D.

Figure 6D
Historical and Anticipated Rates
Photocopy Pool

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Monthly copier charge						
Level 1	\$ 62.0	\$ 62.0	\$ 42.0	\$ 42.0	\$ 42.0	\$ 42.0
Level 2	120.0	120.0	99.6	99.6	99.6	99.6
Level 3	228.0	228.0	228.0	190.8	190.8	190.8
Level 4	272.0	272.0	238.8	238.8	238.8	238.8
Level 5	396.0	396.0	343.2	343.2	343.2	343.2
Level 6	495.0	495.0	448.8	448.8	448.8	448.8
Level 7	616.0	616.0	483.6	483.6	483.6	483.6
Optional features for digital copiers						
Level 2						
Print Cost per page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	43.2	43.2	43.2	43.2
4.3 GB Hrd Disk Dr	N/A	N/A	10.8	10.8	10.8	10.8
Postscript Print	N/A	N/A	15.6	15.6	15.6	15.6
Fax Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	27.6	27.6	27.6	27.6
Dual Phone Line	N/A	N/A	16.8	16.8	16.8	16.8
32mb Fax Memory	N/A	N/A	7.2	7.2	7.2	7.2
JBIG Function Upg	N/A	N/A	10.8	10.8	10.8	10.8
Internal Exit Tray	N/A	N/A	8.4	8.4	8.4	8.4
Level 3						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	79.2	79.2	79.2	79.2
Post Script	N/A	N/A	32.4	32.4	32.4	32.4
9 Bin Mailbox	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
Fax Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	30.0	30.0	30.0	30.0
JBIG/Fax Upg	N/A	N/A	10.8	10.8	10.8	10.8
63 Interface Unit	N/A	N/A	18.0	18.0	18.0	18.0
32mb Fax Memory	N/A	N/A	4.8	4.8	4.8	4.8
Fax Handset	N/A	N/A	2.4	2.4	2.4	2.4
Internal Exit Tray	N/A	N/A	12.0	12.0	12.0	12.0
Level 4						
Print Cost Per Copy	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	79.2	79.2	79.2	79.2
Post Script Print	N/A	N/A	32.4	32.4	32.4	32.4
9 Bin Mail Box	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
Fax Cost Per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	30.0	30.0	30.0	30.0
JBIG Fax Upgrade	N/A	N/A	10.8	10.8	10.8	10.8
63 Interface Unit	N/A	N/A	18.0	18.0	18.0	18.0
32mb Fax Memory	N/A	N/A	4.8	4.8	4.8	4.8
Fax Handset	N/A	N/A	2.4	2.4	2.4	2.4
Internal Exit Tray	N/A	N/A	12.0	12.0	12.0	12.0
Level 5						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	67.2	67.2	67.2	67.2
Post Script Print	N/A	N/A	49.2	49.2	49.2	49.2
Ethernet NIC	N/A	N/A	15.6	15.6	15.6	15.6
9 Bin Mail Box	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
32mb Print Memory	N/A	N/A	6.0	6.0	6.0	6.0
64mb Print Memory	N/A	N/A	12.0	12.0	12.0	12.0
128mb Print Mem	N/A	N/A	14.4	14.4	14.4	14.4
Level 6						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	67.2	67.2	67.2	67.2
Post Script Print	N/A	N/A	49.2	49.2	49.2	49.2
Ethernet NIC	N/A	N/A	15.6	15.6	15.6	15.6
9 Bin Mailbox	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
32mb Print Memory	N/A	N/A	6.0	6.0	6.0	6.0
64mb Print Memory	N/A	N/A	12.0	12.0	12.0	12.0
128mb Print Mem	N/A	N/A	14.4	14.4	14.4	14.4
Level 7						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for print services expenditures totaling roughly \$630,000 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of print services. According to the historical and anticipated rate information provided by the executive, no rate changes are anticipated as a result of the adjustments proposed for the 2005 biennium.

Adjustments included in the rate request are:

- A net increase totaling \$7,399 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$48,000 for the biennium for overtime
- An increase of \$481,488 for the biennium for materials directly used in printing
- A reduction of \$90,738 for the biennium to remove costs from the base associated with a completed installment purchase of equipment
- An increase of \$184,010 for the biennium for equipment purchases

Central Stores Program (Fund 06531)**Program Description**

The Central Stores Program develops standard specifications, procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments. State agencies account for 94.1 percent and local governments for 5.9 percent of revenue.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program if the office supply conforms in all material respects to the terms, conditions and quality offered by the stores program.

Revenues and Expenses

In fiscal 2002, central stores had revenues of \$4.9 million from purchase by state agencies and local governments. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (39.2 percent), \$1,905,100
- State special revenue (24.2 percent), \$1,179,200
- Federal special revenue (15.4 percent), \$750,400
- Proprietary funds (11.0 percent), \$532,700
- All other funds (10.2 percent), \$496,900

The table for fund 06531 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that in fiscal 2002 central stores received \$306,600 more revenues than expenses or 6.7 percent of annual expenses. This operating gain and an operating gain of \$421,000 in fiscal 2001 increased the fund equity to nearly \$1.4 million or 30 percent of fiscal 2002 expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name						
06531	Admin Supply	61010	Dept. of Administration	General Services						
					actual	actual	actual	budgeted	budgeted	budgeted
					FY00	FY01	FY02	FY03	FY04	FY05
Operating Revenues:										
Fee revenue										
	Central Stores Supplies				-	-	-	4,677,711	4,600,000	4,600,000
	Net Fee Revenue				<u>4,219,490</u>	<u>5,236,176</u>	<u>4,864,224</u>	<u>4,677,711</u>	<u>4,600,000</u>	<u>4,600,000</u>
	Investment Earnings				-	-	-	-	-	-
	Securities Lending Income				-	-	-	-	-	-
	Premiums				-	-	-	-	-	-
	Other Operating Revenues				980	120	384	200	-	-
	Total Operating Revenues				<u>4,220,470</u>	<u>5,236,296</u>	<u>4,864,608</u>	<u>4,677,911</u>	<u>4,600,000</u>	<u>4,600,000</u>
Intrafund Revenue										
	Net Operating Revenues				<u>4,220,470</u>	<u>5,236,296</u>	<u>4,864,608</u>	<u>4,677,911</u>	<u>4,600,000</u>	<u>4,600,000</u>
Operating Expenses:										
	Personal Services				340,698	347,265	358,027	408,277	368,183	364,902
	Other Operating Expenses				4,130,235	4,450,477	4,178,778	4,281,098	4,209,016	4,209,020
	Miscellaneous, operating				14,580	17,388	21,202	18,338	-	-
	Miscellaneous, other				-	-	-	-	17,961	17,961
	Total Operating Expenses				<u>4,485,513</u>	<u>4,815,130</u>	<u>4,558,007</u>	<u>4,707,713</u>	<u>4,595,160</u>	<u>4,591,883</u>
Intrafund Expense										
	Net Operating Expenses				<u>4,485,513</u>	<u>4,815,130</u>	<u>4,558,007</u>	<u>4,707,713</u>	<u>4,595,160</u>	<u>4,591,883</u>
Operating Income (Loss)					(265,043)	421,166	306,601	(29,802)	4,840	8,117
Nonoperating Revenues (Expenses):										
Gain (Loss) Sale of Fixed Assets					-	(5,871)	(523)	-	-	-
Federal Indirect Cost Recoveries					-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)					-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)					-	(5,871)	(523)	-	-	-
Income (Loss) Before Operating Transfers					(265,043)	415,295	306,078	(29,802)	4,840	8,117
Contributed Capital					-	-	-	-	-	-
Operating Transfers In (Note 13)					-	-	-	-	-	-
Operating Transfers Out (Note 13)					-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated					916,974	651,931	1,067,226	1,373,304	1,343,502	1,348,342
Net Income (Loss)					<u>(265,043)</u>	<u>415,295</u>	<u>306,078</u>	<u>(29,802)</u>	<u>4,840</u>	<u>8,117</u>
Retained Earnings/Fund Balances - June 30					<u>651,931</u>	<u>1,067,226</u>	<u>1,373,304</u>	<u>1,343,502</u>	<u>1,348,342</u>	<u>1,356,459</u>
60 days of expenses (Total Operating Expenses divided by 6)					747,586	802,522	759,668	784,619	765,860	765,314

**LFD
ISSUE**

High Fund Balance

The fund balance for central stores is in excess of \$1.5 million. This fund balance includes less than \$100,000 in liabilities and \$400,000 in merchandise inventory. Most of the remaining balance is in cash or receivables. With this high fund balance, the legislature may wish to either direct central stores to lower rates to draw down this balance or it may wish to take actions to transfer a portion of the fund balance to the general fund.

Central stores has lowered its rates for fiscal 2002 in response to a Legislative Audit Division finding that identified a high working capital balance and recommended that rates be lowered to bring revenues in line with expenses. The report for fund 06531 shows that even with this markup reduction, central stores would only bring revenues in line with expenses and not draw down the fund balance.

If the fund balance is transferred to the general fund, a portion of this amount would need to be refunded to federal programs paying for central stores supplies. The amount that would need to be refunded to the federal government is negotiable, but the executive has stated that the federal government is currently requiring refunds of 20 percent for transfers such as this where fund balances were accumulated partially with federal funds. So if \$500,000 of the balance were transferred to the general fund, roughly \$100,000 would need to be refunded to the federal government. Transferring \$600,000 out of the fund would bring it near the level it was in fiscal 2000.

In fiscal 2002, revenues funded personal services for 9.65 FTE, operating costs, and equipment. Personal services of \$352,300 were roughly 7.7 percent of expenses, equipment was \$18,000 or 0.4 percent of expenses and operating costs made up the remaining \$4,203,000 or 91.9 percent of central stores expenses. Goods purchased for resale comprised 88 percent of central stores expenses in fiscal 2002.

Rate Explanation

For the 2005 biennium, the executive requests the legislature not approve specific markup rates for central stores, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital.

Figure 6E shows the historical and anticipated rates the Central Stores Program charges. As Figure 6E shows, markups on seven high volume products finance the operating costs for the program.

Figure 6E
Historical and Anticipated Percent Markup Rates
Central Stores

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Forms	100	100	100	100	100	100
Office Supplies	40	40	20	40	40	40
Computer Paper	35	35	20	35	35	35
Fine Paper	35	35	20	35	35	35
Coarse Paper	35	35	20	35	35	35
Janitorial	35	35	20	35	35	35
Software	25	25	20	25	25	25

**LFD
ISSUE**

Is Central Stores Needed?

The Central Stores Program uses the volume purchasing powers of state and participating local governments to obtain favorable price discounts on office supplies. The program purchases commonly used office supplies in bulk, warehouses the goods, and delivers them when ordered by a state or local government customer. To finance the purchasing, warehousing, and delivery costs, the program charges a fee in the form of a markup on certain high volume products. The markups the program charges effectively reduce the discounts the state receives from product suppliers.

Ignoring other factors, government entities that consume the office products would purchase the products whether they were supplied through the Central Stores Program or through an alternate supply channel. The key question regarding the Central Stores Program is whether the net cost of products it provides are lower than the net cost of similar products that can be purchased through alternate supply channels. In order to determine whether the Central Stores Program provides a net cost advantage, a comparison would need to be done that compares the program to alternate sources using similar products and service levels as well as similar cost components.

No formal studies have been done recently to compare the costs of providing this service through the Central Stores Program verses providing the service through term contracts directly with product suppliers. HB 73, passed by the 2001 legislature, included the Central Stores Program in a full cost accounting pilot program. The information gained from this pilot program would be one source to use in a study of this nature. However, this information only provides a portion of the data that would be needed to provide such a comparison. Two approaches could be taken to provide a complete comparison between providing the services through the Central Stores Program or an alternate source: 1) fund a formal comparison study; or 2) establish a bid process and require the Central Stores Program to bid for the contract on an even-footing with private sector suppliers. In order to confirm that the program provides the least cost alternative, the legislature may wish to consider enacting one of these two study approaches for the 2003 interim. The above study approaches could also be used for reviews of other state programs that provide services that could be readily purchased from the private sector. The Central Store Program is identified here as one program for possible review because governmental funds of \$5.0 million per year are expended through the program based on the assumption that the office supplies purchased through the program are acquired at a lower cost than are available through other alternatives. This assumption continues to be propagated without being validated in the current market climate.

Since neither of these approaches could be used (because of timing considerations) for approving rates for the 2005 biennium, the legislature may wish to have the Central Stores Program show how it provides the best product value to government office supply consumers versus other supply sources. The legislature may want to have the program show what comparisons it uses to monitor the market and verify its price advantage. To do this, the program should show:

- o What products and in what volumes the products are purchased through central stores
- o The methodology the program uses to compare costs that government entities would pay for the same products, delivered to the same locations, if purchased directly from the private sector through a comparable volume bases contract purchase agreements (term contracts)
- o Assumptions used and adjustments made to provide a like-for-like comparison, including tax impact adjustments

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for central stores expenditures totaling \$13,208 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department. According to the historical and anticipated rate information provided by the executive, no rate changes are anticipated as a result of the adjustments proposed for the 2005 biennium.

Statewide Fueling Network Program (Fund 06561)**Program Description**

The Statewide Fueling Network Program provides for fueling of public vehicles through an integrated commercial and public fueling network. The program automates the accounting and transaction processing functions associated with vehicle fueling, maintains agency tax-exempt status for transactions anywhere on the network, and provides monthly comprehensive fuel management reports that fleet managers can use to track and control fuel costs. Customers include state government agencies and local government entities.

Revenues and Expenses

In fiscal 2002, the State Fueling Network Program had revenues of \$24,019 from an administration fee charged on fuel purchased through the network. These revenues were received from the following funding sources in the percentages and amounts listed:

- o General fund (8.9 percent), \$2,141
- o State special revenue (19.0 percent), \$4,564
- o Federal special revenue (3.1 percent), \$734
- o Proprietary funds (60.1 percent), \$14,446
- o All other funds (8.9 percent), \$2,135

In fiscal 2002, revenues funded only operating costs of \$23,554 primarily for supplies, communications, and travel expenses. Personal services costs for 1.00 FTE that administered the program were funded with a general fund appropriation.

The table for fund 06561 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that with the rates requested by the executive operating losses would occur in fiscal years 2004 and 2005. The program anticipates a transfer from the general fund to maintain the solvency of the fund.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06561	Statewide Fueling Network	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Statewide Fueling Network	16,103	22,385	24,019	21,600	21,600	21,600
Net Fee Revenue	16,103	22,385	24,019	21,600	21,600	21,600
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	54	74	-	-	-	-
Total Operating Revenues	16,157	22,459	24,019	21,600	21,600	21,600
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	16,157	22,459	24,019	21,600	21,600	21,600
Operating Expenses:						
Personal Services	-	-	-	-	51,037	50,886
Other Operating Expenses	16,024	21,303	22,589	16,679	23,679	23,778
Miscellaneous, operating	312	531	965	326	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	16,336	21,834	23,554	17,005	74,716	74,664
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	16,336	21,834	23,554	17,005	74,716	74,664
Operating Income (Loss)	(179)	625	465	4,595	(53,116)	(53,064)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(179)	625	465	4,595	(53,116)	(53,064)
Contributed Capital	2,535	2,535	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	51,037	50,886
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	5,018	4,839	7,999	8,464	13,059	10,980
Net Income (Loss)	2,356	3,160	465	4,595	(2,079)	(2,178)
Retained Earnings/Fund Balances - June 30	7,374	7,999	8,464	13,059	10,980	8,802
60 days of expenses (Total Operating Expenses divided by 6)	2,723	3,639	3,926	2,834	12,453	12,444

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

	FY00	FY01	FY02	FY03	FY04	FY05
Vehicle Fueling Fee						
Percent of Gross Fuel Purchase	0.5	0.5	0.5	0.5	0.5	0.5

The Statewide Vehicle Fueling program requests that the Legislature approve an administrative fee of 0.5 percent of the gross fuel purchase for the 2005 biennium.

Rate Explanation

The Statewide Fueling Network Program requests that the legislature approve an administrative fee of 0.5 percent of the gross fuel purchases as the rate for the 2005 biennium.

LFD ISSUE General Fund Subsidy for a Proprietary Program
Funding the personal services costs for 1.00 FTE that administers the program with general fund excludes a large portion of the costs of the program from being included in the fees for its support. Findings have been included in the last three audits for the program recommending that the cost for the personal services should be included in the calculation of costs and factored into program fees. The executive has included a request to switch funding for this FTE to funding by the statewide vehicle fueling proprietary fund. However, the rate was not adjusted to provide the revenues for this funding.

Based on information provided in the table for fund 06561, rates that would be needed to fully recover costs of the program are 1.73 percent for fiscal 2004 and 1.728 percent for fiscal 2005. The legislature may wish to approve the rates that would fully recover costs of the program without a general fund subsidy.

Significant Adjustments for the 2005 Biennium

The executive included a new proposal for an additional \$101,923 for the biennium to switch funding for an existing 1.00 FTE from general fund to funding by the state fueling network proprietary fund.

State Procurement Card Program (Fund 06571)**Program Description**

The State Procurement Card Program administers the state procurement contract for the automated processing of small purchases.

Revenues and Expenses

The table for fund 06571 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows revenues from fees paid by customers of \$8,988 for fiscal 2002. Because agencies record expenditures for fees paid to the State Procurement Card Program using the same expenditure account as other maintenance contract costs, the funding of agency payments is not able to be determined. The program also receives volume discounts rebates from vendors due to the aggregation of purchases through the program.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06571	Procurement Card Purchases	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Procurement Card Fees	5,864	7,092	8,988	11,736	11,736	11,736
Net Fee Revenue	5,864	7,092	8,988	11,736	11,736	11,736
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,581	7,892	5,480	5,500	5,500	5,500
Total Operating Revenues	7,445	14,984	14,468	17,236	17,236	17,236
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	7,445	14,984	14,468	17,236	17,236	17,236
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	3,715	6,114	8,135	18,704	26,797	23,792
Miscellaneous, operating	8	-	0	0	0	0
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,723	6,114	8,135	18,704	26,797	23,792
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,723	6,114	8,135	18,704	26,797	23,792
Operating Income (Loss)	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	-	3,722	12,592	18,925	17,457	7,896
Net Income (Loss)	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Retained Earnings/Fund Balances - June 30	3,722	12,592	18,925	17,457	7,896	1,340
60 days of expenses (Total Operating Expenses divided by 6)	621	1,019	1,356	3,117	4,466	3,965

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

	<u>FYE00</u>	<u>FYE01</u>	<u>FYE02</u>	<u>FYE03</u>	<u>FYE04</u>	<u>FYE05</u>
State Procurement Card Monthly Fee per Card	1.00	1.00	1.00	1.00	1.00	1.00

The State Procurement Card Program requests that the Legislature approve an administrative fee rate of \$1.00 per card per month as the rate for the 2005 biennium

In fiscal 2002, program expenses totaled \$8,135 and were comprised entirely of operating costs.

**LFD
ISSUE****Personal Services are Subsidized by General Fund**

In all years shown on the report for fund 06571, only operating costs have been recorded for program expenses. However, the same 1.00 FTE that supports the Statewide Fueling Network Program also supports this program through funding from the general fund. As with the Statewide Fueling Network Program, when general fund subsidizes the costs of a proprietary funded program the fees are not commensurate with the costs to operate the program. Except for startup costs or exceptional situations, revenues of a proprietary program should support the full costs of the program.

The legislature may wish to shift the funding for the FTE supporting this program by removing it from the general fund in the HB 2 portion of the division and adjusting fees to support these shifted costs in the proprietary program.

Rate Explanation

The executive requests that the legislature approve an administrative fee rate of \$1.00 per card per month as the rate for the 2005 biennium for the State Procurement Card Program.

Significant Adjustments for the 2005 Biennium

The executive included a present law adjustment for an increase of \$34,300 for the biennium for operating cost increases. This adjustment would provide funding for:

- Programming changes to make the software that is used to track charges made with procurement cards more compatible with the state accounting system
- Replace one computer
- Travel and user education
- Increased fees for secure storage of system data on Information Technology Services Division computer storage devices

Surplus Property Program (Fund 06066)**Program Description**

The Property & Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by agencies. The Federal Surplus program acquires surplus property from federal agencies. This property is distributed to state agencies or other eligible organizations. The surplus property programs provide a mechanism to transfer surplus property between agencies and extend the life of state property. The program provides accountability in the disposal of surplus state property, provides agencies with a surplus equipment pick up service, and provides a screening service to locate federal surplus property for state agencies and local governments.

Revenues and Expenses

The state surplus property programs receive revenues from charging a handling fee applied to the proceeds from the sale of state property. The federal surplus property program receives revenue in accordance with a federal plan of operations approved by the federal General Services Administration. In fiscal 2002 the program had operating revenues from combined federal and state handling fees of \$295,400. This is compared with expenses of nearly \$1.4 million, of which \$0.9 million was attributed to a non-cash accounting adjustment for inventory that adjusted the book value of inventory to match physical inventory. This adjustment did not occur in either fiscal year 2000 or 2001 and is not a regularly recurring expense item. The major expenses associated with the Surplus Property Program are personal services and freight to get federal property to the surplus warehouse. The program has 7.50 FTE funded through user fees. There are no projected significant changes in service volume.

The table for fund 06066 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06066	Surplus Property	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
State Surplus Property Handling Fee	-	-	-	153,000	167,000	167,000
Federal Surplus Property Handling Fee	-	-	-	130,000	17,000	17,000
Net Fee Revenue	<u>397,991</u>	<u>423,334</u>	<u>295,399</u>	<u>283,000</u>	<u>184,000</u>	<u>184,000</u>
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	2	4	-	-	-	-
Total Operating Revenues	<u>397,993</u>	<u>423,338</u>	<u>295,399</u>	<u>283,000</u>	<u>184,000</u>	<u>184,000</u>
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	<u>397,993</u>	<u>423,338</u>	<u>295,399</u>	<u>283,000</u>	<u>184,000</u>	<u>184,000</u>
Operating Expenses:						
Personal Services	216,221	236,359	227,448	254,921	293,514	298,374
Other Operating Expenses	269,878	238,685	1,143,839	288,652	206,254	206,253
Miscellaneous, operating	8,053	6,186	11,714	8,760	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	<u>494,152</u>	<u>481,230</u>	<u>1,383,001</u>	<u>552,333</u>	<u>499,768</u>	<u>504,627</u>
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	<u>494,152</u>	<u>481,230</u>	<u>1,383,001</u>	<u>552,333</u>	<u>499,768</u>	<u>504,627</u>
Operating Income (Loss)	(96,159)	(57,892)	(1,087,602)	(269,333)	(315,768)	(320,627)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(9,647)	(1,137)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	<u>-</u>	<u>(9,647)</u>	<u>(1,137)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Operating Transfers	(96,159)	(67,539)	(1,088,739)	(269,333)	(315,768)	(320,627)
Contributed Capital	799,476	987,452	602,019	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	280,553	191,394	1,111,307	624,587	355,254	39,486
Net Income (Loss)	703,317	919,913	(486,720)	(269,333)	(315,768)	(320,627)
Retained Earnings/Fund Balances - June 30	983,870	1,111,307	624,587	355,254	39,486	(281,141)
60 days of expenses (Total Operating Expenses divided by 6)	82,359	80,205	230,500	92,056	83,295	84,105

LFD ISSUE Declining Fund Balance
 The inventory adjustment made in fiscal 2002 and the operating income patterns for fiscal years 2003 through 2005 that are shown on the table for fund 06066 would drive the fund balance into a negative position by the end of fiscal 2005. The legislature may wish to ask the executive how they plan to address this trend.

Rate Explanation

The State Surplus Property Program retains a handling fee of 8 percent for items that are sold for more than \$150, plus extraordinary expenses if applicable. The Federal Surplus property program fees are an allocation of freight expense and 14 percent of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by the federal General Services Administration.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2.00	0.00	3.00	5.00	0.00	3.00	5.00	5.00
Personal Services	93,940	14,425	353,583	461,948	14,100	0	108,040	569,988
Operating Expenses	497,212	21,709	1,926,929	2,445,850	18,722	31,386	547,320	2,993,170
Grants	0	0	0	0	0	0	0	0
Total Costs	\$591,152	\$36,134	\$2,280,512	\$2,907,798	\$32,822	\$31,386	\$655,360	\$3,563,158
General Fund	127,808	29,061	929	157,798	26,623	929	155,360	313,158
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	463,344	7,073	2,279,583	2,750,000	6,199	30,457	500,000	3,250,000
Total Funds	\$591,152	\$36,134	\$2,280,512	\$2,907,798	\$32,822	\$31,386	\$655,360	\$3,563,158

Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet used by all agencies throughout the state. ITSD provides local and long-distance telephone network services used by all agencies, including the university system, and manages the state's video network METNET. ITSD coordinates electronic government services for the state, and manages the state's Internet presence at the Internet address discoveringmontana.com. ITSD also manages the Statewide Accounting, Budgeting, and Human Resources Systems (SABHRS) system for the state.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates information technology for the state, and reviews and approves equipment and software acquisitions. The division also provides statewide information technology training, and supports consulting services contracts used by agencies in support of IT systems.

The division also coordinates Geographic Information Systems (GIS) development, manages the state's 911 programs, and coordinates Public Safety Communications issues.

Program Narrative

<p>Department of Administration Information Technology Services Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Total fund budget increases by \$2.8 million or 394.4 percent, with a general fund increase of \$0.06 million or 21.7 percent, from the 2003 biennium ○ 3.00 FTE are added with budgeted funds ○ A request related to public safety communications would add \$2.25 million federal funds for the biennium
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ Alternatives for approving rate requests

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 127,808	21.6%	\$ 157,798	5.4%	\$ 155,360	23.7%
02690 Public Safety Radio	-	-	-	-	-	-
03428 Blm Gis Funding	463,344	78.4%	500,000	17.2%	500,000	76.3%
03796 Public Safety Radio	-	-	2,250,000	77.4%	-	-
Grand Total	\$ 591,152	100.0%	\$ 2,907,798	100.0%	\$ 655,360	100.0%

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables but is discussed in the Proprietary Rates section that follows the discussion of budget program activity. The HB 2 budgeted portion of the division is funded with general fund and federal special revenue. The division receives general fund to operate the Statewide 911 Emergency Telephone System. Federal special revenue funds GIS coordination work within the division.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					18,940					18,602
Vacancy Savings					(4,515)					(4,502)
Inflation/Deflation					197					269
Fixed Costs					20,076					17,014
Total Statewide Present Law Adjustments					\$34,698					\$31,383
DP 707 - Allocation of Indirect/Administrative Costs										
	0.00	1,436	0	0	1,436	0.00	1,439	0	0	1,439
Total Other Present Law Adjustments	0.00	\$1,436	\$0	\$0	\$1,436	0.00	\$1,439	\$0	\$0	\$1,439
Grand Total All Present Law Adjustments					\$36,134					\$32,822

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 707 - Allocation of Indirect/Administrative Costs - An increase of \$2,875 for the biennium is requested for increases in department indirect and administrative costs for services received from other centralized service functions of the agency.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2										
07	0.00	929	0	0	929	0.00	929	0	0	929
DP 701 - Public Safety Communications (Biennial)										
07	3.00	0	0	2,250,000	2,250,000	3.00	0	0	0	0
DP 709 - Statewide Roadway Centerline GIS - HB 2										
07	0.00	0	0	29,583	29,583	0.00	0	0	30,457	30,457
Total	3.00	\$929	\$0	\$2,279,583	\$2,280,512 *	3.00	\$929	\$0	\$30,457	\$31,386 *

New Proposals

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

DP 317 - Indirect Cost Allocation - HB 2 - An increase of \$1,858 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that would provide centralized service functions for divisions of the department.

DP 701 - Public Safety Communications (Biennial) - An increase of \$2.25 million federal special revenue for the biennium is requested for public safety communications systems planning. The funding would be used to add 3.00 FTE and to develop standards to implement interoperable public safety communications systems used by state, local, and federal entities in Montana. Funding would be used to move toward integrating radio, 9-1-1, and GIS technologies for improved emergency response for the public. The executive has requested that funding for this function be approved as biennial for use in either year of the 2005 biennium.

DP 709 - Statewide Roadway Centerline GIS - HB 2 - An increase of \$60,040 federal special revenue for the biennium is requested to build, maintain, and distribute a statewide, standardized, addressed, digital transportation database. This increase would add to base expenditures and statewide present law adjustments to provide \$500,000 funding for each year of the biennium for this function. This adjustment would also be in addition to proprietary funding of \$519,599 for the biennium being requested in the proprietary rates section of this division.

Proprietary Rates

Program Description

The Information Technology Services Division (ITSD) manages the following information technology (IT) services for state government:

- o Shared statewide desktop and data network services
- o Central mainframe computer processing
- o Mid-tier access and production services
- o Local and long-distance telephone networking
- o IT planning, research, and coordination
- o Design, development, and maintenance support of IT applications
- o Personal computer (PC) and office automation support and consultation
- o Design and development of telephone equipment, networking applications, and other telecommunication needs
- o Internet and intranet services
- o Electronic government planning and coordination
- o Central imaging
- o Geographic information systems (GIS) coordination
- o Disaster recovery facilities for critical data processing applications
- o IT training

ITSD also manages the State Accounting, Budgeting and Human Resource System (SABHRS) operational support unit,

which is responsible for the operation and maintenance of the state budget development system (MBARS), and the PeopleSoft human resource, financial, and asset management systems.

ITSD services are enterprise and statewide in nature, and therefore agencies are required by state law to use these services. If exceptional conditions exist, agencies may be granted exceptions to meet specific agency needs. All services are offered and provided to all state and local agencies.

Funding for the ITSD is primarily from charges to state agencies for mainframe and mid-tier computer processing, desktop services, and state telephone support services as well as direct charges to state agencies and other entities. In order to coordinate state communication function, the division also receives a significant amount of "pass-through" funds paid on behalf of state agencies to communications vendors.

ITSD costs are based on predicted utilization and projects planned in all service categories. ITSD would fund 178.50 FTE in the 2005 biennium from the revenues generated in all areas.

Revenues and Expenses

In fiscal 2002, ITSD had revenues of \$29.8 million from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (34.1 percent), \$10.2 million
- State special revenue (23.0 percent), \$6.9 million
- Federal special revenue (22.2 percent), \$6.6 million
- Proprietary funds (8.2 percent), \$2.5 million
- All other funds (12.4 percent), \$3.7 million

In fiscal 2002, revenues funded personal services for 177.5 FTE and operating costs. Personal services of \$9.4 million were 31.8 percent of expenses, with operating costs making up an additional \$20.0 million or 68.2 percent of expenses. As such, personal services are a fixed cost driver for the division operations. Other major service areas of the division have additional cost components that have large impacts on their operating costs. These significant cost drivers are listed below for the major service areas of ITSD:

- Desktop services rate - communications and software costs
- SABHRS administration - contracted services and software expenses
- Mainframe processing - software, supplies, depreciation, and debt service interest
- Telephone equipment and long-distance - communication and maintenance

The table for fund 06522 shows the financial data for the fund from fiscal 2000 through fiscal 2005. The revenue and expense trends shown in this report would decrease the fund balance to roughly 13 days of annual expenses by the end of fiscal 2003. Division management recommends a 45-day working capital balance to accommodate division billing and payment cycles. Fund balance would be depleted during the 2003 biennium because of unanticipated decreases in utilization and revenue from major agencies as agencies reduce their IT expenditures in response to state revenue deficiencies.

Report on Internal Service and Enterprise Funds, 2005 Biennium						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06522	Central Data Processing	61010	Dept. of Administration	Information Technology Services Division		
	actual	actual	actual	budgeted	budgeted	budgeted
	FY00	FY01	FY02	FY03	FY04	FY05
Operating Revenues:						
Fee revenue						
Desktop Services	7,741,725	8,088,226	9,399,924	9,588,943	10,356,786	10,356,786
SABHRS Services	3,215,302	2,797,302	4,168,582	4,203,235	4,651,404	4,794,639
Long Distance	3,089,724	2,782,659	2,751,562	3,346,800	2,050,000	2,050,000
Telephone Equipment	2,375,929	2,448,851	1,767,325	1,568,000	1,780,000	1,780,000
Computer Processing	8,768,793	7,865,733	7,980,921	8,295,609	8,895,336	8,727,040
Other Charges For Services	4,306,832	3,309,649	3,743,709	4,132,941	4,014,276	4,015,738
Net Fee Revenue	29,498,305	27,292,420	29,812,023	31,135,528	31,747,802	31,724,203
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	8,774	24,702	14,791	-	-	-
Total Operating Revenues	29,507,079	27,317,122	29,826,814	31,135,528	31,747,802	31,724,203
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	29,507,079	27,317,122	29,826,814	31,135,528	31,747,802	31,724,203
Operating Expenses:						
Personal Services	8,798,842	8,855,390	9,438,781	9,300,556	9,943,821	9,936,987
Other Operating Expenses	19,234,310	17,914,862	19,786,929	22,306,704	20,369,487	20,416,601
Miscellaneous, operating	494,071	275,569	484,526	479,057	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	28,527,223	27,045,821	29,710,236	32,086,317	30,313,308	30,353,588
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	28,527,223	27,045,821	29,710,236	32,086,317	30,313,308	30,353,588
Operating Income (Loss)	979,856	271,301	116,578	(950,789)	1,434,494	1,370,615
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	23,266	(6,032)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	23,266	(6,032)	-	-	-	-
Income (Loss) Before Operating Transfers	1,003,122	265,269	116,578	(950,789)	1,434,494	1,370,615
Contributed Capital	1,592,495	1,592,495	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(44,430)	(338,184)	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	814,614	440,633	1,960,213	2,076,791	1,126,002	2,560,496
Net Income (Loss)	2,551,187	1,519,580	116,578	(950,789)	1,434,494	1,370,615
Retained Earnings/Fund Balances - June 30	3,365,801	1,960,213	2,076,791	1,126,002	2,560,496	3,931,111
60 days of expenses (Total Operating Expenses divided by 6)	4,754,537	4,507,637	4,951,706	5,347,720	5,052,218	5,058,931
45 days of expenses (Total Operating Expenses divided by 8)	3,565,903	3,380,728	3,713,780	4,010,790	3,789,164	3,794,199

Responses from a data connection survey requested from each agency are used to determine the utilization rate used in the rate development. When these projections are not met by the agency, ITSD under recovers its costs and would either recover more from other service categories or reduce expenditures by reducing services provided for all.

SABHRS utilization is currently not tracked and based on projected expenses. Based on past trends and agency input, mainframe processing is expecting an approximate 2 percent decrease over the 2005 biennium.

Telephone equipment utilization is projected from base year volume. Long-distance utilization is anticipated to decrease by approximately 30 percent from projected fiscal 2003 levels due primarily to university system student long-distance no longer participating with this program and increased use of cell phones and phone cards.

Variations in expense patterns result from software purchase expenses and equipment depreciation expenses. Software purchase expenses are high in the initial purchase year and then only include fixed maintenance costs for subsequent years. Equipment depreciation expenses vary when decreases of depreciation costs for existing equipment with expiring depreciation cycles differ from depreciation costs on new equipment.

Rate Explanation

ITSD is requesting the legislature approve rates for the 2005 biennium based on the following statement:

"Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain 45-day working capital, except that the desktop rate may not exceed \$72.60 per connection per month or the amount that was budgeted in an agency budget, whichever is more."

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COMMENT

Meaning of Rate for ITSD

The 2001 legislature approved the following rates for ITSD:

- o Data Network Fee - \$72.60 per connected terminal per month
- o Statewide Accounting, Budgeting, and Human Resources System (SABHRS) Allocation to Agencies - \$4,168,460 in fiscal 2002 and \$4,211,734 in fiscal 2003
- o All remaining operations of the division - 45-day working capital reserve

However, when state agencies are billed for ITSD services, they are charged the service specific rates listed in Figure 7A. If the legislature approved the rates as requested by ITSD, the division would have flexibility to increase, without a maximum limit, these service specific rates, except that the desktop rate would be limited to \$72.60 per connection per month. The following factors would likely result in higher rates than those charged in the 2003 biennium and those that are anticipated for the 2005 biennium:

- o ITSD anticipates increasing the service specific rates to offset losses from the 2003 biennium and to increase working capital to 43 days
- o ITSD rates for the 2003 biennium were allocated to agencies with the second phase of the Process Oriented Integrated Tax System (POINTS II) and the State Fund included in the allocation distribution. The development of POINTS II has been abandoned and the potential exists that the State Fund would not participate in ITSD computer services. With POINTS II or the State Fund removed from the ITSD customer base, an increase in rates or further adjustments would be expected.

Figure 7A
Information Technology Services Division
2005 biennium
Anticipated Rates and Growth Factors

Service Center	Service Name	Change from		Change from		
		Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2002	Fiscal 2005
Mainframe	Batch CPU	\$ 1.1293	10%	\$ 1.2422	10%	\$ 1.2422
	CICS CPU	0.2278	10%	0.2506	10%	0.2506
	IDMS CPU	0.8080	10%	0.8888	10%	0.8888
	IDMS/CICS	0.2780	10%	0.3058	10%	0.3058
	IDMS/ADS	0.6146	10%	0.6760	10%	0.6760
	TSO CPU	1.3833	10%	1.5216	10%	1.5216
	Tape megabytes	0.030	-100%	-	-100%	-
	Tape storage archive	0.003	-100%	-	-100%	-
	Disk storage	0.0115	10%	0.0127	10%	0.0127
	SYSIN read/write	0.1062	10%	0.1168	10%	0.1168
	Disk read/write	0.1062	10%	0.1168	10%	0.1168
	Tape read/write	0.4005	10%	0.4406	10%	0.4406
	Midtier	Midtier (including central imaging)	2,689,945	10%	2,946,098	12%
Print	Laser	0.0261	30%	0.0339	30%	0.0339
LAN admin	LAN administration	50	20%	60	20%	60
Desktop	Desktop service	72.60	0.0%	72.60	0.0%	72.60
VPN	ISP/VPN	New Service	N/A	25	N/A	25
	VPN	New Service	N/A	10	N/A	10
Video	Video conf/subscriptions	35	0%	35	0%	35
Voice	Equipment	15	33%	20	33%	20
	Long distance	0.135	-22%	0.105	-22%	0.105
	IVR	120	46%	175	46%	175
	Voice mail	5	0%	5	0%	5
	Megacom	0.1	0%	0.1	0%	0.1
SABHRS	SABHRS	4,168,461	12%	4,651,404	15%	4,794,640

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Working Capital Rate Doesn't Match Operations

Figure 7A, on the previous page, shows that the revenue derived from ITSD service charges are divided into nine service centers. These centers are groupings of functionally different services provided by ITSD. Each service center has separate operational characteristics that distinguish it from the other centers and often serves uniquely different customer bases. Figure 7B shows by SABHRS expenditure account the number of agencies and the amount of payments for ITSD service charges. Figure 7B shows that some services are used by most state agencies, while other services are used by only some agencies. While most agencies make payments for telephone equipment and long distance, less than half pay for central processing unit (CPU) time and data storage. ITSD has proposed rates that would provide flexibility to adjust rates in any or all centers, except possibly the desktop service center, to subsidize the operations of other centers.

With this, the legislature may wish to consider approving separate rates for each service or at least rates that more closely link revenues to the service centers financed by the charges. One segregation the 2001 legislature made was to approve a separate rate for SABHRS administration and not bundle it with the working capital rate it approved for the remainder of the operations not supported with the data network rate. This same segregation could also be done along with approving separate rates for the voice and video service centers. In addition to limiting the desktop rate as recommended by the executive, the legislature may want to approve separate rates for SABHRS, voice, and video. With this, the network and other statewide computer functions would be the only services to remain under the requested 45-day working capital rate. It could be argued that the network and computer functions of the division are the areas with the least amount of functional difference and the most common customer base. Also, approving a working capital rate would provide the division the flexibility to respond to the usage changes that impact the division's costs and revenues and are driven by decisions of ITSD customers, not ITSD. This flexibility would not inhibit the division's ability to adapt to these usage changes or adversely impact the financial viability of the fund.

Service (SABHRS Expenditure Account Names)	Agencies Paying	Payments All Funds
Tape Storage Charges/DOA	17	\$ 25,376
Disk Storage Charges/DOA	24	900,096
SABHRS Administrative Costs	41	4,033,751
Read/Write Computer Trans/DOA	33	447,718
Batch CPU Seconds/DOA	38	1,759,861
Data Network Serv/DOA	38	8,987,494
TSO CPU Seconds/DOA	17	343,627
IDMS CPU Seconds/DOA	22	2,026,177
CICS CPU Seconds/DOA	23	154,086
Telephone Equip Chrg/DOA	45	3,806,321
Long Distance Chrg/DOA	46	3,724,972

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for ITSD expenditures totaling \$2.3 million for the 2005 biennium. No information was provided to determine the impacts each separate adjustment would have on rates of ITSD.

Adjustments included in the rate request are:

- o A net increase totaling \$521,281 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$654,822 for the biennium for increases in communication expenses, software and equipment maintenance expenses, and debt service
- o A reduction of \$232,867 for the biennium to eliminate funding for 3.00 FTE. The positions associated with this reduction are no longer active
- o An increase of \$106,190 for the biennium to add funding for 1.00 FTE computer security specialist to handle increased workloads related to state computer system virus protection
- o An increase of \$105,865 for the biennium to add funding for 1.00 FTE training coordinator to help coordinate technology training for ITSD and state agencies; identify and acquire appropriate forms of training such as manuals, computer-based training resources, web-based training, and instructor-led training; provide information and support to agencies regarding applicable training for their employees to progress through a career ladder; manage all training contracts; create and design marketing materials, promotional materials and other items for customer relations purposes; coordinate the development,

printing and/or online publishing of documents for the division; and provide design options and input into the user interface of the state intranet applications

- An increase of \$630,503 for the biennium to add 1.00 FTE IT and business systems analysis to provide support and staff assistance in agency project management for IT projects and to develop an IT project management program for the state
- An increase of \$518,449 for the biennium to add 1.00 FTE transportation data coordinator and operating costs to build, maintain, and distribute a statewide, standardized, addressed, digital transportation database

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	24.25	0.00	5.50	29.75	0.00	5.50	29.75	29.75
Personnel Services	1,042,064	332,264	215,911	1,590,239	330,802	215,287	1,588,153	3,178,392
Operating Expenses	458,121	81,227	71,476	610,824	114,938	71,199	644,258	1,255,082
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$1,500,185	\$413,491	\$287,387	\$2,201,063	\$445,740	\$286,486	\$2,232,411	\$4,433,474
State/Other Special	1,500,185	413,491	287,387	2,201,063	445,740	286,486	2,232,411	4,433,474
Total Funds	\$1,500,185	\$413,491	\$287,387	\$2,201,063	\$445,740	\$286,486	\$2,232,411	\$4,433,474

Program Description

The Banking and Financial Institutions Division licenses, supervises, regulates, and examines a variety of financial institutions operating in Montana such as:

- o State-chartered banks, trust companies, savings and loans, and credit unions
- o Consumer loan and sales finance companies
- o Escrow companies
- o Foreign capital depositories in accordance with Title 32, MCA
- o 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 fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations of applications for new bank charters and foreign capital depository charters; hearing appeals of division decisions on branch bank, merger, or relocation applications; and acting in an advisory capacity with respect to the duties and powers given by statute or otherwise to the department as the duties and powers relate to banking and to the regulation of foreign capital depositories.

Program Narrative

<p>Department of Administration Banking and Financial Division Major Budget Highlights</p>
<ul style="list-style-type: none"> o Total fund budget increases \$1.4 million or 46.0 percent (no general fund) from the 2003 biennium o 5.50 FTE are added
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> o Impacts of 46.0 percent increase on fund balance o Broadband pay plan increases are built into the base and requested again

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02077 Financial Institutions Div	\$ 1,500,185	100.0%	\$ 2,201,063	100.0%	\$ 2,232,411	100.0%
02094 Foreign Capital Depository	-	-	-	-	-	-
Grand Total	\$ 1,500,185	100.0%	\$ 2,201,063	100.0%	\$ 2,232,411	100.0%

The division is funded solely by state special revenue through assessments, application fees, and examination fees paid by the regulated financial institutions.

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Impacts on Fund Balance

If all adjustments of the executive were approved, the division budget for the 2005 biennium would increase by \$1.4 million over the 2003 biennium, for an increase of 46 percent. The division is funded entirely from fees paid by the financial industry for which the division provides oversight and regulation. Appropriations in fiscal 2003 exceed anticipated revenues by \$179,263. The fund balance at the end of fiscal 2002 was \$1.2 million. The imbalance between revenues and expenditures in the 2005 biennium would reduce the fund balance to a more appropriate level of \$458,257 by the end of fiscal 2005 or 19 percent of annual expenditures.

However, the legislature should be aware of the long-term ramifications to the fund. All adjustments would become ongoing program expenditures that would have to be funded with ongoing revenues. For the 2005 biennium, the imbalance of revenues and expenditures can be addressed by drawing down the fund balance that now exists. After the 2005 biennium, the fund balance would be nearly depleted and not available to address the large imbalance between ongoing revenues and ongoing expenditures. The 2005 legislature would then need to either reduce program expenditures or increase fees to finance ongoing operations.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments					244,734					243,212
Personal Services					(51,470)					(51,410)
Vacancy Savings					1,626					2,653
Inflation/Deflation					20,046					21,409
Fixed Costs										
Total Statewide Present Law Adjustments					\$214,936					\$215,864
DP 1401 - Indirect Administrative Costs	0.00	0	(40,513)	0	(40,513)	0.00	0	(40,514)	0	(40,514)
DP 1402 - Financial Insitution Examiner Career Ladder	0.00	0	139,000	0	139,000	0.00	0	139,000	0	139,000
DP 1403 - Rent Increase for the Helena Office	0.00	0	79,392	0	79,392	0.00	0	81,252	0	81,252
DP 1405 - Fund Accreditation Review of the Division	0.00	0	0	0	0	0.00	0	28,000	0	28,000
DP 1406 - Lease Motor Pool Vehicles	0.00	0	20,676	0	20,676	0.00	0	22,138	0	22,138
Total Other Present Law Adjustments	0.00	\$0	\$198,555	\$0	\$198,555	0.00	\$0	\$229,876	\$0	\$229,876
Grand Total All Present Law Adjustments					\$413,491					\$445,740

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1401 - Indirect Administrative Costs - A reduction of \$81,027 state special revenue for the biennium is requested for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

DP 1402 - Financial Institution Examiner Career Ladder - An increase of \$278,000 state special revenue for the biennium is requested to fund additional personal services costs to moved its financial institution examination personnel to a professional financial institution examiner career ladder plan. Movement to the career ladder plan is proposed to address recruitment and retention concerns.

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The Broadband Plan Increases are in the Statewide Present Law Adjustment for Some FTE. The division would have 29.75 FTE if funding for all FTE additions are approved by the legislature. For 29.75 FTE this adjustment would equal \$4,672 per year or \$2.23 per hour per FTE. When considering this adjustment, the legislature may wish to consider salary increases received by 19 people in division positions when it implemented the career ladder.

To implement the career ladder the division moved positions to the alternative classification and compensation system developed by the State Personnel Division of the department. The alternative classification and compensation system the division adopted is called the broadband plan and is authorize in state law. The division moved most of the positions to this pay plan effective February 2, 2002, and in turn awarded pay adjustments to 19 people holding position in the division an average of \$2.80 per hour for each individual. Increases for those receiving these raises ranged from 2.8 percent to 31.4 percent. Annualized, the hourly raises equal \$111,600 and are in addition to the statewide pay increases of 4 percent authorized by the legislature in HB 13 (the pay plan bill of the 2001 legislature). The HB 13 raises have subsequently been awarded to those who received the earlier broadband plan increases. The broadband plan raises were not funded by the legislature, so they were provided with existing budget authority at the expense of other undeterminable program functions or through their own internal vacancy savings.

Because these increases were provided prior to the budget development snapshot taken at the end of June 2002, they are built into the personal services budget as if the legislature had authorized the funding. These increases then become an ongoing expense. Since the budget development snapshot, broadband pay raises were given to 6 people that averaged \$1.51 per hour per person. These increases would not have been built into the personal services budget, except via this decision package. Annualized, these pay raises equal about \$38,000 for the biennium.

The legislature may want to consider reducing the amount of this request, such as to the amount for the pay raises given after the budget snapshot.

DP 1403 - Rent Increase for the Helena Office - An increase of \$160,644 state special revenue is requested to pay for increased rent costs for office space in the old federal building in Helena. Monthly rent is increasing because the rent for the old federal building is higher than the rent of the building the division vacated after the end of the base year.

DP 1405 - Fund Accreditation Review of the Division - An increase of \$28,000 state special revenue in fiscal 2005 is requested to fund an accreditation assessment performed by the Conference of State Bank Supervisors. Funding would pay for accreditation team expenses during their on-site assessment of the division, preparation of the report of findings and recommendation, and costs of the meeting of the accreditation committee.

DP 1406 - Lease Motor Pool Vehicles - An increase of \$42,814 state special revenue for the biennium is requested to lease four additional passenger vehicles from the State Motor Pool beginning in fiscal 2004. This funding would allow the division to replace two division owned vehicles and would add two other vehicles for use by bank examiners who currently use personal vehicles.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2										
14	0.00	0	22,078	0	22,078	0.00	0	22,101	0	22,101
DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE										
14	1.50	0	66,925	0	66,925	1.50	0	66,782	0	66,782
DP 1407 - 4.00 FTE Bank Examiners										
14	4.00	0	198,384	0	198,384	4.00	0	197,603	0	197,603
Total	5.50	\$0	\$287,387	\$0	\$287,387 *	5.50	\$0	\$286,486	\$0	\$286,486 *

New Proposals

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

DP 317 - Indirect Cost Allocation - HB 2 - An increase of nearly \$44,179 state special revenue for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE - An increase of \$133,707 state special revenue for the biennium is requested to fund the addition of 1.50 FTE bank examiners.

LFD COMMENT	FTE Removed by 2001 Legislature The division had 4.50 FTE removed during the 2001 legislature. Of these, 3.00 FTE were transferred to the Governor's Office of Economic Development via SB 445 and 1.50 FTE were removed because the positions have been vacant for an extended time.
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DP 1407 - 4.00 FTE Bank Examiners - An increase of \$395,987 state special revenue for the biennium is requested for funding to add 4.00 FTE bank examiners and associated operating costs to address workload increases. Operating costs would fund the purchase of office equipment, rent, and travel.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	31.50	0.00	0.00	31.50	0.00	0.00	31.50	31.50
Personal Services	1,265,659	57,085	0	1,322,744	56,466	0	1,322,125	2,644,869
Operating Expenses	4,947,142	899,351	185,728	6,032,221	951,319	25,715	5,924,176	11,956,397
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Debt Service	1,145,577	0	0	1,145,577	(1,145,577)	0	0	1,145,577
Total Costs	\$7,821,113	\$542,436	\$185,728	\$8,549,277	(\$551,792)	\$25,715	\$7,295,036	\$15,844,313
Proprietary	7,821,113	542,436	185,728	8,549,277	(551,792)	25,715	7,295,036	15,844,313
Total Funds	\$7,821,113	\$542,436	\$185,728	\$8,549,277	(\$551,792)	\$25,715	\$7,295,036	\$15,844,313

Program Description

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

Program Narrative

<p>Department of Administration Montana State Lottery Major Budget Highlights</p>
<ul style="list-style-type: none"> o Budget decreases by \$0.8 million or 4.6 percent from the 2003 biennium
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> o Methodology for determining revenues from increased lottery expenses

The primary mission of the lottery is to maximize the transfer of its net revenue to the state's general fund. The lottery has established goals to transfer \$7.0 million in fiscal 2004 and \$7.2 million in fiscal 2005 to the general fund. To achieve these goals, the program offers a variety of games of chance that the program constantly changes to produce revenue for the general fund. In order to introduce a new game the lottery must purchase supplies and promotional materials for the game. The primary market research approach of the lottery is to use games that other states' lotteries have used to generate revenues for their states. The lottery states that they monitor the performance of games to determine if they are successfully generating more revenues than they are costing to operate.

However, when asked, the lottery was unable to provide revenue projections for any given game. The legislature may want to ask the lottery to explain how it is able to project overall revenues that would be transferred to the general fund without first identifying planned games it anticipates offering, and estimating their costs and expected revenues. Because the lottery must spend money in anticipation of generating more revenue than is spent to generate the revenue, the legislature may wish to have the lottery describe:

- o Its methodology for determining which games it will offer
- o How it determines when to offer new games
- o How it determines which games to retire or continue to offer
- o How it projects annual net revenues

- o How the requested budget increases translate into increased general fund revenues

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
Program Funding						
06001 State Lottery Fund	<u>\$ 7,821,113</u>	<u>100.0%</u>	<u>\$ 8,549,277</u>	<u>100.0%</u>	<u>\$ 7,295,036</u>	<u>100.0%</u>
Grand Total	<u>\$ 7,821,113</u>	<u>100.0%</u>	<u>\$ 8,549,277</u>	<u>100.0%</u>	<u>\$ 7,295,036</u>	<u>100.0%</u>

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund.

	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					110,897					110,255
Vacancy Savings					(55,062)					(55,039)
Inflation/Deflation					3,848					4,456
Fixed Costs					67,784					(8,441)
Total Statewide Present Law Adjustments					\$127,467					\$51,231
DP 1501 - Indirect Fixed Costs	0.00	0	0	0	(42,327)*	0.00	0	0	0	(42,285)*
DP 1502 - Per Diem for Lottery Commissioners	0.00	0	0	0	1,250 *	0.00	0	0	0	1,250 *
DP 1504 - Eliminate Debt Service Expense for FY 05	0.00	0	0	0	0	0.00	0	0	0	(1,145,577)*
DP 1505 - Product Costs Increase	0.00	0	0	0	391,326 *	0.00	0	0	0	529,557 *
DP 1506 - Increase Base for Rent	0.00	0	0	0	6,920 *	0.00	0	0	0	8,232 *
DP 1507 - Equipment replacement	0.00	0	0	0	22,800 *	0.00	0	0	0	10,800 *
DP 1509 - Retailer Support	0.00	0	0	0	35,000 *	0.00	0	0	0	35,000 *
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$414,969 *	0.00	\$0	\$0	\$0	(\$603,023)*
Grand Total All Present Law Adjustments					\$542,436 *					(\$551,792)*

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1501 - Indirect Fixed Costs - A reduction of \$84,612 lottery proprietary funds for the biennium is recommended for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

DP 1502 - Per Diem for Lottery Commissioners - An increase of \$2,500 lottery proprietary funds for the biennium is requested to fund per diem for lottery commissioners. By statute, lottery commissioners are paid \$50 per diem for each day engaged in duties related to the Lottery and the commission is required to meet at least quarterly.

DP 1503 – Transfer Funds from Equipment to Goods Purchase Resale – An adjustment that would have no fiscal impact for the biennium is recommended to move \$828,000 funding for the biennium from the equipment expense category to operating expenses to purchase inventories of instant tickets.

DP 1504 - Eliminate Debt Service Expense for FY 05 - A reduction of \$1,145,577 lottery proprietary fund in fiscal 2005 is recommended to remove budget authority included in the base for debt service payments that would no longer be needed after fiscal 2004.

DP 1505 - Product Costs Increase - An increase in product costs of \$920,883 lottery proprietary fund for the biennium is requested to: 1) purchase supplies of instant lottery tickets; 2) pay increased contract costs to the vendor who operates the lottery's computerized terminal system; and 3) to participate in a televised game show.

LFD COMMENT	<p>Use of Funds According to the lottery, it would purchase scratch and instant win tickets that would be used to keep the lottery "fresh" and exciting and increase participation and interest. The lottery continues to change games and offer desired products to prevent decline of sales revenue. The lottery also anticipates offering a televised game show, where participation is determined as a prize on an instant ticket. This game is a multi-state game operated by the Multi-State Lottery Association, the entity that operates Powerball, Hot Lotto and Wild Card. Participation in the game show would add \$47,500 per year in dues that cover the operating costs of the program.</p>
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DP 1506 - Increase Base for Rent - An increase of \$15,152 in lottery proprietary funds for the biennium is requested for increased rent costs for the lottery office and warehouse space.

DP 1507 - Equipment replacement - An increase of \$33,600 in lottery proprietary funds for the biennium is requested to replace or update computer equipment, printers, the on-line gaming system, and software. The computer equipment that makes up the on-line gaming system connects each retail outlet with the lottery. The equipment tracks sales, calculates payouts, and handles retailer accounting.

DP 1509 - Retailer Support - An increase of \$70,000 in lottery proprietary funds for the biennium is requested to purchase additional customer display units, point of sale posters and advertisements, and play stations that hold information and play slips for lotto games for use at lottery retail outlets.

LFD ISSUE	<p>Retailer Support Not Mandatory The lottery has purchased customer display units, point of sale posters and advertisements, and play stations for existing retailers selling lottery tickets for a commission. The additional purchases would be for materials for new retail locations and to replace existing materials that are worn out or out of date. These materials are not mandatory for the lottery, but according to the lottery, increase consumer awareness and therefore increase revenues. Since these expenses increase operating costs and therefore reduce net revenues that are transferred to the general fund they should only be made if net revenues are increased as a result of the expenses.</p> <p>The legislature may wish to ask the lottery to quantify the amount of increased net revenues that would be expected from these operating costs. The legislature may also wish to have the lottery show how these increased revenues were determined and the measures in place to verify these expenses generate the increased net revenues.</p>
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Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation-HB2										
15	0.00	0	0	0	25,728 *	0.00	0	0	0	25,715 *
DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO)										
15	0.00	0	0	0	160,000 *	0.00	0	0	0	0
Total	0.00	\$0	\$0	\$0	\$185,728 *	0.00	\$0	\$0	\$0	\$25,715 *

New Proposals

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

DP 317 - Indirect Cost Allocation-HB2 - An increase of \$51,443 lottery proprietary fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO) - An increase of \$160,000 lottery proprietary fund is requested for fiscal 2004 to hire a consultant to analyze the current on-line gaming system for performance, life expectancy, and maintenance costs. The consultant would also be tasked to determine the availability of replacement systems and the advantages or disadvantages of replacing the system when the seven-year, operating contract with an outside vendor expires in March 2006. The executive recommends that appropriations for this request be designated as biennial, one-time-only, and restricted only for expenses for the purposes stated.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.66	0.00	(1.13)	20.53	0.00	(1.13)	20.53	20.53
Personal Services	909,750	115,194	(45,005)	979,939	114,374	(44,872)	979,252	1,959,191
Operating Expenses	244,733	1,786	11,098	257,617	4,400	11,999	261,132	518,749
Total Costs	\$1,154,483	\$116,980	(\$33,907)	\$1,237,556	\$118,774	(\$32,873)	\$1,240,384	\$2,477,940
General Fund	1,127,130	116,980	(36,949)	1,207,161	118,774	(36,820)	1,209,084	2,416,245
State/Other Special	27,353	0	3,042	30,395	0	3,947	31,300	61,695
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$1,154,483	\$116,980	(\$33,907)	\$1,237,556	\$118,774	(\$32,873)	\$1,240,384	\$2,477,940

Program Description

The State Personnel Division provides state agencies with a comprehensive program of human resource management programs including training, position classification and pay, collective bargaining, employee relations, and assistance with compliance with state and federal employment law. The division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other personnel matters. The division administers benefits plans including health, life, long-term care, dental, and vision insurance, flexible spending accounts, a sick leave fund, employee incentive awards, health promotion, and a voluntary employee benefit health care expense trust. In addition, the division administers a lease and contract to provide day care services for Helena area state employees. The division also prepares, maintains, and distributes payroll for all state employees.

Program Narrative

<p>Department of Administration State Personnel Division Major Budget Highlights</p>
<ul style="list-style-type: none"> ○ Total fund budget increases by \$151,000 or 6.5 percent with a general fund increase of \$144,000 or 6.4 percent ○ 1.13 FTE are eliminated ○ New recruitment advertising initiative ○ Payroll processing rates increase by more than 20 percent ○ Operating losses for the Employee Benefits Program due to high medical and drug claims
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> ○ State subsidy for daycare ○ Impacts of budget reductions on demand for Profession Development Center services and revenues

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 1,127,130	97.6%	\$ 1,207,161	97.5%	\$ 1,209,084	97.5%
02518 State Daycare Program	27,353	2.4%	30,395	2.5%	31,300	2.5%
06590 State Recruitment Advertising	-	-	-	-	-	-
Grand Total	\$ 1,154,483	100.0%	\$ 1,237,556	100.0%	\$ 1,240,384	100.0%

Funding for general personnel administration functions is from the general fund. The Employee Benefits Bureau is funded from the investment earnings of the state employees benefits fund. The Employee Benefits Bureau also receives a minor general fund appropriation for administration of the employee incentive program and sick leave administration. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. The State Payroll Unit is funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the Proprietary Rates at the end of the section for the division.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					157,900					157,046
Vacancy Savings					(42,706)					(42,672)
Inflation/Deflation					1,748					1,939
Fixed Costs					2,992					5,446
Total Statewide Present Law Adjustments					\$119,934					\$121,759
DP 2307 - Indirect Cost Allocation - HB0002	0.00	(2,954)	0	0	(2,954)	0.00	(2,985)	0	0	(2,985)
Total Other Present Law Adjustments	0.00	(\$2,954)	\$0	\$0	(\$2,954)	0.00	(\$2,985)	\$0	\$0	(\$2,985)
Grand Total All Present Law Adjustments					\$116,980					\$118,774

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2307 - Indirect Cost Allocation - HB0002 - A reduction of \$5,939 general fund for the biennium is recommended for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

Program	-----Fiscal 2004-----					-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 317 - Indirect Cost Allocation-HB2	23	0.00	8,056	190	0	8,246	0.00	8,052	190	0	8,242
DP 2304 - Lease Rate for State Sponsored Daycare	23	0.00	0	2,852	0	2,852	0.00	0	3,757	0	3,757
DP 2306 - Eliminate 1.13 vacant FTE	23	(1.13)	(45,005)	0	0	(45,005)	(1.13)	(44,872)	0	0	(44,872)
Total	(1.13)	(\$36,949)	\$3,042	\$0	(\$33,907)*	(1.13)	(\$36,820)	\$3,947	\$0	(\$32,873)*	

New Proposals

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

DP 317 - Indirect Cost Allocation-HB2 – Increases of \$16,108 general fund and \$380 state special revenue for the biennium are requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 2304 - Lease Rate for State Sponsored Daycare - An increase of \$6,609 state special revenue for the biennium is recommended to fund anticipated rent increases for the state sponsored daycare center in Helena.

LFD ISSUE

Equity of Benefit for State Support of Daycare

There is a daycare center located in an old school vacated by the Helena School District. The daycare center is in close proximity to the Capitol Complex. For the 2001 and 2003 biennia, the Department of Administration, through an appropriation of the legislature, has paid the rent costs for the daycare facility as a benefit for state employees. Funding for the rent payments comes from state agency contributions based on the number of Helena area employees. On March 1, 2001, the daycare center began accepting children from the public in addition to children of state employees. However, the center does provide a preference first for children of state employees and then to state employees' grandchildren.

By providing state support for a portion of the operating costs of this center, the center can charge lower rates that it would without the subsidy. In fiscal 2002, the subsidy was \$27,353 or \$275 per child for the year at the 100-child capacity of the facility. If the legislature approves this request the subsidy would increase to \$304 in fiscal 2004 and \$313 in fiscal 2005 for each child.

Subsidized rates provide: 1) a state-funded competitive advantage for one private business over other private daycares; 2) a tax-free benefit to some state employees that is not equitably afforded to all state employees; and 3) a daycare subsidy for some private citizens that is not based on need and is not equally available to others. Without the subsidy, the daycare still provides an intangible benefit to state employees because of its close proximity to the capitol complex.

Options

- Eliminate the state subsidy for the daycare
- Take no action

DP 2306 - Eliminate 1.13 vacant FTE - A reduction of \$89,877 general fund for the biennium is recommended to remove funding for 1.13 FTE that are currently vacant and being used to provide vacancy savings.

Proprietary Rates

Program Description

The State Personnel Division manages four proprietary programs: 1) the training program, also referred to as the Professional Development Center; 2) the employee benefits program, which includes the state's health and other benefit insurance plans; 3) the state payroll and benefits operations program; and 4) the flexible spending accounts program.

Training Program (Fund 06525)

Program Description

The Professional Development Center (PDC) provides training and other services, such as facilitation, mediation, and curriculum design, to state agencies on a fee reimbursement basis. The use of PDC training is not mandatory for agencies that could choose from several available alternatives, such as seminars sponsored by national training firms, conferences and symposia, contracted training consultants, in-house training programs, and courses through post-secondary education institutions.

Revenues and Expenses

In fiscal 2002, the Professional Development Center had revenues of \$260,557 from fees paid by agencies statewide. The funding for customer payments to the PDC could not be determined because the accounting code used to record payments to the PDC for training is also used to record a variety of other training costs.

In fiscal 2002, revenues funded personal services for 3.08 FTE and operating costs. Personal services of \$151,136 were 51.5 percent of expenses, with operating costs making up the remaining \$142,316 or 48.5 percent of PDC expenses.

The table for fund 06525 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows the program experienced an operating loss equivalent to 11.1 percent of expenses in fiscal 2002. Operating losses are also predicted for fiscal years 2003 and 2004, but the program is expected to return positive net income in fiscal 2005. These operating projections would leave the fund balance at about 18 days of annual expenses at the end of the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06525	Personnel Training	61010	Dept. of Administration	Professional Development Center				
			actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:								
Fee revenue								
	Fees from Training Services		235,807	312,530	260,557	260,095	269,458	279,197
	Net Fee Revenue		235,807	312,530	260,557	260,095	269,458	279,197
	Investment Earnings		-	-	-	-	-	-
	Securities Lending Income		-	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		272	135	285	-	-	-
	Total Operating Revenues		236,079	312,665	260,842	260,095	269,458	279,197
	Intrafund Revenue		-	-	-	-	-	-
	Net Operating Revenues		236,079	312,665	260,842	260,095	269,458	279,197
Operating Expenses:								
	Personal Services		140,511	146,295	151,136	149,755	153,378	153,780
	Other Operating Expenses		88,885	87,775	120,894	89,520	113,126	113,639
	Miscellaneous, operating		6,374	2,285	21,422	36,288	8,822	9,006
	Miscellaneous, other		-	-	-	-	-	-
	Total Operating Expenses		235,770	236,355	293,452	275,563	275,326	276,425
	Intrafund Expense		-	-	-	-	-	-
	Net Operating Expenses		235,770	236,355	293,452	275,563	275,326	276,425
	Operating Income (Loss)		309	76,310	(32,610)	(15,468)	(5,868)	2,772
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		-	(550)	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		-	(550)	-	-	-	-
	Income (Loss) Before Operating Transfers		309	75,760	(32,610)	(15,468)	(5,868)	2,772
	Contributed Capital		600	600	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Retained Earnings/Fund Balances - July 1 - As Restated		(11,506)	(11,197)	65,163	32,553	17,085	11,217
	Net Income (Loss)		909	76,360	(32,610)	(15,468)	(5,868)	2,772
	Retained Earnings/Fund Balances - June 30		(10,597)	65,163	32,553	17,085	11,217	13,989
	60 days of expenses (Total Operating Expenses divided by 6)		39,295	39,393	48,909	45,927	45,888	46,071

LFD ISSUE Potentially Over Zealous Revenue Projections - Opportunity to Share Resources
 The revenues for the program were developed under the assumption that the state budget concerns would adversely impact training attendance only in fiscal 2003, but would grow above the fiscal 2002 levels in the 2005 biennium. Given the current projected 2005 biennium general fund revenue deficit, it would appear that these assumptions are somewhat optimistic. If training attendance fails to materialize as projected, the revenues the program collects would not likely materialize and the operating losses would further erode the fund balance to the point of insolvency.

The legislature may wish to consider how budget reductions in state agencies would impact training, which is often a non-mandated expenditure. It may also wish to request that the executive show how it anticipates achieving its revenue projections in a time of reduced budgets. If the legislature determines that revenues projections for the program are too high, it may wish to direct the executive to reduce expenses in order to maintain the fund solvency and remove the potential for an infusion of capital from some other source. With personal services comprising more than half of the expenses, one potential approach to restore the balance between revenues and expenses during a time of reduced demand would be to reduce FTE of the PDC.

An adjustment in the Information Technology Services Division (ITSD) provides an opportunity to address the potential fund solvency issue in a more painless way while at the same time addressing another identified budget item. The proprietary rates section for ITSD includes an adjustment for funding to add a new technology training coordinator position. If the technology training coordination function could be done using the existing resources of the PDC, the legislature would not have to reduce FTE in this program or could transfer the FTE for use in ITSD. The legislature may wish to ask the department if training resources of the PDC could be used to support the training concerns in ITSD.

Rate Explanation

Figure 23A shows the historical rates and rates submitted for legislative approval for the PDC.

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Training Service (per hour)	\$ 50.91	\$ 52.84	\$ 113.00	\$ 113.00	\$ 128.12	\$ 128.59

The rates requested for the 2005 biennium are increases of \$15.12 per hour or 13.4 percent for fiscal 2004 and \$15.59 per hour or 13.8 percent.

LFD ISSUE Growth of Rates Could Adversely Impact Demand for Service
 The services provided by the PDC are provided in a competitive market environment and are readily available from other sources, including provision by agency staff or purchase from the private sector. Training is often a discretionary expenditure for agencies and often among the first expenditures cut. In times of tight budgets, agencies will either seek the lowest cost alternative to acquire training or not provide any but the most critical training. The increases proposed for the PDC could impact the demand for PDC training and its ability to meet revenue projections. If the revenues fail to develop and the PDC continues to experience operating losses, the fund could become insolvent and either not be able to meet its cash obligations or could require a contribution of capital from some other source.

The legislature may wish to request that the executive show how the demand for PDC training would be impacted by the imminent budget reductions and by the rates proposed for the PDC. The legislature may also wish to have the executive provide a comparison between the costs for similar courses offered by the PDC and those offered from alternative sources to determine if other training sources are becoming more competitive with PDC.

The rates for the PDC were developed with the following assumptions:

- o 25 percent of total staff time can be billed to specific products or services (based on an earlier analysis)

- o 65 percent of total costs are personal services and other fixed costs that must be allocated through staff time and can not be associated with specific products or services
- o One half of a 45-day working capital has been added to the fixed costs in order to establish the full working capital requirement by the end of the biennium
- o One half of the outstanding liability for compensated absences has been added to the fixed costs in order to build it into the fund balance by the end of the biennium

If the legislature approves the rates for the PDC as requested, it anticipates charging for courses based on the schedule shown on Figure 23B.

Figure 23B Professional Development Center 2005 Biennium Course Rate Schedule		
Type of service	Fiscal 2004	Fiscal 2005
Open enrollment courses		
Two-day course, per participant	\$ 155	\$ 160
One-day course, per participant	97	99
Half-day course, per participant	75	77
Eight-day management series	435	445
Six-day management series	380	385
Four-day administrative assistant series	280	285
Contract courses		
Full day of training, flat fee	760	780
Half day of training, flat fee	500	520
Other services		
Consulting or facilitating, hourly fee	55	55
All other services, hourly fee	50	50

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Professional Development Center that result in reductions of expenses totaling \$72,579 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the PDC.

Adjustments included in the rate request are:

- o A net increase totaling \$3,373 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o A reduction of \$80,778 for the biennium to eliminate the labor management training initiative that only applied to the 2003 biennium. This initiative coordinated labor relations training and skill development in order to enhance the long-term relationships between the state and participating unions new proposal DP 2302 Elimination of Service
- o An increase of \$4,826 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Employee Benefits Program (Fund 06559)

Program Description

The Employee Benefits Program is charged with providing state employees, retirees and their families with adequate medical, dental, life and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health and dental plan. Life and long -term care insurance are purchased from private sector vendors. The program contracts with private companies to provide claims processing services, health screening, managed care services and an employee assistance program. The plan serves approximately 31,000 people.

Revenues and Expenses

In fiscal 2002, the Employee Benefit Program had revenues of roughly \$65.3 million from premiums paid by state agencies and employee contributions. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (26.5 percent), \$17.3 million
- o State special revenue (22.1 percent), \$14.4 million
- o Federal special revenue (11.1 percent), \$7.2 million
- o Proprietary funds (6.1 percent), \$4.0 million
- o All other funds (34.2 percent), \$22.4

In fiscal 2002, revenues funded personal services for 12.39 FTE and operating costs. Personal services of \$0.5 million were 0.6 percent of expenses, operating costs were \$2.7 million or 3.5 percent of expenses, and benefits payments made up the remaining \$73.8 million or 95.9 percent of program expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06559	Employee Group Benefits	61010	Dept. of Administration	Employee Benefits				
			actual	actual	actual	budgeted	budgeted	budgeted
			FY00	FY01	FY02	FY03	FY04	FY05
Operating Revenues:								
Fee revenue								
Net Fee Revenue								
			-	-	-	-	-	-
Investment Earnings								
			1,151,083	2,509,402	1,070,094	520,000	520,000	520,000
Securities Lending Income								
			228,542	179,753	146,894	-	-	-
Premiums								
			54,766,288	58,003,135	65,256,315	74,618,200	84,874,481	89,904,363
Other Operating Revenues								
			2,519,194	239,128	574,378	404,600	440,925	513,152
Total Operating Revenues								
			58,665,107	60,931,418	67,047,681	75,542,800	85,835,406	90,937,515
Intrafund Revenue								
			-	-	-	-	-	-
Net Operating Revenues								
			58,665,107	60,931,418	67,047,681	75,542,800	85,835,406	90,937,515
Operating Expenses:								
Personal Services								
			378,056	456,576	492,605	514,118	505,828	506,326
Other Operating Expenses								
			62,566,716	65,380,410	76,399,204	77,928,930	86,192,542	91,283,944
Miscellaneous, operating								
			137,377	152,006	173,142	136,275	267,495	279,194
Miscellaneous, other								
			-	-	-	-	-	-
Total Operating Expenses								
			63,082,149	65,988,992	77,064,951	78,579,323	86,965,865	92,069,464
Intrafund Expense								
			-	-	-	-	-	-
Net Operating Expenses								
			63,082,149	65,988,992	77,064,951	78,579,323	86,965,865	92,069,464
Operating Income (Loss)								
			(4,417,042)	(5,057,574)	(10,017,270)	(3,036,523)	(1,130,459)	(1,131,949)
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets								
			-	-	-	-	-	-
Federal Indirect Cost Recoveries								
			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)								
			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)								
			-	-	-	-	-	-
Income (Loss) Before Operating Transfers								
			(4,417,042)	(5,057,574)	(10,017,270)	(3,036,523)	(1,130,459)	(1,131,949)
Contributed Capital								
			-	-	-	-	-	-
Operating Transfers In (Note 13)								
			-	-	-	-	-	-
Operating Transfers Out (Note 13)								
			-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated								
			25,174,200	21,913,824	16,856,250	6,838,980	3,802,457	2,671,998
Net Income (Loss)								
			<u>(4,417,042)</u>	<u>(5,057,574)</u>	<u>(10,017,270)</u>	<u>(3,036,523)</u>	<u>(1,130,459)</u>	<u>(1,131,949)</u>
Retained Earnings/Fund Balances - June 30								
			20,757,158	16,856,250	6,838,980	3,802,457	2,671,998	1,540,049
60 days of expenses								
			(Total Operating Expenses divided by 6)					
			10,513,692	10,998,165	12,844,159	13,096,554	14,494,311	15,344,911

The table for fund 06559 shows the financial data for the fund from fiscal 2000 through fiscal 2005. Operating expenses have consistently been higher than fund revenues from premium payments resulting in ongoing operating losses. This report shows an operating loss of \$10 million in fiscal 2002 and additional losses projected for fiscal 2003 and the 2005 biennium. As a result, the fund balance was roughly equivalent to 32 days of annual expenses.

The primary factor for the fund losses is the growth of medical and prescription drug claims. Medical claim costs are increasing approximately 8 percent annually. Drug claims are increasing 16 percent annually.

The program maintains a substantial reserve to allow it to cover health claims against the self-insured plan. Insurance regulations require a certain reserve to be maintained in order to protect the well being of participants in the plan. In addition, the program maintains a reserve to cover its pending liability for claims that have been incurred but not reported at any point in time. The program monitors reserve levels closely with the assistance of its benefit consultant to ensure that the plan is complying with the insurance industry's standard practices and requirements.

Rate Explanation

Figure 23C shows the historical rates and rates submitted for legislative approval for the state share of employee group benefits. The proposed rates -- the state contribution for employee insurance coverage - would add \$44 on January 1, 2004, and an additional \$50 on January 1, 2005, per month per employee. The rates for the state share of employee group insurance are not approved in HB 2, but in the state pay plan bill (HB 13). As a component of employee compensation, the state contribution is a subject of collective bargaining.

Rate Description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
State Share (per employee/month)	\$ 285	\$ 295	\$ 325	\$ 366	\$ 410	\$ 460
Change		10	30	41	44	50

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for the Employee Benefits Program that result in increases of expenses totaling \$115,660 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates.

Adjustments included in the rate request are:

- o A net increase totaling \$14,912 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$51,422 for the biennium to add funding to add 0.62 FTE payroll benefits officer to address workload increases from increased customer inquiries that are occurring due to the number and complexity of the different health plans available to state employees
- o An increase of \$49,326 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Payroll Processing (Fund 06563)

Program Description

The Payroll/Benefits Operations Bureau operates the statewide payroll, benefits, and human resources (HR) system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for more than 13,000 state employees in three branches of Montana state government. The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including employee benefits, classification, pay, labor relations, policy, and training.

Revenues and Expenses

In fiscal 2002, the Payroll/Benefits Operations Bureau had revenues of roughly \$360,550 from payroll processing fees paid by state agencies. These revenues were received from the following funding sources in the percentages and

approximate amounts listed:

- o General fund (40.0 percent), \$144,250
- o State special revenue (35.1 percent), \$126,400
- o Federal special revenue (11.3 percent), \$40,700
- o Proprietary funds (10.8 percent), \$39,100
- o All other funds (2.8 percent), \$10,100

In fiscal 2002, revenues funded personal services for 6.00 FTE and operating costs. Personal services of \$248,106 were 65.9 percent of expenses, with operating costs making up the remaining \$128,592 or 34.1 percent of bureau expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06563	Payroll Processing	61010	Dept. of Administration	Payroll/Benefit Operations				
			actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:								
Fee revenue								
	Payroll Processing Fees		308,746	308,745	358,604	367,908	435,310	461,614
	Miscellaneous Payroll Services		-	300	1,943	800	-	-
	Net Fee Revenue		308,746	309,045	360,547	368,708	435,310	461,614
	Investment Earnings		-	-	-	-	-	-
	Securities Lending Income		-	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		338	1,983	98	-	-	-
	Total Operating Revenues		309,084	311,028	360,645	368,708	435,310	461,614
	Intrafund Revenue		-	-	-	-	-	-
	Net Operating Revenues		309,084	311,028	360,645	368,708	435,310	461,614
Operating Expenses:								
	Personal Services		219,231	234,132	248,106	254,646	248,535	248,185
	Other Operating Expenses		126,807	110,498	116,324	102,923	137,718	90,307
	Miscellaneous, operating		10,679	10,775	12,268	11,803	12,760	13,098
	Miscellaneous, other		-	-	-	-	-	-
	Total Operating Expenses		356,717	355,405	376,698	369,372	399,013	351,590
	Intrafund Expense		-	-	-	-	-	-
	Net Operating Expenses		356,717	355,405	376,698	369,372	399,013	351,590
	Operating Income (Loss)		(47,633)	(44,377)	(16,053)	(664)	36,297	110,024
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		-	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Income (Loss) Before Operating Transfers		(47,633)	(44,377)	(16,053)	(664)	36,297	110,024
	Contributed Capital		103,315	103,315	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Retained Earnings/Fund Balances - July 1 - As Restated		6,712	(40,921)	18,017	1,964	1,300	37,597
	Net Income (Loss)		55,682	58,938	(16,053)	(664)	36,297	110,024
	Retained Earnings/Fund Balances - June 30		62,394	18,017	1,964	1,300	37,597	147,621
	60 days of expenses (Total Operating Expenses divided by 6)		59,453	59,234	62,783	61,562	66,502	58,598

The table for fund 06563 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that operating losses in fiscal years 2000 through 2002 have reduced the fund balance to nearly 2 days of annual expenses at the end of fiscal 2002. A projected operating loss for fiscal 2003 would further erode the fund balance. The program has developed rates for the 2005 biennium to build the fund balance to 45 days of working capital.

Rate Explanation

Figure 23D shows the historical rates and rates submitted for legislative approval for the Payroll and Benefits Operations Bureau.

Rate description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Payroll Service Fees (per employee processed per pay period)	\$ 0.99	\$ 0.81	\$ 1.03	\$ 1.05	\$ 1.25	\$ 1.32
Change		(0.18)	0.22	0.02	0.20	0.07
Change from fiscal 2002					0.22	0.29
Percent change from fiscal 2002					21.4%	28.2%

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Payroll and Benefits Operations Bureau expenditures for an increase totaling \$4,064 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on the payroll service fee rate. However, a portion of the rate increase is attributed to accumulating working capital to 45 days.

Adjustments included in the rate request are:

- o A net increase totaling \$5,285 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o A reduction of \$1,221 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Flexible Spending Accounts Program (Fund 06027)

Program Description

The state offers its employees the opportunity to participate in a medical care and a dependent care flexible spending account, which allows them to pay for qualified expenses with pre-tax dollars. The Employee Benefits Bureau contracts with an account administrator whose fees are based on the number of employees participating in the plan. Employees designate a portion of their paycheck to be directed to the flexible spending accounts and are charged a monthly service fee, which is also collected through the payroll process. As participants in the plan incur medical or dependent care costs that are not reimbursed to them through other sources, they file a claim with the administrator who in turn reimburses the participant with funds from the flexible spending accounts maintained by the state, up to the employee's annual election amount. Annual elections that are not claimed are forfeited by the employee, and are retained by the fund to help cover operating costs. The Flexible Spending Account program is accounted for as an enterprise fund.

Revenues and Expenses

In fiscal 2002, the flexible spending account had revenues of roughly \$4.0 million from administrative fees and premiums paid by state employees participating in the plan. Of these revenues, \$101,655 was spent on claim administrator and bank charges, and \$3,636,358 was paid to plan participants in claim reimbursements. The fund had an operating gain of \$223,341 to increase the fund balance in fiscal 2002. The table for fund 06027 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name			
06027	Flexible Spending Accounts	61010	Dept. of Administration	Personnel			
					actual	actual	actual
					FY00	FY01	FY02
					budgeted	budgeted	budgeted
					FY03	FY04	FY05
Operating Revenues:							
Fee revenue							
Administrative Fee Revenue							
					86,044	89,446	87,980
					87,600	111,461	125,883
					<u>86,044</u>	<u>89,446</u>	<u>87,980</u>
					<u>87,600</u>	<u>111,461</u>	<u>125,883</u>
Investment Earnings							
					3,816	5,302	2,643
					3,150	3,600	3,600
Securities Lending Income							
					182	38	48
Premiums							
					3,244,249	3,612,786	3,870,683
					4,266,929	4,532,461	5,072,946
Other Operating Revenues							
					-	-	-
					-	-	-
					<u>3,334,291</u>	<u>3,707,572</u>	<u>3,961,354</u>
					<u>4,357,679</u>	<u>4,647,522</u>	<u>5,202,429</u>
Intrafund Revenue							
					-	-	-
					-	-	-
					<u>3,334,291</u>	<u>3,707,572</u>	<u>3,961,354</u>
					<u>4,357,679</u>	<u>4,647,522</u>	<u>5,202,429</u>
Operating Expenses:							
Personal Services							
					-	-	-
Other Operating Expenses clms, drs in 531000							
					3,160,174	3,640,595	3,636,358
					4,181,812	4,539,865	5,072,937
Miscellaneous, operating all 62800 o/e							
					86,105	91,527	101,655
					87,600	110,611	126,174
Miscellaneous, other							
					-	-	-
					-	-	-
					<u>3,246,279</u>	<u>3,732,122</u>	<u>3,738,013</u>
					<u>4,269,412</u>	<u>4,650,476</u>	<u>5,199,111</u>
Intrafund Expense							
					-	-	-
					-	-	-
					<u>3,246,279</u>	<u>3,732,122</u>	<u>3,738,013</u>
					<u>4,269,412</u>	<u>4,650,476</u>	<u>5,199,111</u>
Operating Income (Loss)							
					88,013	(24,550)	223,341
					88,267	(2,954)	3,318
Nonoperating Revenues (Expenses):							
Gain (Loss) Sale of Fixed Assets							
					-	-	-
Federal Indirect Cost Recoveries							
					-	-	-
Other Nonoperating Revenues (Expenses)							
					-	-	-
					-	-	-
					<u>-</u>	<u>-</u>	<u>-</u>
					<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Operating Transfers							
					88,013	(24,550)	223,341
					88,267	(2,954)	3,318
Contributed Capital							
					-	-	-
Operating Transfers In (Note 13)							
					-	-	-
Operating Transfers Out (Note 13)							
					-	-	-
					-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated							
					28,013	115,631	91,081
					314,421	402,688	399,734
					<u>88,013</u>	<u>(24,550)</u>	<u>223,341</u>
					<u>88,267</u>	<u>(2,954)</u>	<u>3,318</u>
Retained Earnings/Fund Balances - June 30							
					116,025	91,081	314,421
					402,688	399,734	403,052
60 days of expenses							
					(Total Operating Expenses divided by 6)		
					541,046	622,020	623,002
					711,569	775,079	866,519

Rate Explanation

The rate charged to participants in the flexible spending account plans is established through the competitive bid procurement process and contract negotiations with the successful bidder for the claims administration contract. The participant pays these plan administration fees. Figure 23E shows the historical and negotiated fees for fiscal years 2003 through 2004. The fee for fiscal 2005 has not been negotiated.

Figure 23E
Flexible Spending Account
Historical and Planned Rates (for information)

Rate description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Administration fee (per participant/month)	\$ 2.30	\$ 2.30	\$ 2.16	\$ 2.16	\$ 2.16	Not determined

Significant Adjustments for the 2005 Biennium

The executive includes a present law adjustment for flexible spending account expenses of just over \$2.3 million for the 2005 biennium for anticipated claim growth.

State Recruitment Advertising (Fund 06590)

Program Description

The executive recommends adding a new program to consolidate state position vacancy advertisements. The executive recommends funding the costs of advertising via an internal service fund with fees paid by agencies on an allocation based on FTE.

Revenues and Expenses

As this is a new program, there are no historical revenues or expenses to report. The executive anticipates spending a total of \$135,000 each year on newspaper advertisements in Montana's five major newspapers centered on the markets in Missoula, Butte, Great Falls, Helena, and Billings. The advertisements would be published each Sunday and would refer people to the state's Internet web site for detailed information related to each advertised position. The executive anticipates using existing resources to establish contracts with the newspapers and to assemble and transmit the ads to the newspapers. The executive estimates it would take roughly one hour per week to assemble and transmit the ads to the newspapers. These costs would be funded with the general fund portion of the division budget.

Rate Explanation

As stated, the executive recommends allocating the costs of this program on the basis of FTE in each agency, and requests legislative approval of \$12 per FTE per year as the rate for fiscal years 2004 and 2005.

LFD COMMENT	Saving is Undeterminable The cost savings from this request is undeterminable because a separate accounting code does not exist on the state accounting system to record expenditures only for newspaper advertisements for staff recruitment. Savings would result in all agencies by having one advertisement in the Sunday editions of the stated newspapers instead of separate advertisements that repeat much of the same copy text. Savings would also result from only listing the advertised positions instead of descriptions of the positions and their duties.
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Program Description

The Risk Management and Tort Defense Division insures state agencies against risk of loss for property, vehicles, boilers, airports, aircraft, fidelity bonds, and fine arts. The state self-insures against property losses under \$150,000 (\$250,000 for the prison), and claims for general liability, errors and omissions, inland marine, auto liability, and foster care liability. The state also carries full coverage auto insurance on certain state-owned vehicles and on various leased or loaned vehicles. The division also provides risk management and safety training, consultation services, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

Program Narrative

<p>Department of Administration Risk Management & Tort Defense Major Budget Highlights</p>
<ul style="list-style-type: none"> • Premiums charged for insurance increase by \$6.7 million or 84.1 percent in fiscal 2004 and \$7.4 million or 92.6 percent in fiscal 2005 from the fiscal 2002 level
<p>Major LFD Issues</p>
<ul style="list-style-type: none"> • Significant insurance rate increase

Funding

The Risk Management and Tort Defense Division is funded entirely with proprietary funds financed with revenues from premium payments from state agencies.

Proprietary Rates

Program Description

The Risk Management and Tort Defense Division (RMTD) purchases catastrophic commercial property and casualty insurance to cover aviation and property losses that are above self-funded deductibles for state agencies, boards, councils, commissions, and the university system. Through in-house staff and contracted services, the division self-insures general liability, vehicle liability, professional liability, errors and omissions, inland marine, leased/loaned vehicles, and foster care exposures. The Department of Administration accumulates a self-insurance fund to pay for losses, purchase insurance, and fund operations.

The division provides risk management/safety training and consultative services to state agencies to prevent and/or minimize the adverse effects of physical or financial loss. The division also investigates, evaluates, and defends agencies, officers, and employees of the state in tort liability claims and coordinates the adjudication and settlement of claims involving damage to state property.

Revenues and Expenses

In fiscal 2002, the Risk Management and Tort Defense Division had revenues of roughly \$8.0 million from premiums paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (17.6 percent), \$1.4 million
- o State special revenue (18.8 percent), \$1.5 million
- o Federal special revenue (4.3 percent), \$0.3 million
- o Proprietary funds (13.8 percent), \$1.1 million
- o All other funds (45.5 percent), \$3.7 million

In fiscal 2002, revenues funded personal services for 16.00 FTE, operating costs, and insurance claims. Personal services of \$659,000 were 3.7 percent of expenses, operating costs of \$3,985,000 were 22.7 percent of expenses, and insurance claims of \$12,934,000 made up the remaining 73.6 percent of division expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06532	Admin Insurance	61010	Dept. of Administration	Risk Management and Tort Defense

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	260,014	217,271	55,779	50,000	219,346	-
Securities Lending Income	72,608	13,214	1,005	-	-	-
Premiums	6,533,045	6,519,384	8,022,219	8,657,660	14,682,642	15,411,329
Other Operating Revenues	13,765	45,027	47,616	136,629	-	-
Total Operating Revenues	6,879,432	6,794,896	8,126,619	8,844,289	14,901,988	15,411,329
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	6,879,432	6,794,896	8,126,619	8,844,289	14,901,988	15,411,329
Operating Expenses:						
Personal Services	549,095	599,506	658,734	721,240	737,721	738,402
Other Operating Expenses	19,192,679	6,634,228	16,888,890	11,611,259	13,884,504	13,870,774
Miscellaneous, operating	23,047	31,127	27,245	25,783	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	19,764,821	7,264,861	17,574,869	12,358,282	14,622,225	14,609,176
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	19,764,821	7,264,861	17,574,869	12,358,282	14,622,225	14,609,176
Operating Income (Loss)	(12,885,389)	(469,965)	(9,448,250)	(3,513,993)	279,763	802,153
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	(1,405)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	(1,405)	-	-	-
Income (Loss) Before Operating Transfers	(12,885,389)	(469,965)	(9,449,655)	(3,513,993)	279,763	802,153
Contributed Capital	2,306	2,306	-	-	-	-
Operating Transfers In (Note 13)	11,759	19,543	1,150,353	383,885	383,885	383,885
Operating Transfers Out (Note 13)	(316,299)	(331,698)	(436,040)	(361,346)	(361,346)	(361,346)
Retained Earnings/Fund Balances - July 1 - As Restated	(10,579,153)	(23,769,082)	(24,548,896)	(33,284,238)	(36,775,692)	(36,473,390)
Net Income (Loss)	<u>(13,187,623)</u>	<u>(779,814)</u>	<u>(8,735,342)</u>	<u>(3,491,454)</u>	<u>302,302</u>	<u>824,692</u>
Retained Earnings/Fund Balances - June 30	(23,766,776)	(24,548,896)	(33,284,238)	(36,775,692)	(36,473,390)	(35,648,698)
60 days of expenses (Total Operating Expenses divided by 6)	3,294,137	1,210,810	2,929,145	2,059,714	2,437,038	2,434,863

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

	FYE 00	FYE 01	FYE 02	Budgeted FY 03	-----Requested----- FY 04	FY 05	AUTHORITY
Premiums							
General Liability	3,834,842	3,834,842	5,362,500	5,775,000	10,566,132	11,205,485	MCA 2-9-202
Auto Liability/Comp/Collision	1,284,099	1,272,584	1,208,109	1,276,640	1,072,901	1,084,370	MCA 2-9-202
Aviation	122,108	119,962	116,567	154,747	165,728	165,822	MCA 2-9-202
Property/Miscellaneous	1,291,996	1,291,996	1,335,043	1,404,080	2,965,254	2,997,090	MCA 2-9-202
Total Premiums Charged	6,533,045	6,519,384	8,022,219	8,610,467	14,770,015	15,452,767	

The rate objective is to maintain insurance rates sufficient to sustain losses in each year of the biennium equal to the average losses sustained in the last three years.

The table for fund 06532 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows

operating losses in all years except for the 2005 biennium. The improvement in the fund is primarily due to a large projected increase in premiums paid by state agencies, with no increase in total expenses. The fund balance was in a deficit position of \$33.3 million at the end of fiscal 2002 due to two factors: 1) estimated claims liabilities of nearly \$30 million; and 2) a general fund loan of \$4.7 million to provide cash flow..

Each fiscal year the division contracts with an actuarial consulting firm to project the state's estimated unpaid loss and loss adjustment expenses. The actuarial evaluation provides an estimate of the funding that would be necessary if all of the state's claims and lawsuits for prior fiscal years came due at the same time. Actuarial projections of unpaid losses as of June 30, 2002, are \$29.9 million. Actuarial projected future loss costs for fiscal years 2004 and 2005 determined the ultimate projected loss for those fiscal years to be \$10.1 million and \$10.8 million respectively. Since claims and lawsuits are filed at different times and are typically paid out over as many as 10 years, it is not probable that all claims would come due at once. However, recent projections indicate that the state's unfunded insurance liability is increasing.

Rate Explanation

Figure 24A shows the historical rates and rates submitted for legislative approval for the Risk Management and Tort Defense Division.

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
General liability	\$ 3,834,842	\$ 3,834,842	\$ 5,362,500	\$ 5,775,000	\$ 10,566,132	\$ 11,205,485
Auto liability, comprehensive, and collision	1,284,099	1,272,584	1,208,109	1,276,640	1,072,901	1,084,370
Aviation	122,108	119,962	116,567	154,747	165,728	165,822
Property/Miscellaneous	1,291,996	1,291,996	1,335,043	1,404,080	2,965,254	2,997,090
Total Premiums Charged	\$ 6,533,045	\$ 6,519,384	\$ 8,022,219	\$ 8,610,467	\$ 14,770,015	\$ 15,452,767
2003 biennium change from fiscal 2000			22.8%	31.8%		
2005 biennium change from fiscal 2002					84.1%	92.6%

Figure 24A shows that the rates requested for the 2005 biennium are increases of more than 80 percent from the fiscal 2002 rates, which increased by more than 20 percent over the fiscal 2000 rates. The major factors for the rate changes are:

- o Repayment of general fund loan
- o Increased number of exposure units
- o Increased value of assets
- o Unfavorable insurance market conditions due to the downturn in the equity market and the insurance payouts associated with the events of September 11, 2001
- o Inflation in medical costs, attorneys' fees, and court awards

As stated, the division acquired a general fund loan to provide cash flow during fiscal 2002. Revenues are not sufficient to repay this loan and the division anticipates requesting an extension and additional loan proceeds to provide cash flow in fiscal 2003. A portion of the increase is to repay the existing and anticipated new loans.

State agencies own or lease an estimated 9,300 vehicles per year. These vehicles are used for diverse functions including highway maintenance, law enforcement, construction, regulatory activities, and off-road travel. These vehicles are driven several million miles each year in the provision of state services. Additionally, state agencies own and operate 15 airports and 22 aircraft that are used for diverse functions such as law enforcement, game management, transporting state employees, firefighting, and aerial topography. Because of the type of work performed using the vehicles and the distances traveled, the vehicle operations are classified as high insurance risk.

The division currently purchases liability insurance on an excess basis with limits of \$5 million per occurrence and a

deductible of \$1.5 million per occurrence. Terrorist attacks of September 11, 2001, resulted in the losses of hundreds of lives and billions of dollars in aircraft damages. Aviation insurance carriers that have suffered declining investment income in stock markets, no longer had the capacity and surplus to absorb these losses. As a result, the state's aviation insurance premiums are set to increase significantly in the 2005 biennium.

Montana state government operates prisons, hospitals, and institutions; designs and maintains highways; provides law enforcement; supervises parolees; manages natural and wildlife resources; places and supervises foster children; educates students; and provides many other public services that create liability exposure. An increase in the frequency and the severity of general liability claims is attributed, in part, to increased exposure from providing more of these services. This increased exposure is evident by the fact that the division has experienced two of its worst years of loss experience since fiscal 1998.

**LFD
ISSUE**
Significant Rate Increases

Figure 24A shows that the growth of insurance rates over the last two biennia would result in the requests for the 2005 biennium being more than 2.2 times the rates charged in fiscal 2000. Several factors outside Montana's control contribute to this growth. Other factors within the legislature's control could impact the rate of growth for these insurance rates. The 2001 legislature attempted to influence the insurance costs by limiting the rates the division could charge to levels less than requested by the executive. The intent was to encourage the division to work more toward prevention and defending the state during litigation. It's not apparent from the information provided that this encouragement was successful in reducing Montana's insurance liability.

The legislature may wish to request the Risk Management and Tort Division identify:

- The steps taken to reduce state insurance liabilities
- The measures used to monitor the division's efforts and the results achieved from the efforts to reduce insurance liabilities
- The data the division monitors to identify areas of high or increasing risk
- Trends and issues that result in high settlements levels or high volumes of claims payments

The legislature may also wish to consider options besides insurance rates for impacting insurance costs:

- Attempt to reduce liability through tort reform
- Revise personal liability exemptions for state employees to encourage more active prevention efforts
- Other insurance reforms that may limit settlement amounts and nuisance claims against the state

The above options can't be achieved directly through the appropriations process and would require changes to substantive laws. Furthermore, the factors that would influence such change are complex and are not recommended to be done without a great deal of study and public participation. With this the legislature may wish to commission a study of insurance costs and factors that affect or could be controlled to effect changes to the state's liability exposure.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Risk Management and Tort Defense Division expenses totaling \$3.3 million for the 2005 biennium.

Adjustments included in the rate request are:

- A net increase totaling \$68,943 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$3,196,134 for the biennium for increased insurance and surety bond payments to commercial insurance carriers for excess coverage
- An increase of \$48,322 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

**LFD
COMMENT**
Not Proceeding with Purchase of Excess Liability

After the Executive budget was submitted, the executive stated they would not proceed with purchasing an excess liability insurance policy. This decision would reduce the amount of the above stated adjustments to \$2.5 million or 0.8 million less than stated above. This decision is reflected in the rates being requested.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	0.00	7.00	0.00	0.00	7.00	7.00
Personal Services	185,586	77,878	0	263,464	79,318	0	264,904	528,368
Operating Expenses	62,397	(3,869)	4,129	62,657	(2,828)	4,133	63,702	126,359
Local Assistance	1,180	0	0	1,180	0	0	1,180	2,360
Total Costs	\$249,163	\$74,009	\$4,129	\$327,301	\$76,490	\$4,133	\$329,786	\$657,087
General Fund	249,163	74,009	4,129	327,301	76,490	4,133	329,786	657,087
Total Funds	\$249,163	\$74,009	\$4,129	\$327,301	\$76,490	\$4,133	\$329,786	\$657,087

Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage and copies, but excluding office equipment.

Program Narrative

Department of Administration State Tax Appeal Board Major Budget Highlights	
o	General fund budget increases by \$124,161 or 23.3 percent over the 2003 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table State Tax Appeal Board						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 249,163	100.0%	\$ 327,301	100.0%	\$ 329,786	100.0%
Grand Total	\$ 249,163	100.0%	\$ 327,301	100.0%	\$ 329,786	100.0%

The board is funded entirely by the general fund. General fund increases by more than 31 percent each year over the base. The main factor for this increase is a 43 percent vacancy rate in fiscal 2002 and the corresponding increases resulting from fully funding all FTE, except for the vacancy savings imposed by the executive. As stated, the county tax appeal board secretaries are state employees. These secretaries work only when needed, and need is based on the

workload resulting for tax appeals. The executive has stated that tax appeals are expected to increase significantly during the 2005 biennium because of the recently completed property tax reappraisal of classes three, four, and ten properties.

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					86,674					88,173
Vacancy Savings					(10,891)					(10,950)
Inflation/Deflation					554					565
Fixed Costs					(2,302)					(1,267)
Total Statewide Present Law Adjustments					\$74,035					\$76,521
DP 3701 - Per diem and indirect costs	0.00	(26)	0	0	(26)	0.00	(31)	0	0	(31)
Total Other Present Law Adjustments	0.00	(\$26)	\$0	\$0	(\$26)	0.00	(\$31)	\$0	\$0	(\$31)
Grand Total All Present Law Adjustments					\$74,009					\$76,490

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3701 - Per diem and indirect costs - A net reduction of \$57 general fund for the biennium is recommended to provide per diem of \$2,095 per year for board members and to reduce for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency by \$4,247 for the biennium.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation-HB2	37	0.00	4,129	0	0	4,129	0.00	4,133	0	0	4,133
Total	0.00	\$4,129	\$0	\$0	\$4,129 *	0.00	\$4,133	\$0	\$0	\$4,133 *	

New Proposals

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

DP 317 - Indirect Cost Allocation-HB2 - An increase of \$8,262 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.