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	68.50	1.00	(18.50)	51.00	1.00	(18.50)	51.00	51.00
Personal Services	2,767,665	485,690	(756,888)	2,496,467	488,504	(757,277)	2,498,892	4,995,359
Operating Expenses	3,414,705	529,359	(721,774)	3,222,290	478,956	(700,238)	3,193,423	6,415,713
Equipment	0	15,000	25,000	40,000	0	0	0	40,000
Grants	37,857,358	16,835,428	(38,234,502)	16,458,284	14,165,221	(40,248,513)	11,774,066	28,232,350
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$44,039,728**	**$17,865,477**	**($39,688,164)**	**$22,217,041**	**$15,132,681**	**($41,706,028)**	**$17,466,381**	**$39,683,422**
General Fund	1,967,443	237,999	(804)	2,204,638	234,494	(343)	2,201,594	4,406,232
State/Other Special	2,556,211	207,501	0	2,763,712	(805,795)	0	1,750,416	4,514,128
Federal Special	39,516,074	17,419,977	(39,687,360)	17,248,691	15,703,982	(41,705,685)	13,514,371	30,763,062
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$44,039,728**	**$17,865,477**	**($39,688,164)**	**$22,217,041**	**$15,132,681**	**($41,706,028)**	**$17,466,381**	**$39,683,422**

Agency Description

The Department of Commerce is responsible for working with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of infrastructure. The major programs within the department include the Business Resources, Community Development, Montana Promotions, and Housing divisions, as well as the Research and Commercialization program, Montana Board of Investments, and the Montana Facility Finance Authority.

Executive Recommended Legislation

The executive proposes legislation that would eliminate the statutory funding for Research and Commercialization grants. For more information, see the narrative for the Research and Commercialization program within this agency.

The executive proposes legislation that would reduce the allocation of coal severance tax collections into the coal severance tax shared state special revenue account from 7.75 to 4.18, which is 50 percent of the original 8.36 allocation. The Coal Board Local Impact Grant program receives its funding from this account. For more information on the coal severance tax shared account and the local impact grants, see the narrative for the Community Development Division within this agency.

Agency Discussion

Department of Commerce
Major Budget Highlights

- The executive proposes elimination of the statutory appropriation for Research and Commercialization grants and reduction of administrative funding provided in HB 2
- The executive continues statutory funding of economic development programs administered by the Business Services Division
- The executive continues the current statutory collection and allocation of the Lodging Facility Use Tax (bed tax)
- Coal Board grants are reduced by 50.0 percent across the biennium to implement a proposed change to the percent of Coal Severance Taxes statutorily allocated to the Coal Severance Tax Shared State Special Revenue Account

Department of Comme rce
Major LFD Issues

- Research and Commercialization program
  - Lack of benchmarks for success; no clear definition of intended results
  - Program has had minimal time to produce results
  - Majority of funding to Montana University System, which does not in itself create jobs in the private market
  - Program has not been reviewed to determine most effective level of funding
- Certified Communities Program
  - Program was funded without established benchmarks for success, making determination of success difficult
  - Proliferation of certified communities has resulted in a decrease in funding available to individual communities; lack of measures of success makes it difficult to determine the resulting impacts on the program
- Lodging Facility Use Tax (Bed Tax)
  - Bed tax collections continue to increase; the corresponding increase in funding to bed tax recipients is not clearly tied to any increases in services or outcomes expected of the recipients
  - Use of bed tax over past several biennia, including the August 2002 Special Session, indicates a need for a legislative review of the intent for use of the bed tax
  - Numerous possibilities exist for changes in tax structure and allocation of the collections to serve a variety of purposes
- Coal Board Local Impact Grants
  - Reduction in coal severance tax shared account allocations can be expected to significantly alter functions of entities receiving funding from that account
  - Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
  - Local impact grant process is not coordinated with other state programs that could potentially provide funding
  - Executive proposed allocation exceeds official revenue estimates
  - Biennial appropriation to Coal Board may not provide flexibility desired

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.	Grand Total	Total %
Research And Commercialization	$ 176,000	$ -	$ -	$ 176,000	0.4%
Business Resources Division	3,285,954	370,000	6,400,000	10,055,954	25.3%
Montana Promotion Division	-	1,518,341	-	1,518,341	3.8%
Community Development Division	944,278	2,585,787	9,481,200	13,011,265	32.8%
Housing Division	-	40,000	14,877,770	14,917,770	37.6%
Director/Management Services	-	-	4,092	4,092	0.0%
Grand Total	$ 4,406,232	$ 4,514,128	$ 30,763,062	$ 39,683,422	100.0%

Biennium Budget Comparison Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	69.50	(18.50)	51.00	69.50	(18.50)	51.00	68.50	51.00
Personal Services	3,253,355	(756,888)	2,496,467	3,256,169	(757,277)	2,498,892	5,665,927	4,995,359
Operating Expenses	3,944,064	(721,774)	3,222,290	3,893,661	(700,238)	3,193,423	7,120,163	6,415,713
Equipment	15,000	25,000	40,000	0	0	0	47,399	40,000
Grants	54,692,786	(38,234,502)	16,458,284	52,022,579	(40,248,513)	11,774,066	104,439,221	28,232,350
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$61,905,205**	**($39,688,164)**	**$22,217,041**	**$59,172,409**	**($41,706,028)**	**$17,466,381**	**$117,272,710**	**$39,683,422**
General Fund	2,205,442	(804)	2,204,638	2,201,937	(343)	2,201,594	3,760,840	4,406,232
State/Other Special	2,763,712	0	2,763,712	1,750,416	0	1,750,416	5,296,152	4,514,128
Federal Special	56,936,051	(39,687,360)	17,248,691	55,220,056	(41,705,685)	13,514,371	108,215,718	30,763,062
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$61,905,205**	**($39,688,164)**	**$22,217,041**	**$59,172,409**	**($41,706,028)**	**$17,466,381**	**$117,272,710**	**$39,683,422**

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	Fiscal 2004					Fiscal 2005				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2 - Section 8 Housing Funding Shift										
74	(19.50)	0	0	(39,767,604)	(39,767,604)	(19.50)	0	0	(41,745,884)	(41,745,884)
DP 3 - Restore 1.00 FTE Cobb Amendment HB 2										
50	1.00	32,098	0	0	32,098	1.00	32,057	0	0	32,057
DP 4 - Restore 1.00 FTE Cobb Amendment HB 2										
74	1.00	0	0	35,244	35,244	1.00	0	0	35,199	35,199
DP 8 - HOME Project Administration Software HB 2										
74	0.00	0	0	45,000	45,000	0.00	0	0	5,000	5,000
DP 8001 - Research & Commercialization Legislation										
50	(1.00)	(32,902)	0	0	(32,902)	(1.00)	(32,400)	0	0	(32,400)
Total	**(18.50)**	**($804)**	**$0**	**($39,687,360)**	**($39,688,164)**	**(18.50)**	**($343)**	**$0**	**($41,705,685)**	**($41,706,028)**

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	1.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00
Personal Services	83,224	(25,374)	(3,048)	54,802	(25,508)	(3,048)	54,668	109,470
Operating Expenses	37,383	(6,429)	2,244	33,198	(6,756)	2,705	33,332	66,530
Total Costs	**$120,607**	**($31,803)**	**($804)**	**$88,000**	**($32,264)**	**($343)**	**$88,000**	**$176,000**
General Fund	120,607	(31,803)	(804)	88,000	(32,264)	(343)	88,000	176,000
Total Funds	**$120,607**	**($31,803)**	**($804)**	**$88,000**	**($32,264)**	**($343)**	**$88,000**	**$176,000**

Program Description

The Board of Research and Commercialization Technology was created by the 1999 Montana Legislature to: 1) provide a predictable and stable source of funding for research and commercialization projects; 2) expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state economy; and 3) expand research efforts into areas beyond the scope of the basic industries to diversify and strengthen economic security through the creation of technology-based operations and long-term quality jobs.

The board has the statutory authority to make grants or loans to research and commercialization centers if the projects to be funded:

- Have potential to diversify or add value to a traditional basic industry of the state economy
- Show promise for enhancing technology-based sectors or commercial development of discoveries
- Employ or take advantage of existing research and commercialization strengths
- Have a realistic and achievable project design
- Employ an innovative technology
- Are located in the state
- Have a qualified research team
- Have scientific merit based on peer review
- Include research opportunities for students

Program Narrative

Research and Commercialization Program Major Budget Highlights

- The executive proposes elimination of the statutory appropriation for Research and Commercialization grants and reduction of administrative funding provided in HB 2

Major LFD Issues

- Lack of benchmarks for success; no clear definition of intended results
- Program has had minimal time to produce results
- Majority of funding to Montana University System, which does not in itself create jobs in the private market
- Program has not been reviewed to determine most effective level of funding

Background

The 1999 legislature passed HB 260, which established the Board of Research and Commercialization. HB 1, passed in the May 2000 special session, funded grants from the board at $4.85 million per year through the 2005 biennium. Administrative costs are appropriated in HB 2. In the August 2002 special session, the legislature reduced the statutory transfer of general fund into the Research and Commercialization Special Revenue Account from $4.85 million each year to $3.165 million in fiscal 2003 and $3.65 million in fiscal 2004 and 2005. This implemented a $1.2 million reduction each year, in addition to a $485,000 reduction in fiscal 2003 to implement the Governor's previously ordered expenditure reductions.

For the 2005 biennium, the executive proposes to eliminate the statutory appropriation for Research and Commercialization grants. The executive proposes to fund administrative costs for the program in HB 2 with $88,000 general fund each year of the biennium for program oversight, including maintenance and monitoring of previously-awarded grants. This program was to sunset at the end of fiscal 2005; therefore, the executive proposal eliminates the program one biennium earlier.

The program has been active for three cycles. Over the course of issuing three requests for proposals (RFP) and approving projects out of those RFPs, the board has approved 43 projects and committed $10.9 million in total. Figure 1 provides a breakout of the projects funded to the Montana University System (MUS), private non-profit organizations, and private for-profit organizations.

As Figure 1 shows, the major beneficiary of this program has been the MUS with 36 of the approved projects and over 88.0 percent of the grant funding. It should be noted here that for-profit organizations were not eligible for funding until the second RFP, due to a statute change eliminating the requirement for a private organization to be non-profit. Figure 1 also shows the matching funds used by these projects. Through the course of the program, Research and Commercialization funds have matched over $15.8 million in federal funds.

Figure 1
Research and Commercialization
Grants Distribution

Grantee Affiliation	Projects Funded	Grants Awarded (millions)	Matching Funds (millions)
MUS	36	$9.6	$14.4
Private, Non-Profit	2	0.7	0.9
Private, For-Profit	5	0.6	0.6
Total	43	$10.9	$15.9

Statute states that funds provided for the program are "intended to enhance the economic growth opportunities for Montana." The program has no statutory benchmarks or standards of success that it is directed to achieve, nor is there a definition of what results qualify as "enhancing economic growth opportunities." The statutory criteria for applicant review provide an idea of the type of project desired, but do not identify what determines a successful project upon completion, at least in the context of determining the overall success of the program.

Evidence of success provided by the department and program supporters includes the number of jobs created through the funded projects, the amount of matching funds pulled in by projects, and the number of funded projects which have resulted in commercialization. As of November 21, 2002, five projects had resulted in commercialization directly related to the research funded. No economic impact data for those projects has been provided. Other than those projects, the only tangible result of the program, to date, appears to be the funding of research positions and projects, which, at least initially, primarily benefits only the recipients of the funds.

The department states "Initial program success will be measured by the successful completion of the first round of projects in 2003. Long-term success will be measured by the positive impacts on the state's economy." It is understandable that many economic impacts of the funded projects may take years to fully develop. If continuation of the program is to be based on certain standards of success, the legislature may wish to identify a timeline for attainment of those standards in order to fairly assess program results.

There are four primary issues when analyzing the Research and Commercialization program:

- The program was created with no benchmarks for success or clear definition of intended results. That lack of benchmarks provides a challenge when trying to ascertain whether the program is accomplishing what was originally intended. The department has provided data and anecdotal evidence on the successes of the program. How the funded projects and results meet the intent provided is a vague comparison with no real standard for making that decision
- Under current law, the program sunsets at the end of fiscal 2005. The program has had a minimal amount of time in which to produce tangible results in several areas the legislature may desire to measure, such as permanent jobs created, tax income (individual/corporate) created, and sales revenue associated with the commercialized technology
- Most funds are awarded to the MUS, which does not necessarily result in the creation of new jobs in the private market
- The level of funding is not directly based on a survey of need or a "balance" of funding only projects with a specific projected level of success. There has not been a review of the program funding level since the program was created

Options:

- Accept the executive recommendation to eliminate the program and provide administrative funding in HB 2, but fund that position as one-time-only and amend statue to include requirements for specific reporting on certain measures of success, such as the economic impact of successful commercialization, permanent jobs created, dollar amount of matching funds created, or other legislatively-determined criteria
- Continue to fund the program at the level currently established in law, but amend statute to require certain measures of success. These measures could include the economic impact of successful commercialization, permanent jobs created, dollar amount of matching funds created, or other legislatively-determined criteria. This statute change should also include a timeline for establishing program success, and could include extending the program based upon a determination of success
- Do not eliminate the program, but place the funding on 'hold' for the 2005 biennium to allow further time for the program to produce measurable results in meeting standards established by the legislature
- Fund the program at a lower level, based on a review of funded projects to date and a legislative determination of a new cutoff level for project awards, based on changing or adding criteria for applicant review. Such criteria changes could include: requiring a certain level of matching funds or requiring the creation of new jobs. This option would require a statute change
- Fund the program at a lower level, but require a pay back to help fund administrative and grant costs. This option would require a statute change
- Other legislature-determined option, including some/none of the recommendations above

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
Research And Commercialization

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	$ 120,607	100.0%	$ 88,000	100.0%	$ 88,000	100.0%
Grand Total	$ 120,607	100.0%	$ 88,000	100.0%	$ 88,000	100.0%

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

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					(26,139)					(26,278)
Vacancy Savings					(2,283)					(2,278)
Inflation/Deflation					36					79
Fixed Costs					(1,136)					(1,361)
Total Statewide Present Law Adjustments					**($29,522)**					**($29,838)**
DP 11 - Administrative Cost Adjustments HB 2	0.00	(2,281)	0	0	(2,281)	0.00	(2,426)	0	0	(2,426)
Total Other Present Law Adjustments	**0.00**	**($2,281)**	**$0**	**$0**	**($2,281)**	**0.00**	**($2,426)**	**$0**	**$0**	**($2,426)**
Grand Total All Present Law Adjustments					**($31,803)**					**($32,264)**

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 11 - Administrative Cost Adjustments HB 2 - The executive proposes to decrease general fund by approximately $2,000 each year for the following adjustments:

- Remove one-time moving costs from the base
- Carry forward base year expenditures for per diem and overtime (zero-based)
- Increased rent due to the move from the Capital Complex into the former Federal Building
- Decreased expenditures for agency indirect charges

LFD ISSUE

The Board of Research and Commercialization is established in 2-15-1819, MCA. Responsibilities of the board, as outlined in 90-3-1003, MCA, are limited to activities culminating in the award of grants. For the 2005 biennium, the executive proposes to eliminate all grant funding for the Research and Commercialization Program, effectively removing the need for a Board of Research and Commercialization. If the Board of Research and Commercialization is eliminated, per diem expenditures can be eliminated from this request.

Options:

- Request legislation eliminating the Board of Research and Commercialization and do not fund per diem costs in this decision package
- Approve the executive proposal as presented

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

New Proposals

Program	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
DP 3 - Restore 1.00 FTE Cobb Amendment HB 2										
50	1.00	32,098	0	0	32,098	1.00	32,057	0	0	32,057
DP 8001 - Research & Commercialization Legislation										
50	(1.00)	(32,902)	0	0	(32,902)	(1.00)	(32,400)	0	0	(32,400)
Total	**0.00**	**($804)**	**$0**	**$0**	**($804)**	**0.00**	**($343)**	**$0**	**$0**	**($343)**

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 3 - Restore 1.00 FTE Cobb Amendment HB 2 - The executive requests approximately $32,000 general fund in each year of the biennium to restore 1.0 FTE eliminated by boilerplate language in HB 2. This language eliminated 1.0 FTE only, leaving the funding, but directed that the FTE was not to be funded in the executive present law budget. Therefore, this FTE is being restored in this decision package. This FTE would establish a currently modified program specialist position that supports the board and the executive director as permanent.

DP 8001 - Research & Commercialization Legislation - This decision package implements executive-proposed legislation that eliminates the Board of Research and Commercialization, the Research of Commercialization program, and its statutory funding. This decision packages eliminates 1.0 FTE and reduces general fund by approximately $33,000 each year of the biennium. The net result of this decision package, in combination with DP 3, is to fund the program with $88,000 each year for program administration, including the maintenance and monitoring of grants previously awarded by the board.

LFD ISSUE

The net result of DP 3 and DP 8001, when placed together, is to continue the program as funded in the adjusted base, including the continuation of the 1.0 FTE program administrator position. Therefore, if the legislature wishes to accept the executive proposal to eliminate the statutory funding but retain 1.0 FTE to manage and monitor previously awarded grants, it has two options:

- Do not approve either DP 3 or DP 8001
- Approve both DP 3 and DP 8001

LFD COMMENT

For more information on the Research and Commercialization program, please see the program issues section of this narrative.

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	26.50	0.00	0.00	26.50	0.00	0.00	26.50	26.50
Personal Services	1,023,661	281,864	0	1,305,525	283,368	0	1,307,029	2,612,554
Operating Expenses	1,538,165	63,440	0	1,601,605	58,728	0	1,596,893	3,198,498
Grants	2,122,451	0	0	2,122,451	0	0	2,122,451	4,244,902
Transfers	0	0	0	0	0	0	0	0
Total Costs	**$4,684,277**	**$345,304**	**$0**	**$5,029,581**	**$342,096**	**$0**	**$5,026,373**	**$10,055,954**
General Fund	1,455,744	188,837	0	1,644,581	185,629	0	1,641,373	3,285,954
State/Other Special	178,014	6,986	0	185,000	6,986	0	185,000	370,000
Federal Special	3,050,519	149,481	0	3,200,000	149,481	0	3,200,000	6,400,000
Total Funds	**$4,684,277**	**$345,304**	**$0**	**$5,029,581**	**$342,096**	**$0**	**$5,026,373**	**$10,055,954**

Program Description
The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, economic and community development partners, other department divisions, state agencies, and federal and private programs; the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts. Bureaus and programs within the division include:

- Census and Economic Information Center (CEIC)
- Trade and International relations Bureau
- Regional Development Bureau
- Small Business Development Center Bureau

Program Narrative

Business Resources Division
Major Budget Highlights

- Executive continues funding of economic development programs at fiscal 2002 levels, including statutory and HB 2 funded program

Major LFD Issues

- Certified Communities Program
  - Program was funded without established benchmarks for success, making determination of success difficult
  - Proliferation of certified communities has resulted in a decrease in funding available to individual communities; lack of measures of success make it difficult to determine the resulting affects on the program

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
Business Resources Division

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	$ 1,455,744	31.1%	$ 1,644,581	32.7%	$ 1,641,373	32.7%
02090 Business Asst-Private	45,361	1.0%	45,000	0.9%	45,000	0.9%
02191 Montana Capitol Co. Act	14,709	0.3%	15,000	0.3%	15,000	0.3%
02210 Microbusiness Admin Acct	117,944	2.5%	125,000	2.5%	125,000	2.5%
03059 Community Development Block	2,248,408	48.0%	2,250,000	44.7%	2,250,000	44.8%
03061 Eda Revolving Loan Fund	21,867	0.5%	100,000	2.0%	100,000	2.0%
03075 Sba Microloan	135,962	2.9%	145,000	2.9%	145,000	2.9%
03207 Small Business Dev. Centers	520,367	11.1%	550,000	10.9%	550,000	10.9%
03671 Sba Fast Program	43,913	0.9%	70,000	1.4%	70,000	1.4%
03956 Sba Innovative Research Prgm	80,002	1.7%	85,000	1.7%	85,000	1.7%
Grand Total	$ 4,684,277	100.0%	$ 5,029,581	100.0%	$ 5,026,373	100.0%

The Business Resources Division is funded by a combination of 23.0 percent general fund, 4.0 percent state special revenue, and 73.0 percent federal funds. General fund in the program supports the following:

- CEIC
- Regional Development
- Trade and International Relations
- State match for administrative costs associated with Small Business Development Center funding

Figure 2 shows the allocation of general fund in the executive request.

Community development block grants and Small Business Development Centers are primarily funded with federal funds, with state special revenue from private industry partnering providing a portion of the funding.

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

Figure 2
Business Resources Division
HB2 General Fund Allocation

Bureau	Fiscal 2004	Fiscal 2005
CEIC	$373,737	$373,714
Regional Development	709,011	708,424
SBDC	194,657	192,382
Trade	367,176	366,853
Total	$1,644,581	$1,641,373

Present Law Adjustments

	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					331,078					332,746
Vacancy Savings					(54,093)					(54,257)
Inflation/Deflation					2,075					2,406
Fixed Costs					(10,848)					(18,213)
Total Statewide Present Law Adjustments					**$268,212**					**$262,682**
DP 12 - Administrative Costs Adjustments HB0002	0.00	77,092	0	0	77,092	0.00	79,414	0	0	79,414
Total Other Present Law Adjustments	**0.00**	**$77,092**	**$0**	**$0**	**$77,092**	**0.00**	**$79,414**	**$0**	**$0**	**$79,414**
Grand Total All Present Law Adjustments					**$345,304**					**$342,096**

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 12 - Administrative Costs Adjustments HB0002 - The executive requests a general fund increase of approximately $80,000 each year for the following:

- Increased rent due to moving into the Old Federal Building ($100,000 each year)
- Carry forward base year expenditures for overtime (zero-based) ($5,000 each year)
- Increased expenditures for agency indirect charges ($34,000 each year)
- Remove one-time moving costs from the base ($57,000 reduction each year)
- General reductions to meet agency general fund target ($3,700 reduction each year)

LFD COMMENT For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Program Issues
The Business Resources Division administers several statutorily-funded economic development programs. HB 1, passed in the May 2000 special session, included funding for business recruitment, a small business development center, small business innovative research, Certified Communities, the Montana Manufacturing Extension Center at MSU-Bozeman, and export trade enhancement activities. HB 1 funded these activities through the 2005 biennium.

HB 10, passed in the August 2002 special session, eliminated the funding for the Certified Communities program in fiscal 2003, but did not change the funding for fiscal 2004 and 2005.

Figure 3 provides a breakout of the annual funding allocated to these programs for the 2005 biennium.

Figure 3
Business Resources Division
Statutory Funding

Program	Annual Funding
Small Business Development Center	$ 125,000
Small Business Innovative Research Program	50,000
Certified Communities Program	425,000
Montana Manufacturing Extension Center	200,000
Export Trade Enhancement	300,000
Total Funded	$1,100,000

Small Business Development Centers
The stated mission of the Montana Small Business Development Center (SBDC) program is "to help start-up and existing businesses to prosper by providing information and assistance through quality one-on-one counseling and training." The program's lead center is based in Helena, with local subcenters based in 10 major Montana communities.

The program is funded with $500,000 of federal Small Business Administration (SBA) funds, approximately $200,000 (including the $125,000 statutory appropriation) in general fund, which funds the required state match portion of administrative costs, and local match funds ($221,000 in fiscal 2003). Per conversation with the SBA, the state match currently funded and proposed represents the minimum level of match. Funds spent in other programs and local match funds are ineligible to meet state match requirements. Elimination of the direct state match funding would result in the loss of the entire amount of SBA funding.

As stated in the mission, the program focuses on both start-up and existing businesses, and strives to provide the following services:

- Individualized counseling (main service)
- Individualized training (main service)
- Information research (secondary service)
- Libraries and resource materials (secondary service)
- Assistance to businesses attending trade shows (secondary service)

Topics covered by the individual counseling and training sessions may include business plan preparation, starting a business, financial planning, market research & analysis, loan packaging, accounting, promotion and selling, and management skills. In calendar year 2001, 1,283 clients were counseled individually by the Montana SBDC network, and an additional 1,581 clients attended training sessions provided by the SBDC network.

There are no comparable state-funded programs in Montana for businesses to receive these services, although there are a variety of private services available. Therefore, reducing or eliminating general fund would result in a loss of service only to those clients currently served by the SBDC program who could not afford private counseling and training.

Small Business Innovative Research Program

By law, federal agencies with an external research and development budget over $100 million are required to set aside 2.5 percent of that budget for a Small Business Innovative Research Program (SBIR) program. Currently, 10 federal agencies participate in SBIR programs. The Montana SBIR program is designed to help for-profit businesses in Montana take advantage of federal funding within federal SBIR programs, by providing technical assistance to those businesses competing for grants.

The SBIR program is funded with approximately $50,000 of federal Rural Outreach funds, $35,000 of Federal and State Technology (FAST) funds, and $50,000 of general fund. The general fund is used as the required state match portion of the administrative costs of the program. Elimination of the state match funding would result in the loss of at least $50,000 federal funds.

In calendar year 2000, 24 Montana companies were awarded over $5 million in grants. In calendar year 2001, 35 companies were awarded over $11 million in grants.

Certified Communities

90-1-116, MCA provides the mechanism for the state to provide economic development grants to communities on a matching grant basis of $1.00 state funds to $1.00 local funds. The purpose of the Certified Communities program as defined by the department is "to establish and maintain an active network of trained communities that are prepared to respond quickly and efficiently to economic development opportunities." The statutory $425,000 is the sole source of state funding for the program, with approximately $38,000 of that being spent for contract administration. There are currently 65 Certified Community lead organizations, with some of those organizations representing several smaller communities, leaving an average of less than $6,000 in state funding per community. In the August 2002 special session, the legislature eliminated the fiscal 2003 funding for the Certified Communities program, while fiscal 2004 and 2005 funding was left intact. The main reason cited for eliminating the fiscal 2003 funding was that the growing number of certified communities had resulted in a 'watering-down' of the funding available to communities, and therefore had weakened the individual and overall support the program was able to provide. For the 2005 biennium, the executive proposes no changes. Funding for the program sunsets at the end of fiscal 2005.

Elimination of the funding will not eliminate the standing of organizations already certified, nor their authority to still function as an independent organization to promote economic development within their area of responsibility. Additionally, elimination of state funding does not on its own alter the funding available to the communities as matching funds, although the elimination of state funding could cause entities pledging matching funds to withdraw support.

There are two primary issues when analyzing the Certified Communities program:

- The program was funded without statutory benchmarks for success, which provides a challenge for the legislature when determining whether to continue the program
- The reduction in available grants to each community has potentially altered the program's affects on communities from those results intended when the statutory appropriation was created. Without benchmarks for success, this is difficult to determine

Options:

- Eliminate the program. This option would require a statute change
- Continue the program, but amend statute to provide benchmarks for success such as: number of communities certified, percentage of matching funds leveraged, or number of jobs created

Montana Manufacturing Extension Center (MMEC) at MSU-Bozeman

While funding for this program is appropriated to the Department of Commerce for the purpose of transferring to the MMEC, this program is in actuality a Montana University System program.

The goal of the MMEC is for its engineers to bring real-world manufacturing experience, a wide variety of specialized skills, and progressive management experience to manufacturing clients throughout Montana, through consulting and counseling. There are currently five field engineers located in Billings, Bozeman, Helena, Missoula, and Kalispell.

The MMEC operates on $480,000 of federal National Institute of Standards and Technology funds, and $200,000 of state funds.

Export Trade Enhancement

The Office of Trade and International Relations works to identify opportunities for worldwide and domestic trade and to provide representation, information, and technical assistance to Montana businesses wishing to diversify their customer base, with an additional benefit of increasing the sales of Montana products and services. The program coordinates the activities of the state's overseas offices in Taiwan and Japan, manages the Made in Montana program, coordinates international cultural and educational exchange programs, and serves as the protocol office for the Governor's office. The program works closely with the product promotion efforts of Travel Montana and the Department of Agriculture.

The Office of Trade and International Relations does not operate solely on the $300,000 statutory general fund appropriation. Additionally, the program receives approximately $80,000 of general fund appropriated to the Business Resources Division in HB 2, and historically has been allocated a portion of Accommodations Tax funding ($200,000) from Travel Montana and Growth Through Agriculture funding ($90,000) from the Agricultural Development Council.

LFD COMMENT

The executive budget is balanced based on the assumed passage of several pieces of legislation to be introduced in the 2003 session. One proposal for legislative consideration is the reduction of the statutory general fund appropriation to the Growth Through Agriculture program, administered by the Department of Agriculture, from $1.25 million each year, to $625,000 each year. This reduction in funding could result in reduction or elimination of the Growth Through Agriculture support to the Trade and International Relations program.

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	654,172	114,169	0	768,341	95,828	0	750,000	1,518,341
Total Costs	**$654,172**	**$114,169**	**$0**	**$768,341**	**$95,828**	**$0**	**$750,000**	**$1,518,341**
State/Other Special	654,172	114,169	0	768,341	95,828	0	750,000	1,518,341
Total Funds	**$654,172**	**$114,169**	**$0**	**$768,341**	**$95,828**	**$0**	**$750,000**	**$1,518,341**

Program Description

The Montana Promotion Division works toward increased visitor travel and expenditures, and the filming of motion pictures and commercials in the state. It does this through consumer advertising, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The division is funded primarily by the statutorily-appropriated Lodging Facility Use Tax and uses these monies to provide training and assistance to the Montana tourism industry, administer and distribute infrastructure grants, and oversee expenditures of six regional non-profit corporations and the nine specific cities where Lodging Facility Use Tax collections exceed $140,000.

Program Narrative

Montana Promotion Division
Major Budget Highlights

- Continuation of statutory appropriations from bed tax collections

Major LFD Issues

- Bed tax collections continue to increase; the corresponding increase in funding to bed tax recipients is not clearly tied to any increases in services or outcomes expected of the recipients
- Use of bed tax over past several biennia, including the August 2002 special session, indicates a need for a legislative review of the intent for use of the bed tax
- Numerous possibilities exist for changes in tax structure and allocation of the collections to serve a variety of purposes

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
Montana Promotion Division

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02116 Accommodation Tax Account	$ 15,149	2.3%	$ 18,341	2.4%	$ -	-
02154 Mt Promotion-Private	639,023	97.7%	750,000	97.6%	750,000	100.0%
Grand Total	$ 654,172	100.0%	$ 768,341	100.0%	$ 750,000	100.0%

Background

In 1987, the Montana legislature created the Lodging Facility Use Tax, more commonly referred to as Montana's "bed tax." This tax equals 4.0 percent of the rate charged by a lodging facility, and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging, and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The bed tax is reported and paid by each lodging facility to the Montana Department of Revenue on a quarterly basis.

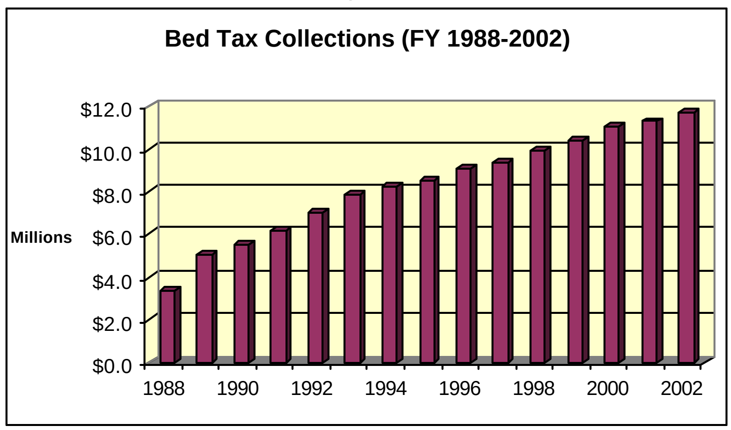
Pursuant to the statement of intent provided by the legislature when it enacted the bed tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, $400,000 is allocated to the Montana Heritage Preservation and Development Account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any bed tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on estimated costs of collecting and disbursing the proceeds from the tax (currently 2.3 percent of collections). The remaining proceeds are statutorily allocated as follows:

- 67.5 percent to the Department of Commerce
- 22.5 percent to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101 (6), MCA
- 6.5 percent to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parks that have both resident and nonresident use
- 2.5 percent to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- 1.0 percent to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historical sites

Of those amounts, the largest share is the 67.5 percent to the Department of Commerce to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue funded in HB 2 to promote the tourism industry in Montana. The January 2002 annual Report on the Montana Tourism Industry breaks Montana Promotion Division spending into the following categories:

- Consumer Marketing - 36.6 percent
- Tourism Development and Superhost - 14.1 percent
- Telemarketing and Fulfillment - 9.2 percent
- Group Conventions and Overseas Marketing - 8.6 percent
- Publications - 7.8 percent
- Information Services - 7.1 percent
- General Administration and Industry Services - 6.5 percent
- Film Industry Promotion - 4.3 percent
- Publicity - 3.7 percent
- Visitor Information Centers - 2.0 percent

Figure 4



Collection and Distribution

Figure 4 below shows bed tax collections since the inception of the Lodging Facility Use Tax in fiscal 1988. Additionally, Figure 5 shows the allocation of the bed tax for the previous five years.

Figure 5
Accommodations Tax Distribution
Fiscal 1998 - Fiscal 2002

	Distribution Basis	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Gross Accommodations Tax Receipts		$10,008,143	$10,420,017	$11,038,724	$11,283,684	$11,720,557
Deptartment of Revenue	(Reimburse travel/cover costs)	$208,034	$312,601	$253,891	$259,525	$269,573
MT Heritage Preservation & Development	Fixed	400,000	400,000	400,000	400,000	400,000
Net Facility Use Tax for Distribution		$9,400,109	$9,707,416	$10,384,833	$10,624,159	$11,050,984
Historical Society	1% of net	$94,001	$97,074	$103,848	$106,242	$110,510
Higher Education	2.5% of net	235,003	242,685	259,621	265,604	276,275
Fish, Wildlife, & Parks	6.5% of net	611,007	630,982	675,014	690,570	718,314
Department of Commerce						
For Department Use	67.5% of net	$6,345,073	$6,552,506	7,009,762	$7,171,307	7,459,414
For Distribution to Regions and Cities	22.5% of net	2,115,024	2,184,169	2,336,587	2,390,436	2,486,471

Bed tax proceeds are automatically distributed according to statute. Therefore, each agency's allocation will increase or decrease each year based on total collections. As shown in Figure 4, over the past nine years, collections have increased an average of 4.0 percent each year. Therefore, so have the allocations to each entity receiving a portion of the bed tax. Due to the statutory allocation of the bed tax, the only limit on agency allocations is the amount of overall revenues collected. Although statute provides the allocation of the funding, it does not specify a certain level of service to be provided by the recipients. Additionally, since funds are not appropriated in HB 2, the legislature often does not thoroughly review expenditures and issues for programs receiving all or a portion of their funding from the bed tax.

Potential for Expanded Use

For several biennia and with expansion in the August 2002 special session, the legislature has included language in HB 2 directing the Department of Commerce to use a portion of the department's allocation of bed tax funding for programs in agencies such as the Montana Historical Society, the Montana Arts Council, and the Museum of the Rockies. Similar language is recommended by the executive for the 2005 biennium. Additionally, the legislature passed HB 18 during the August 2002 special session, directing a transfer in fiscal 2003 of $1.7 million of bed tax revenues into the general fund. The transfer was based on the argument that tourism places certain burdens on community infrastructure, thereby making it appropriate to use a portion of tourism tax funding for purposes such as general fund allocations to local governments.

Consequently, legislative review of the original intent for use of bed tax collections and subsequent updating of that intent is probably warranted. As an example, if the legislature wishes to use a portion of the bed tax collections to address impacts of the travel and tourism industry, it would not be unlike the use of a portion of the Coal Severance Tax collections to fund the Coal Board Local Impact grants. For further information on the Coal Board grants, please see the narrative for the Community Development Division.

As stated above, funding and expectation of level of service are not inextricably tied. Through the history of the bed tax, various legislators have recognized this and unsuccessfully tried to modify the allocation of the bed tax and/or the amount of the tax. Many examples cap the allocations to bed tax recipients at an amount equal the actual allocations during a given year, then de-earmark additional revenues, with or without an increase in the tax. Figure 6 is an example of such a modification to bed tax allocations. In this example, the bed tax would be doubled to 8.0 percent. Individual allocations would be capped at the fiscal 2002 levels and remaining proceeds would be de-earmarked to the general fund. Additionally, impact on the general fund would vary if residents were allowed to claim a tax credit on all or a portion of any bed tax paid.

Figure 6
Lodging Facility Use Tax Calculations

Current Law (Fiscal 2002)		
Current Tax Percentage:	4.00%	
Estimated Resident Portion:	0.4	
Estimated Non-resident Portion:	0.6	
Fiscal 2000 Revenues:	$11,720,557	
Under Current Tax:		
Amounts Paid by State Employees:	$143,205	
Amounts Paid by Residents:	4,630,941	
Amounts Paid by Non-residents:	6,946,411	
Total:	$11,720,557	
Off-the-top Allocation:		
Department of Revenue:	$	126,368
State Employee Deposits to GF:	$	143,205
Heritage Preservation & Devel.:		400,000
Total		$669,573
Remaining Amount for % Allocations:		$11,050,984
Current Percentage Allocations:		
Department of Commerce:	67.5%	$7,459,414
General Fund:	0%	0
Regional Nonprofit Tourism Corps.:	22.5%	2,486,471
Fish, Wildlife and Parks:	6.5%	718,314
Commissioner of Higher Education:	2.5%	276,275
Montana Historical Society:	1.0%	110,510
Total:	100.0%	$11,050,984

Proposed Credit-Keep Current Allocations		
Tax 8%, tax credit on entire tax paid		
New Tax Percentage:	8.00%	
Estimated Resident Portion:	0.4	
Estimated Non-resident Portion:	0.6	
Projected Revenues:	**$23,441,114**	
Under New Tax:		
Amounts Paid by State Employees:	$286,410	
Amounts Paid by Residents:	9,261,882	
Amounts Paid by Non-residents:	13,892,822	
Total:	$23,441,114	
Off-the-top Allocation:		
Department of Revenue:		$126,368
Refund for State Employee Travel:		286,410
Heritage Preservation & Development:		400,000
Total		$812,778
Remaining Amount for Allocation:		**$22,628,336**
New Percentage Allocations:		
Department of Commerce:	33.0%	$7,459,414
General Fund:	51.2%	11,577,352
Regional Nonprofit Tourism Corps.:	11.0%	2,486,471
Fish, Wildlife and Parks:	3.2%	718,314
Commissioner of Higher Education:	1.2%	276,275
Montana Historical Society:	0.5%	110,510
Total:	100.0%	$22,628,336
Reduction in Income Tax Revenue:	($7,872,599)	
Collections to General Fund:	11,577,352	
Net Impact to general fund:	**$3,704,753**	

Proposed Credit-Keep Current Allocations		
Tax 8%, tax credit on 4% increase		
New Tax Percentage:	8.00%	
Estimated Resident Portion:	0.4	
Estimated Non-resident Portion:	0.6	
Projected Revenues:	**$23,441,114**	
Under New Tax:		
Amounts Paid by State Employees:	$286,410	
Amounts Paid by Residents:	9,261,882	
Amounts Paid by Non-residents:	13,892,822	
Total:	$23,441,114	
Off-the-top Allocation:		
Department of Revenue:		$126,368
Refund for State Employee Travel:		286,410
Heritage Preservation & Development:		400,000
Total		$812,778
Remaining Amount for Allocation:		**$22,628,336**
New Percentage Allocations:		
Department of Commerce:	33.0%	$7,459,414
General Fund:	51.2%	11,577,352
Regional Nonprofit Tourism Corps.:	11.0%	2,486,471
Fish, Wildlife and Parks:	3.2%	718,314
Commissioner of Higher Education:	1.2%	276,275
Montana Historical Society:	0.5%	110,510
Total:	100.0%	$22,628,336
Reduction in Income Tax Revenue:	($3,936,300)	
Collections to General Fund:	11,577,352	
Net Impact to general fund:	**$7,641,052**	

Assumptions:
Percentage of taxes paid by MT residents: 40% (ITRR, plus adjustment for business travel)
Percentage of taxpayers to apply for credit: 85%
Assumes increased tax does not lessen number of rooms rented.
Assumes no change in rooms rented due to changes in allocations.
Assumes Department of Revenue costs to collect tax will not increase.

Issues

- Bed tax collections have increased at a rate of 4.0 percent over the past nine years, as have allocations of the bed tax to the recipients indicated in Figure 5. The increase in allocations is not clearly tied to any increases in services or outcomes expected of the recipients. The current statutory allocation puts all collections directly into the hands of entities previously defined as relating to tourism, with no flexibility allowing for other uses
- Allocation of the bed tax should be determined based on a legislative review and determination of a philosophy for use of the collections from that tax
- Based on that determination, there are numerous possibilities for changes in tax structure and allocation of the collections to serve a variety of purposes

Options

- If the legislature wishes to expand use of the bed tax to allow support to other tourism and travel related issues, such as impact on local communities, it could amend statute to alter the tax and distribution structure. Proceeds could be earmarked for local governments or other legislatively-determined uses
- If the legislature wishes to expand use of the bed tax to allow support for other functions not necessarily related to travel and tourism, it could amend statute to alter the tax and distribution structure. Some or all of the proceeds could be de-earmarked to the general fund. If all proceeds are de-earmarked, entities currently funded with the bed tax would compete with other state programs for general fund
- If the legislature wishes to maintain the original intent and current tax and distribution structure, it can take no action

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Fixed Costs					3,192					(15,149)
Total Statewide Present Law Adjustments					**$3,192**					**($15,149)**
DP 15 - Private Funds Adjustment HB 2	0.00	0	110,977	0	110,977	0.00	0	110,977	0	110,977
Total Other Present Law Adjustments	**0.00**	**$0**	**$110,977**	**$0**	**$110,977**	**0.00**	**$0**	**$110,977**	**$0**	**$110,977**
Grand Total All Present Law Adjustments					**$114,169**					**$95,828**

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.

<u>DP 15 - Private Funds Adjustment HB 2 -</u> The executive requests an increase in state special revenue authority to bring funding to a level of $750,000 each year, based on past and projected needs.

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	1.00	0.00	18.00	1.00	0.00	18.00	18.00
Personal Services	732,269	158,840	0	891,109	159,180	0	891,449	1,782,558
Operating Expenses	488,197	160,244	0	648,441	156,587	0	644,784	1,293,225
Equipment	0	0	0	0	0	0	0	0
Grants	5,626,816	(161,327)	0	5,465,489	(1,156,823)	0	4,469,993	9,935,482
Total Costs	**$6,847,282**	**$157,757**	**$0**	**$7,005,039**	**($841,056)**	**$0**	**$6,006,226**	**$13,011,265**
General Fund	391,092	80,965	0	472,057	81,129	0	472,221	944,278
State/Other Special	1,724,025	66,346	0	1,790,371	(928,609)	0	795,416	2,585,787
Federal Special	4,732,165	10,446	0	4,742,611	6,424	0	4,738,589	9,481,200
Total Funds	**$6,847,282**	**$157,757**	**$0**	**$7,005,039**	**($841,056)**	**$0**	**$6,006,226**	**$13,011,265**

Program Description

The Community Development Division works with federal, state, and local governments and the private sector in all areas of community development including public facilities planning and financing, community planning and growth management, subdivision regulation and zoning, housing development for low- and moderate-income families, neighborhood revitalization, needs assessment, coal and hard rock mining mitigation, and project management.

There are three major programs within the bureau: the Community Technical Assistance Program (CTAP), the Community Development Block Grant Program (CDBG), and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board and their respective programs are attached to the bureau for administrative purposes. These five programs, individually and collectively, provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, and private citizens.

Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

Program Narrative

Community Development Division Major Budget Highlights

- Executive reduces Coal Board funding by 50 percent to implement legislative change to allocation of coal severance taxes

Major LFD Issues

- Reduction in coal severance tax shared account allocations can be expected to significantly alter functions of entities receiving funding from that account
- Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
- Local impact grant process is not coordinated with other state programs that could potentially provide funding
- Executive proposed allocation exceeds official revenue estimates
- Biennial appropriation to Coal Board may not provide flexibility desired

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
Community Development Division

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	$ 391,092	5.7%	$ 472,057	6.7%	$ 472,221	7.9%
02015 Tsep Regional Water Systems	-	-	-	-	-	-
02049 Hard Rock Mining	136,582	2.0%	270,040	3.9%	271,024	4.5%
02270 Treasure State Endowment	379,074	5.5%	406,070	5.8%	406,235	6.8%
02340 Coal Sev. Tax Shared Ssr	1,208,369	17.6%	1,114,261	15.9%	118,157	2.0%
03059 Community Development Block	4,732,165	69.1%	4,742,611	67.7%	4,738,589	78.9%
Grand Total	$ 6,847,282	100.0%	$ 7,005,039	100.0%	$ 6,006,226	100.0%

- The Hard Rock Mining Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax
- The CDBG program is primarily funded with federal block grant funds. The general fund provides a HUD-mandated match for a portion of the administrative costs of the program
- TSEP is funded by interest earnings from the permanent Coal Tax Trust
- CTAP is funded through the general fund. CTAP funding also provides the rest of the CDBG program state match required by HUD
- The Coal Board competes with three other programs (Growth Through Agriculture, State Library Commission, and Conservation Districts) for a share of 7.75 percent of Coal Severance Tax collections

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					142,226					142,704
Vacancy Savings					(34,978)					(35,001)
Inflation/Deflation					1,673					1,938
Fixed Costs					(11,927)					(17,340)
Total Statewide Present Law Adjustments					**$96,994**					**$92,301**
DP 5 - Treasure State Endowment 1.00 FTE HB 2	1.00	0	54,867	0	54,867	1.00	0	54,734	0	54,734
DP 6 - Coal Impact Funding HB 2	0.00	0	(161,327)	0	(161,327)	0.00	0	(1,156,823)	0	(1,156,823)
DP 13 - Administrative Cost Adjustments HB 2	0.00	(6,028)	142,161	31,090	167,223	0.00	(5,739)	142,935	31,536	168,732
Total Other Present Law Adjustments	**1.00**	**($6,028)**	**$35,701**	**$31,090**	**$60,763**	**1.00**	**($5,739)**	**($959,154)**	**$31,536**	**($933,357)**
Grand Total All Present Law Adjustments					**$157,757**					**($841,056)**

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.

<u>DP 5 - Treasure State Endowment 1.00 FTE HB 2 -</u> The executive requests additional authority from the Treasure State Endowment state special revenue fund for a 1.00 FTE civil engineer specialist, grade 16. This new position will accommodate increased work load due to an increasing number of TSEP projects and new duties related to funds appropriated for preliminary engineering studies and emergency projects, which will require higher technical

qualifications

LFD COMMENT	Because TSEP administration is funded from the same source as TSEP grants, increasing the administration costs would result in a dollar for dollar reduction in the amount available for grants.

DP 6 - Coal Impact Funding HB 2 - The executive proposes to reduce Coal Board grant funding by 50.0 percent for the 2005 biennium. This decision package is intended to implement executive-proposed legislation that changes the percentage of coal severance taxes allocated to the coal severance tax shared state special revenue account from 7.75 percent to 4.18 percent for the 2005 biennium only. The executive proposes a $1.1 million biennial appropriation in fiscal 2004, and a $118,000 appropriation in fiscal 2005. For further information on this issue, please see the Program Issues narrative at the end of this section.

LFD ISSUE A biennial appropriation from the shared account may not provide the flexibility desired by the Coal Board. As stated above, statute provides for a transfer of any unreserved fund balance out of the shared account and into the general fund at the end of each fiscal year. Therefore, the Coal Board biennial appropriation will compete with all other entities during both years of the biennium. Carrying over the primary balance of the appropriation will not guarantee the Coal Board the ability to spend all of that authority.

LFD ISSUE The executive proposal is based upon the executive projections for total coal severance tax collections. Using the official revenue estimates accepted by the Revenue and Transportation Committee, appropriations exceed revenues by approximately $84,000 during the 2005 biennium. Therefore, the appropriations should be reduced by a like amount.

DP 13 - Administrative Cost Adjustments HB 2 - The executive requests additional state and federal special revenue authority, in addition to decreased general fund authority, for the following adjustments:

- Increased rent due to moving into the Old Federal Building ($73,000 each year)
- Carry forward of base year expenditures for per diem and overtime (zero-based) ($4,000 each year)
- Increased expenditures for agency indirect charges ($13,000 each year)
- Removal of one-time moving costs from the base ($18,000 reduction each year)
- General reductions to meet the agency general fund target ($3,500 reduction each year)

Additionally, the executive requests a restricted $100,000 appropriation from the Hard Rock Mining Impact Reserve state special revenue account. The reserve had no expenditures during the base year; therefore the entire amount is being requested in this adjustment.

LFD COMMENT	For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Program Issues

Coal Severance Tax Shared State Special Revenue Account

The Coal Board is funded from the coal severance tax shared state special revenue account. This account receives its revenues from a portion of coal severance tax collections. At the end of each fiscal year, any unreserved funds are deposited into the general fund. Through fiscal 2002, the shared account received 8.36 percent of all Coal Severance Tax collections. During the August 2002 special session, the legislature decreased that to 6.01 percent, to increase the amount of coal severance tax collections going directly to the general fund, and to 7.75 percent for fiscal 2004 and beyond. The reduction to 7.75 percent was made to account for a change in funding of the County Land Planning function, which was previously funded from the shared account through fiscal 2001. For the 2005 biennium, the executive proposes to reduce the percentage to 4.18, which is half of the original 8.36 percent allocation.

The shared account funds the Coal Board Local Impact Grants, pass-through funding for Conservation Districts, a portion of the Growth Through Agriculture program, and State Library Services through the State Library Commission:

- Conservation Districts throughout Montana use coal tax funds for basic operations and programs administered at the local level
- Five library federations exist throughout the state serving public libraries and public school libraries in their region. Federations use state funds for training, grants, and materials in their regions
- The Growth Through Agriculture program uses funds from the shared account to provide staff assistance, statewide marketing and development, grants, and loans in support of the responsibilities outlined in Title 90, Chapter 9, MCA
- The Coal Board funds successful applications for grants awarded pursuant to 90-6-207, MCA, which provides guidelines for identifying those counties, communities, school districts, or other governmental entities that qualify as 'impacted' through the development, usage, or decline of coal production

Figure 7 shows a comparison of appropriations (fiscal 2003 reduced further for Governor's mandated reductions) for fiscal 2002 through fiscal 2005 to demonstrate the change in funding available to the entities funded from the shared account. It should be noted that although the fiscal 2004 appropriation for the Coal Board grant is close to that in fiscal 2002, it is actually a proposed biennial appropriation, and will only be available as revenues are collected into the shared account.

Figure 7
Allocation of
Coal Severance Tax Shared State Special Revenue Account
By Program
Fiscal 2002-2005

	Fiscal Year			
Program	2002	2003	2004	2005
Percentage Allocation	8.36%	6.01%	4.18%	4.18%
Local Impact (Coal Board) - Dept of Comm.	$1,201,084	$883,136	$1,114,261	$118,157
Conservation Districts - DNRC	757,435	607,435	333,170	324,443
MT Growth Through Ag - Dept of Ag.	386,476	193,473	196,405	191,261
State Library Services - State Lib. Comm.	284,227	214,227	144,038	140,265
Total	$2,629,222	$1,898,271	$1,787,874	$774,126

Coal Board Local Impact Grants

As stated above, the Coal Board awards grants to entities identified as impacted by coal production for projects related to that impact. Recent awards have at least partially funded such projects as: airport construction, water and sewer engineering, irrigation projects, sewer maintenance truck, road construction, school grounds maintenance, and facility construction.

The 2001 legislature appropriated approximately $1.3 million for fiscal 2003 Coal Board grants. Governor Martz' spending reductions combined with reductions during the August 2002 special session left approximately $880,000 for the Coal Board to award in grants. The fiscal 2003 reduction in grants pushed some projects back to compete in fiscal 2004. Similarly, the reductions in the 2005 biennium will further decrease the ability of the board to fund requested projects. To accommodate this reduction, the department states that priority will be given to projects considered as relating to public health and safety, which would leave little funding for other projects. Additionally, this reduction would occur during a time when the coal board is anticipating increased demand for local impact grants due to two coal mining/energy generation development projects (currently in the permitting stage) and three coal and/or energy generation projects currently in the planning stage.

Other Sources of Assistance to Communities

Some of the applications currently awaiting review and/or approval by the Coal Board would potentially qualify for funding from the following programs:

CDBG - CDBG grants can be awarded in the areas of housing, public facilities, planning grants for housing or public facilities, and economic development. Under federal law, eligible applicants are limited to general-purpose local government, i.e. counties, incorporated cities and towns, and consolidated city-county governments. The communities of Billings, Great Falls, and Missoula are ineligible to apply to the State CDBG Program because they receive CDBG funds from a separate HUD allocation for communities with populations over 50,000. Montana's Indian tribes also receive CDBG funds from a separate HUD CDBG Program and are therefore not eligible to apply to the state program.

TSEP - The TSEP program was created to help local governments fund infrastructure projects, defined in statute as drinking water systems, wastewater treatment, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; and bridges. Under statute, qualified projects must also:

- create jobs for Montana residents
- promote economic growth in Montana by helping to finance the necessary infrastructure
- encourage local public facility improvements
- create a partnership between the state and local governments to make necessary public projects affordable
- support long-term, stable economic growth in Montana
- protect future generations from undue fiscal burdens caused by financing necessary public works
- coordinate and improve infrastructure financing by federal, state, local government, and private sources
- enhance the quality of life and protect the health, safety, and welfare of Montana citizens

Water Pollution Control State Revolving Fund (SRF) Loan Program - From the DNRC website:
"The Water Pollution Control SRF was created by the 1989 legislature. It is designed to combine federal grant money with state matching money to create a low-interest loan program that funds community wastewater treatment projects. DNRC and DEQ co-administer the SRF program. The U.S. Environmental Protection Agency (EPA) makes a grant of federal funds to the state. The state must match 20.0 percent of that grant. The state's share is derived from the sale of state general obligation bonds. Loans are made by DNRC to public entities at an interest rate of 4.0 percent for up to 20 years."

Projects competing for Coal Board grant funding that also qualify for one or more of the programs above are not included in the discussion and overall prioritization of projects for those funds. Therefore, it is not known how these projects rank when compared with projects funded by the other programs. If these projects are funded by the Coal Board, as opposed to the other programs, they have subsequently reduced the amount of funding potentially available to those projects that do not qualify for other state programs.

Issues

- The executive proposes to reduce by 50.0 percent the coal severance tax shared account funding allocated to four entities. This reduction can be expected to significantly alter the functions funded with these monies
- Coal Board grant reductions may potentially impact the process during a time of increased need for the grants
- Local impact grant requests that qualify for other state or federal grant programs, are not included in the prioritization process for those programs, and therefore the overall priority compared to other programs is not known
- Local impact grants to projects that qualify for other programs reduce the funding available to local impact requests that do not qualify for other programs

Options

- Accept the executive proposals to reduce the percentage of coal severance taxes allocated to the shared account and reduce the appropriations from the account
- Do not accept the executive proposal and allocate the shared account funds in the same percentage split as fiscal 2002. This option would decrease projected general fund revenues by $2.1 million over the biennium
- Amend statute to adjust individual appropriations to the four entities at legislatively-determined levels
- Additionally, and regardless of funding levels, if the legislature wishes to consolidate the prioritization of infrastructure projects, it could amend statue to allow the Coal Board to only consider projects not qualifying for other state programs

Proprietary Rates

Program Description

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

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

Revenues and Expenses

The MFFA collects interest, fees, and charges paid by participating institutions. By statute, interest, fees, and charges are limited to the amounts required to pay the costs of the MFFA, including operating and administrative expenses, with reasonable allowances for losses, bond financing costs, and making loans.

A 60-day working capital calculation is not reasonably applicable to the MFFA because national bond rating agencies, national bond insurers, and institutional investors expect the MFFA to reserve two years operating capital in order to ensure that it can financially operate between legislative sessions.

MFFA revenues provide funding for 2.0 FTE.

Rate Explanation

Annual planning service fees are paid on the first and succeeding anniversary dates of the sale and issuance of a bond, note, or loan. The annual planning service fee cannot exceed 0.15 percent of the outstanding principal amount of the bonds, notes, or loans. The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume.

Significant Present Law Adjustments

<u>DP 16 - Administrative Costs Adjustments</u> - The executive proposes several adjustments for administrative costs, including per diem, overtime, rent, agency indirect charges, and removal of one-time moving expenses from the base.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06012	Facilities Finance Loan Program	65010	Dept. of Commerce	MT Facilities Finance Authority
06015	Facilities Finance Authority	65010	Dept. of Commerce	MT Facilities Finance Authority

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Fee Revenues	-	-	-	258,000	258,000	258,000
Net Fee Revenue	282,493	265,863	256,489	258,000	258,000	258,000
Investment Earnings	95,806	138,445	69,080	81,150	81,150	81,150
Securities Lending Income	40,210	13,288	824	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	131	-	-	-	-	-
Total Operating Revenues	418,640	417,596	326,393	339,150	339,150	339,150
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	418,640	417,596	326,393	339,150	339,150	339,150
Operating Expenses:						
Personal Services	110,521	109,930	122,677	127,769	120,168	119,887
Other Operating Expenses	122,080	90,537	98,277	140,012	141,386	133,371
Miscellaneous, operating	19,425	18,497	30,504	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	252,026	218,964	251,458	267,781	261,554	253,258
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	252,026	218,964	251,458	267,781	261,554	253,258
Operating Income (Loss)	**166,614**	**198,632**	**74,935**	**71,369**	**77,596**	**85,892**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	200	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	200	-	-	-
Income (Loss) Before Operating Transfers	166,614	198,632	75,135	71,369	77,596	85,892
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,773,580	1,940,194	2,138,826	2,213,961	2,285,330	2,362,926
Net Income (Loss)	166,614	198,632	75,135	71,369	77,596	85,892
Retained Earnings/Fund Balances - June 30	**1,940,194**	**2,138,826**	**2,213,961**	**2,285,330**	**2,362,926**	**2,448,818**
60 days of expenses (Total Operating Expenses divided by 6)	42,004	36,494	41,910	44,630	43,592	42,210

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	24.00	0.00	(18.50)	5.50	0.00	(18.50)	5.50	5.50
Personal Services	928,511	70,360	(753,840)	245,031	71,464	(754,229)	245,746	490,777
Operating Expenses	694,747	197,930	(724,018)	168,659	174,564	(702,943)	166,368	335,027
Equipment	0	15,000	25,000	40,000	0	0	0	40,000
Grants	30,108,091	16,996,755	(38,234,502)	8,870,344	15,322,044	(40,248,513)	5,181,622	14,051,966
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$31,731,349**	**$17,280,045**	**($39,687,360)**	**$9,324,034**	**$15,568,072**	**($41,705,685)**	**$5,593,736**	**$14,917,770**
State/Other Special	0	20,000	0	20,000	20,000	0	20,000	40,000
Federal Special	31,731,349	17,260,045	(39,687,360)	9,304,034	15,548,072	(41,705,685)	5,573,736	14,877,770
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$31,731,349**	**$17,280,045**	**($39,687,360)**	**$9,324,034**	**$15,568,072**	**($41,705,685)**	**$5,593,736**	**$14,917,770**

Program Description

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

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

Program Narrative

Housing Division Major Budget Highlights
o The executive proposes to convert Section 8 program to a proprietary fund, moving it out of HB 2
Major LFD Issues
o None

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
Housing Division

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02541 Affordable House Revolv Loan	$ -	-	$ 20,000	0.2%	$ 20,000	0.4%
02682 Revolving Loan Fund Tanf	-	-	-	-	-	-
03053 Section 8 Hud Assistance	12,620,604	39.8%	-	-	-	-
03054 Hud Section 8 Housing Program	15,784,603	49.7%	-	-	-	-
03300 Home Grants	3,326,142	10.5%	9,304,034	99.8%	5,573,736	99.6%
06030 Boh Financial Program Fund	-	-	-	-	-	-
06031 Housing Trust Fund	-	-	-	-	-	-
06074 Project Based Section 8 Housing	-	-	-	-	-	-
06075 Tennant Based Section 8 Housing	-	-	-	-	-	-
Grand Total	$31,731,349	100.0%	$ 9,324,034	100.0%	$ 5,593,736	100.0%

The HOME Program is funded by an annual categorical federal grant from HUD. Grant funds are distributed using a competitive process to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program. Section 8 Housing Programs are funded under performance-based annual contribution contracts with HUD. The Board of Housing is funded by proprietary (enterprise type) funds derived from an administrative charge applied to mortgages financed and applications received, and no direct appropriations are provided in HB 2.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					106,226					107,308
Vacancy Savings					(41,373)					(41,351)
Inflation/Deflation					3,263					3,777
Fixed Costs					32,638					6,754
Total Statewide Present Law Adjustments					**$100,754**					**$76,488**
DP 7 - Adjust Federal Grants HB 2	0.00	0	0	17,006,091	17,006,091	0.00	0	0	15,331,380	15,331,380
DP 9 - Lead-based Paint Inspections HB 2	0.00	0	0	130,000	130,000	0.00	0	0	130,000	130,000
DP 10 - Replace Database Server - OTO	0.00	0	0	15,000	15,000	0.00	0	0	0	0
DP 14 - Administrative Cost Adjustments HB 2	0.00	0	0	8,200	8,200	0.00	0	0	10,204	10,204
DP 742 - Board of Housing - OTO	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$20,000**	**$17,159,291**	**$17,179,291**	**0.00**	**$0**	**$20,000**	**$15,471,584**	**$15,491,584**
Grand Total All Present Law Adjustments					**$17,280,045**					**$15,568,072**

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 7 - Adjust Federal Grants HB 2 - The executive requests additional federal special revenue authority to bring grants up to the level of the federal budget allocation.

DP 9 - Lead-based Paint Inspections HB 2 - The executive requests additional federal special revenue authority to adjust the base to include costs of HUD required lead-based paint clearance testing in Section 8 Housing programs.

DP 10 - Replace Database Server - OTO - The executive requests additional federal special revenue authority to replace the division's database server in fiscal 2004, due to age and additional system requirements coming in fiscal 2004.

DP 14 - Administrative Cost Adjustments HB 2 - The executive requests additional federal special revenue authority for the following adjustments:

- Increased rent due to moving into the Old Federal Building ($32,000 each year)
- Carry forward of base year expenditures for overtime (zero-based) ($6,000 each year)
- Increased expenditures for agency indirect charges ($13,000 each year)
- Increased data network charges due to increase network connections ($2,000 each year)
- Removal of one-time moving costs from the base ($42,000 reduction each year)

LFD COMMENT For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

DP 742 - Board of Housing - OTO - The executive requests $20,000 in authority from the Affordable Housing Revolving Loan state special revenue fund. House Bill 273 passed by the 2001 legislature transferred $3,415,928 from the Temporary Assistance to Needy Families (TANF) block grant to the affordable housing revolving loan account. Senate Bill 6 passed during the 2002 special session reduced the amount to $700,000. The Housing Division is allowed a 7.0 percent administrative cost reimbursement for each loan made from the TANF funds. This request will allow the board to recover those costs. No loans were made during the base year, and therefore, this request equals the total request for costs.

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2 - Section 8 Housing Funding Shift										
74	(19.50)	0	0	(39,767,604)	(39,767,604)	(19.50)	0	0	(41,745,884)	(41,745,884)
DP 4 - Restore 1.00 FTE Cobb Amendment HB 2										
74	1.00	0	0	35,244	35,244	1.00	0	0	35,199	35,199
DP 8 - HOME Project Administration Software HB 2										
74	0.00	0	0	45,000	45,000	0.00	0	0	5,000	5,000
Total	**(18.50)**	**$0**	**$0**	**($39,687,360)**	**($39,687,360)**	**(18.50)**	**$0**	**$0**	**($41,705,685)**	**($41,705,685)**

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 2 - Section 8 Housing Funding Shift - The executive proposes to remove the Section 8 Housing program from House Bill 2 appropriations and account for it as an enterprise fund. This proposal is made to:

- Comply with Generally Accepted Accounting Principals (GAAP)
- Conform to HUD recognition of the program
- Structure the program similar to Section 8 programs in other states

This request will result in an overall reduction in HB 2 of approximately $40 million in fiscal 2004 and $42 million in fiscal 2005. There will be no requirement for legislative approval of rates because the program will be categorized as an enterprise fund.

LFD COMMENT	Statute requires that the executive budget include an analysis of all enterprise funds in each budget submission. Consequently, if this proposal is approved the department will still be required to present financial and programmatic information to the legislature.

DP 4 - Restore 1.00 FTE Cobb Amendment HB 2 - The executive requests approximately $35,000 in federal special revenue authority in each year of the biennium to restore 1.0 FTE eliminated by boilerplate language in HB 2. This language eliminated 1.0 FTE only, leaving the funding, but directed that the FTE was not to be funded in the executive present law budget. Therefore, this FTE would be restored in this decision package. This FTE would establish as permanent a currently modified position supporting the Project-Based Section 8 Housing program. This position had been intentionally left vacant until workload dictated filling, and has been filled since January 2002.

DP 8 - HOME Project Administration Software HB 2 - The executive requests additional federal authority to replace the current manual program and administration system in the HOME program with an automated software system. This is in response to a recent Legislative Audit Division review of the HOME program (audit 01-13), which recommended improvements to tracking and monitoring processes. The executive requests that $40,000 in fiscal 2004 be designated one-time-only.

Proprietary Rates

Program Description

The Board of Housing is a seven-member quasi-judicial board appointed by the Governor and is administratively attached to the Department of Commerce. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing programs. These programs include the Single Family, Recycled Single Family, Multifamily Loan, Low Income Housing Tax Credit, and the Reverse Annuity Mortgage (RAM) programs. Additionally, the board administers the Affordable Housing Revolving Loan Fund.

The Board of Housing is funded by proprietary funds derived from an administrative charge applied to projects and mortgages financed. Under the Montana Housing Act of 1975, the board does not receive any general fund, and is completely self-supporting.

Revenues and Expenses

- The Single Family Program earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds (1.5 percent on pre-1980 programs and 1.125 percent on post-1980 programs). The board also charges a reservation fee of 0.5 percent of the loan amount reserved. Extension fees of 0.25 percent of the loan amount and late fees of 0.5 percent of the loan amount are also occasionally charged
- The Multifamily Program can earn a 1.5 percent spread between the mortgage yield and the bond yield. Under the Multifamily Program, the board can also charge a reservation fee on new loans of up to 1.0 percent of the principal balance
- The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges $20.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program
- The board charges an interest rate from 2.0 to 6.0 percent on Housing Revolving Loan Account loans
- The Reverse Annuity Mortgage program allows elderly homeowners to receive monthly payments for 10 years to assist them with their living expenses. The loans accrue interest at 5.0 percent

In fiscal 2002, the board earned approximately $10,801,278 on its investments. Additionally, the board's mortgage income during the last five years has continued to increase, and the board has continued to issue bonds each year to originate new mortgages. During fiscal 2000, 2001 and 2002, the board issued bonds in the amounts of $88 million, $143 million, and $39 million, respectively. The board anticipates that mortgage revenue will continue to increase during the next biennium as the board continues to originate loans with prepayments, excess revenues and bond proceeds.

Operations for the next biennium are anticipated to be approximately $5.2 million for fiscal 2004 and $5.6 million for fiscal 2005. Operating expenses include servicer fees, board operating expenses, and personal services. Board functions include purchasing mortgage loans, receiving repayments and prepayments, investing funds, and issuing and redeeming bonds. The board operates with a staff of 19.00 FTE.

Significant Present Law Adjustments

DP 17 - Administrative Costs Adjustments - The executive adjusts for administrative costs, including per diem, overtime, trustee fees, legal fees, foreclosure fees, added network connections, rent, software, equipment, agency indirect costs, and removal of one-time moving costs from the base.

LFD COMMENT For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

New Proposals

See DP 02 discussion under "New Proposals" in program narrative section.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06030, 06031	Housing Authority	65010	Dept. of Commerce	Board of Housing

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	264,957	212,535	234,504	235,000	235,000	235,000
Investment Earnings	9,697,183	13,547,200	10,823,572	11,000,000	11,000,000	11,000,000
Securities Lending Income	3,948	790	1,189	1,200	1,200	1,200
Premiums	-	-	-	-	-	-
Other Operating Revenues	34,906,637	39,701,444	41,606,787	43,000,000	45,000,000	47,000,000
Total Operating Revenues	44,872,725	53,461,969	52,666,052	54,236,200	56,236,200	58,236,200
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	44,872,725	53,461,969	52,666,052	54,236,200	56,236,200	58,236,200
Operating Expenses:						
Personal Services	568,577	547,146	689,153	724,449	814,249	815,594
Other Operating Expenses	39,303,730	44,386,527	44,962,942	46,825,000	47,790,000	50,000,000
Miscellaneous, operating	158,003	207,491	298,884	1,896,234	1,923,070	1,995,274
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	40,030,310	45,141,164	45,950,979	49,445,683	50,527,319	52,810,868
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	40,030,310	45,141,164	45,950,979	49,445,683	50,527,319	52,810,868
Operating Income (Loss)	**4,842,415**	**8,320,805**	**6,715,073**	**4,790,517**	**5,708,881**	**5,425,332**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	240,867	240,140	240,000	240,000	240,000
Net Nonoperating Revenues (Expenses)	-	240,867	240,140	240,000	240,000	240,000
Income (Loss) Before Operating Transfers	4,842,415	8,561,672	6,955,213	5,030,517	5,948,881	5,665,332
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	99,646,414	104,488,829	113,050,501	120,005,714	125,036,231	130,985,112
Net Income (Loss)	4,842,415	8,561,672	6,955,213	5,030,517	5,948,881	5,665,332
Retained Earnings/Fund Balances - June 30	**104,488,829**	**113,050,501**	**120,005,714**	**125,036,231**	**130,985,112**	**136,650,444**
60 days of expenses (Total Operating Expenses divided by 6)	6,671,718	7,523,527	7,658,497	8,240,947	8,421,220	8,801,811

Proprietary Rates

Program Description
The Board of Investments staff manages the Unified Investment Program for public funds, established under Article VIII, Section 13 of the Montana Constitution. Six investment pools and several individual portfolios are managed. The six investment pools include the Retirement Funds Bond, Trust Funds Bond, Short Term Investment, Montana Domestic Stock, Montana International Equity, and the Montana Private Equity pools.

Revenues and Expenses
The revenue objective of the Investment Program is to fairly assess the costs of operations to each account the board invests while maintaining a reasonable and prudent 60-day working capital reserve.

Nearly all Bond Program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270-day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

The Board of Investments does not receive any direct appropriations. Funding for accounting entity 06527 is generated entirely from charges to each account that the Board invests and is used to finance the investment program. Funding for accounting entity 06014 is the revenue generated from the difference between the interest earned from loans to borrowers and interest paid to bond holders, and monthly contract revenues received from the Montana Facility Finance Authority. Non-budgeted revenues are used to finance statutorily appropriated debt service expenditures.

Rate Explanation
The Board of Investments charges its costs to the entities that use its services. Typically, this has been done by projecting a maximum level of expenditures and setting the fee at that level. This methodology is continued in the 2005 biennium to provide a comparison with historical financial activity.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow. There are currently 33.00 FTE in the program.

At the proposed level of expenditures ($4.0 million in fiscal 2004, $4.2 million in fiscal 2005), the Board projects a fiscal 2005 ending unreserved fund balance of $331,139, or approximately a 42-day working capital reserve for accounting entity 06527.

Significant Present Law Adjustments

DP 18 - Administrative Costs Adjustments - The executive proposes adjustments for administrative costs, including per diem, overtime, rent, and agency indirect charges.

LFD COMMENT

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06527	Investment Division	65010	Dept. of Commerce	Board of Investments

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Administrative Fees	-	-	-	2,805,200	2,915,000	2,920,000
Net Fee Revenue	2,191,032	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,635	-	-	-	-	-
Total Operating Revenues	2,192,667	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,192,667	2,049,130	2,901,292	2,805,200	2,915,000	2,920,000
Operating Expenses:						
Personal Services	1,514,841	1,575,243	1,842,921	1,858,805	2,040,884	2,048,826
Other Operating Expenses	591,855	468,718	537,242	946,395	825,748	758,670
Miscellaneous, operating	174,771	179,786	303,402	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,281,467	2,223,747	2,683,565	2,805,200	2,866,632	2,807,496
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,281,467	2,223,747	2,683,565	2,805,200	2,866,632	2,807,496
Operating Income (Loss)	**(88,800)**	**(174,617)**	**217,727**	**-**	**48,368**	**112,504**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(5,484)	355	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(5,484)	355	-	-	-
Income (Loss) Before Operating Transfers	(88,800)	(180,101)	218,082	-	48,368	112,504
Contributed Capital	18,298	18,298	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	202,788	113,988	(47,815)	170,267	170,267	218,635
Net Income (Loss)	(70,502)	(161,803)	218,082	-	48,368	112,504
Retained Earnings/Fund Balances - June 30	**132,286**	**(47,815)**	**170,267**	**170,267**	**218,635**	**331,139**
60 days of expenses (Total Operating Expenses divided by 6)	380,245	370,625	447,261	467,533	477,772	467,916

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06014	Economic Development Bonds	65010	Dept. of Commerce	Board of Investments

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Fee Revenues	-	-	-	13,000	13,000	13,000
Net Fee Revenue	6,063	9,940	12,992	13,000	13,000	13,000
Investment Earnings	459,227	1,120,444	575,823	575,000	575,000	575,000
Securities Lending Income	286	86	135	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	3,762,798	3,682,543	2,892,572	3,300,000	3,500,000	3,700,000
Total Operating Revenues	4,228,374	4,813,013	3,481,522	3,888,000	4,088,000	4,288,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	4,228,374	4,813,013	3,481,522	3,888,000	4,088,000	4,288,000
Operating Expenses:						
Personal Services	148,020	217,162	172,186	165,284	127,935	128,132
Other Operating Expenses	3,342,051	3,993,922	3,046,013	3,460,000	3,660,000	3,860,000
Miscellaneous, operating	19,258	129,039	33,038	176,091	252,065	251,868
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,509,329	4,340,123	3,251,237	3,801,375	4,040,000	4,240,000
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,509,329	4,340,123	3,251,237	3,801,375	4,040,000	4,240,000
Operating Income (Loss)	**719,045**	**472,890**	**230,285**	**86,625**	**48,000**	**48,000**
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	719,045	472,890	230,285	86,625	48,000	48,000
Contributed Capital	23,478	23,478	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	3,756,177	4,017,102	4,513,470	4,743,755	4,830,380	4,878,380
Net Income (Loss)	742,523	496,368	230,285	86,625	48,000	48,000
Retained Earnings/Fund Balances - June 30	**4,498,700**	**4,513,470**	**4,743,755**	**4,830,380**	**4,878,380**	**4,926,380**
60 days of expenses (Total Operating Expenses divided by 6)	584,888	723,354	541,873	633,563	673,333	706,667

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
Personal Services	0	0	0	0	0	0	0	0
Operating Expenses	2,041	5	0	2,046	5	0	2,046	4,092
Equipment	0	0	0	0	0	0	0	0
Total Costs	**$2,041**	**$5**	**$0**	**$2,046**	**$5**	**$0**	**$2,046**	**$4,092**
General Fund	0	0	0	0	0	0	0	0
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	2,041	5	0	2,046	5	0	2,046	4,092
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$2,041**	**$5**	**$0**	**$2,046**	**$5**	**$0**	**$2,046**	**$4,092**

Program Description

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

- The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana
- The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting and fiscal, budgeting and information systems, contracting and purchasing, human resources, payroll, and training

Funding

The division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

Program Funding Table
Director/Management Services

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
03359 School To Work	$ 2,041	100.0%	$ 2,046	100.0%	$ 2,046	100.0%
Grand Total	$ 2,041	100.0%	$ 2,046	100.0%	$ 2,046	100.0%

LFD ISSUE

Per the department, the $2,046 in federal School-to-Work funding will not be used or needed during the 2005 biennium. Therefore, the legislature should remove this authority from the division budget.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					0					0
Vacancy Savings					0					0
Inflation/Deflation					5					5
Total Statewide Present Law Adjustments					**$5**					**$5**
Grand Total All Present Law Adjustments					**$5**					**$5**

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.

Proprietary Rates

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

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

While there have been no significant changes in the services provided to supported programs, the division lost a significant portion of its workload under Senate Bill 445, which was passed by the 2001 legislature. SB 445 reorganized the Department of Commerce and transferred several of its programs to other agencies. FTE within the division decreased from 24.5 FTE to 17.0 FTE. The decreased personal services charges with which to calculate the indirect cost percentage led to a higher proposed rate for the 2003 biennium as compared to the rate pre-SB 445.

Rate Explanation
The executive requests an indirect cost rate of 15.0 percent in each year of the biennium. The indirect cost rate is calculated by dividing the projected annual expenditures of the Director's Office/Management Services Division, plus a nominal working capital reserve, by the projected actual personal services amounts estimated to be incurred by supported programs.

Indirect costs are charged to all supported programs on a monthly basis. Since indirect cost collections lag by at least one month the division maintains working capital reserve adequate to meet operating costs. At the proposed 15.0 percent rate, the department projects a fiscal 2005 ending unreserved fund balance of $175,525, or approximately a 57-day working capital reserve.

Significant Present Law Adjustments

DP 19 - Administrative Costs Adjustments - The executive proposes adjustments for administrative costs, including overtime, rent, and the removal of one-time moving expenses from the base.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06542	Central Services	65010	Dept. of Commerce	Director/Management Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Administrative Fees	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Net Fee Revenue	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Investment Earnings						
Securities Lending Income						
Premiums						
Other Operating Revenues						
Total Operating Revenues	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	1,293,827	1,329,085	1,069,540	1,072,100	1,074,200	1,075,700
Operating Expenses:						
Personal Services	1,043,009	1,090,782	843,578	900,000	901,894	901,595
Other Operating Expenses	-	-	-	-	-	-
Miscellaneous, operating	155,848	199,798	221,319	200,000	205,728	207,475
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,198,857	1,290,580	1,064,897	1,100,000	1,107,622	1,109,070
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,198,857	1,290,580	1,064,897	1,100,000	1,107,622	1,109,070
Operating Income (Loss)	**94,970**	**38,505**	**4,643**	**(27,900)**	**(33,422)**	**(33,370)**
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	94,970	38,505	4,643	(27,900)	(33,422)	(33,370)
Contributed Capital	21,188	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	120,823	236,981	275,486	280,129	252,229	218,807
Net Income (Loss)	116,158	38,505	4,643	(27,900)	(33,422)	(33,370)
Retained Earnings/Fund Balances - June 30	**236,981**	**275,486**	**280,129**	**252,229**	**218,807**	**185,437**
60 days of expenses (Total Operating Expenses divided by 6)	199,810	215,097	177,483	183,333	184,604	184,845