

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	659.64	0.00	1.50	661.14	0.00	1.50	661.14	661.14
Personal Services	24,534,708	2,869,083	45,174	27,448,965	2,875,250	45,038	27,454,996	54,903,961
Operating Expenses	15,249,372	1,533,813	18,623	16,801,808	1,534,518	16,123	16,800,013	33,601,821
Equipment	432,003	30,000	0	462,003	30,000	0	462,003	924,006
Capital Outlay	965	0	0	965	0	0	965	1,930
Grants	16,013,711	952,778	0	16,966,489	952,777	0	16,966,488	33,932,977
Benefits & Claims	258,597	0	0	258,597	0	0	258,597	517,194
Transfers	131,551	0	0	131,551	0	0	131,551	263,102
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$56,620,907</b>	<b>\$5,385,674</b>	<b>\$63,797</b>	<b>\$62,070,378</b>	<b>\$5,392,545</b>	<b>\$61,161</b>	<b>\$62,074,613</b>	<b>\$124,144,991</b>
General Fund	1,969,954	(106,871)	0	1,863,083	(109,017)	0	1,860,937	3,724,020
State/Other Special	22,630,948	3,127,791	(1,036,730)	24,722,009	3,155,911	(1,039,139)	24,747,720	49,469,729
Federal Special	31,976,879	2,339,924	1,100,527	35,417,330	2,320,926	1,100,300	35,398,105	70,815,435
Proprietary	43,126	24,830	0	67,956	24,725	0	67,851	135,807
<b>Total Funds</b>	<b>\$56,620,907</b>	<b>\$5,385,674</b>	<b>\$63,797</b>	<b>\$62,070,378</b>	<b>\$5,392,545</b>	<b>\$61,161</b>	<b>\$62,074,613</b>	<b>\$124,144,991</b>

### Agency Description

The Department of Labor and Industry has a number of functions. In part, the department:

- oversees and regulates the Montana Workers' Compensation system
- enforces state and federal labor standards, anti-discrimination laws, and state and federal safety-occupational health laws
- provides adjudicative services in labor-management disputes
- administers the unemployment insurance program and disburses state unemployment benefits
- serves as an employment agency, provides job training to assist individuals in preparing for and finding jobs, and assists employers in finding workers
- oversees federal and state training and apprenticeship programs
- conducts research and collects employment statistics
- administers the federal AmeriCorps, Campus Corps, and Volunteer Montana programs through the Office of Community Services
- licenses, inspects, tests, and certifies all weighing or measuring devices used in making commercial transactions in the State of Montana
- provides administrative and clerical services to the 38 professional boards and occupational licensing programs authorized by state statutes; and
- establishes and enforces minimum building codes

Structurally, the department is divided into seven divisions: Workforce Services, Unemployment Insurance, Commissioner's Office/Centralized Services, Employment Relations (including the Human Rights Commission), and Business Standards; and the Office of Community Services and Workers' Compensation Court, both of which are administratively attached.

<p><b>Department of Labor and Industry</b>  <b>Major Budget Highlights</b></p>
<ul style="list-style-type: none"> <li>○ Proposed reduction in general fund support to the Apprenticeship and Training Program</li> <li>○ Proposed fund switch within the Workforce Services Division to free up Employment Security Account funding for use in Youth Challenge Program within the Department of Military Affairs</li> </ul>
<p><b>Major LFD Issues</b></p>
<ul style="list-style-type: none"> <li>○ Issues/options review for all general fund programs within the Workforce Services Division</li> <li>○ Discussion of issues/options related to proposed fund switch within Workforce Services Division</li> </ul>

**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.

<b>Total Agency Funding</b> <b>2005 Biennium Executive Budget</b>						
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed. Spec.</u>	<u>Proprietary</u>	<u>Grand Total</u>	<u>Total %</u>
Commissioner'S Office/Csd	\$ 345,903	\$ 1,501,897	\$ 854,814	\$ 135,807	\$ 2,838,421	2.3%
Employment Relations Division	1,706,809	12,594,424	1,442,000	-	15,743,233	12.7%
Business Standards Division	-	21,159,055	-	-	21,159,055	17.0%
Office Of Community Service	49,386	-	6,166,354	-	6,215,740	5.0%
Unemployment Insurance Division	-	609,910	12,671,554	-	13,281,464	10.7%
Work Force Services Division	1,621,922	12,711,917	49,680,713	-	64,014,552	51.6%
Workers Compensation Court	-	892,526	-	-	892,526	0.7%
Grand Total	<u>\$ 3,724,020</u>	<u>\$ 49,469,729</u>	<u>\$ 70,815,435</u>	<u>\$ 135,807</u>	<u>\$ 124,144,991</u>	<u>100.0%</u>

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	659.64	1.50	661.14	659.64	1.50	661.14	659.64	661.14
Personal Services	27,403,791	45,174	27,448,965	27,409,958	45,038	27,454,996	51,484,036	54,903,961
Operating Expenses	16,783,185	18,623	16,801,808	16,783,890	16,123	16,800,013	31,180,154	33,601,821
Equipment	462,003	0	462,003	462,003	0	462,003	854,238	924,006
Capital Outlay	965	0	965	965	0	965	2,359	1,930
Grants	16,966,489	0	16,966,489	16,966,488	0	16,966,488	34,137,682	33,932,977
Benefits & Claims	258,597	0	258,597	258,597	0	258,597	636,684	517,194
Transfers	131,551	0	131,551	131,551	0	131,551	245,287	263,102
Debt Service	0	0	0	0	0	0	13,158	0
<b>Total Costs</b>	<b>\$62,006,581</b>	<b>\$63,797</b>	<b>\$62,070,378</b>	<b>\$62,013,452</b>	<b>\$61,161</b>	<b>\$62,074,613</b>	<b>\$118,553,598</b>	<b>\$124,144,991</b>
General Fund	1,863,083	0	1,863,083	1,860,937	0	1,860,937	3,143,831	3,724,020
State/Other Special	25,758,739	(1,036,730)	24,722,009	25,786,859	(1,039,139)	24,747,720	43,975,314	49,469,729
Federal Special	34,316,803	1,100,527	35,417,330	34,297,805	1,100,300	35,398,105	71,329,041	70,815,435
Proprietary	67,956	0	67,956	67,851	0	67,851	105,412	135,807
<b>Total Funds</b>	<b>\$62,006,581</b>	<b>\$63,797</b>	<b>\$62,070,378</b>	<b>\$62,013,452</b>	<b>\$61,161</b>	<b>\$62,074,613</b>	<b>\$118,553,598</b>	<b>\$124,144,991</b>

**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.

Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Board FTE Request										
05	1.50	0	63,797	0	63,797	1.50	0	61,161	0	61,161
DP 7001 - ESA/Reed Act Fund Switch										
01	0.00	0	(1,100,527)	1,100,527	0	0.00	0	(1,100,300)	1,100,300	0
<b>Total</b>	<b>1.50</b>	<b>\$0</b>	<b>(\$1,036,730)</b>	<b>\$1,100,527</b>	<b>\$63,797</b>	<b>1.50</b>	<b>\$0</b>	<b>(\$1,039,139)</b>	<b>\$1,100,300</b>	<b>\$61,161</b>

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	301.60	0.00	0.00	301.60	0.00	0.00	301.60	301.60
Personal Services	11,095,498	950,242	0	12,045,740	958,318	0	12,053,816	24,099,556
Operating Expenses	5,250,516	396,683	0	5,647,199	364,604	0	5,615,120	11,262,319
Equipment	96,193	0	0	96,193	0	0	96,193	192,386
Capital Outlay	965	0	0	965	0	0	965	1,930
Grants	14,174,852	(77,222)	0	14,097,630	(77,223)	0	14,097,629	28,195,259
Transfers	131,551	0	0	131,551	0	0	131,551	263,102
<b>Total Costs</b>	<b>\$30,749,575</b>	<b>\$1,269,703</b>	<b>\$0</b>	<b>\$32,019,278</b>	<b>\$1,245,699</b>	<b>\$0</b>	<b>\$31,995,274</b>	<b>\$64,014,552</b>
General Fund	916,054	(105,030)	0	811,024	(105,156)	0	810,898	1,621,922
State/Other Special	6,781,481	672,849	(1,100,527)	6,353,803	676,933	(1,100,300)	6,358,114	12,711,917
Federal Special	23,052,040	701,884	1,100,527	24,854,451	673,922	1,100,300	24,826,262	49,680,713
Proprietary	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$30,749,575</b>	<b>\$1,269,703</b>	<b>\$0</b>	<b>\$32,019,278</b>	<b>\$1,245,699</b>	<b>\$0</b>	<b>\$31,995,274</b>	<b>\$64,014,552</b>

**Program Description**

The Workforce Services Division (WSD) operates through five bureaus. The Field Operations Bureau functions through a network of 17 Job Service Centers. The division is a gateway to government services in the area of employment and training services. WSD performs services that include retraining and reemployment services for laid-off workers and employment and training services for people transitioning from welfare to work, as well as for youth, veterans, seasonal/migrant farm workers, and general job seekers. Other bureaus include Workforce Technology, Statewide Workforce Programs, Job Service Programs, and Research and Analysis.

**Program Narrative**

The Job Training Partnership Act (JTPA), which provided funding for many programs within this division, ended on June 30, 2000 and was replaced by the Workforce Investment Act (WIA). The Workforce Investment Act changed the focus to meeting the needs of businesses for skilled workers and providing for the training, education, and employment needs of individuals. The Workforce Investment Act mandates stringent agency accountability, and requires the tracking of 17 core performance measures. The new system is based on the "one-stop" concept, where information about and access to a wide array of job training, education, and employment services is available for customers at a single neighborhood location. The system uses Individual Training Accounts to allow adult users to make individual choices, and it empowers those users to "purchase" their training through the use of the accounts. The "one-stop" locations will have the responsibility of providing information on training services and providers. Customers will have the responsibility of choosing which service and providers best meet their needs. The Workforce Investment Act authorizes 'core' services available to all adults. There are no eligibility requirements and 'intensive' services are provided for unemployed individuals who are not able to find jobs through core services alone. The system's customer base includes adults, dislocated workers, and youth. Although many of the services provided are the same for each group, each group of customers has its own funding stream, thus helping to ensure equity of services across the customer base.

<b>Workforce Services Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ Proposed reduction in general fund support to the Apprenticeship and Training Program</li> <li>○ Proposed fund switch within the division using federal Reed Act funds to free up Employment Security Account (ESA) funding for use in Youth Challenge Program within the Department of Military Affairs</li> <li>○ Continuation of Natural Resource Workers' Scholarship Program</li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>○ Use of ESA funds                         <ul style="list-style-type: none"> <li>○ Philosophy will determine use of ESA</li> <li>○ Program review and prioritization for funding should be performed before allocating ESA</li> <li>○ Fund balance stability is questionable</li> </ul> </li> <li>○ Apprenticeship and Training Program                         <ul style="list-style-type: none"> <li>○ State support can be compared to other programs</li> <li>○ State provides program oversight and education cost offset grants; does the legislature wish to provide either, both, or none of these?</li> </ul> </li> <li>○ Job Registry                         <ul style="list-style-type: none"> <li>○ Low number of registrants and successful placements make program relatively high cost</li> <li>○ Current services provided can be performed by employees themselves; funding is insufficient to increase services</li> <li>○ Program lacks an enforceable requirement for agencies to hire from list</li> </ul> </li> <li>○ Jobs For Montana's Graduates                         <ul style="list-style-type: none"> <li>○ Does the program fit within state's funding priorities? If so, what functions should be funded?</li> </ul> </li> <li>○ Displaced Homemaker Program                         <ul style="list-style-type: none"> <li>○ Program serves relatively low number of clients and potentially duplicates service provided through federal funds</li> <li>○ Program funding should be included in overall prioritization of general fund/ESA funding</li> <li>○ Potential exists to reduce number of contracts while focusing on areas of greatest need</li> </ul> </li> <li>○ Reed Act/ESA fund switch                         <ul style="list-style-type: none"> <li>○ Reed Act funding has limitations on use</li> <li>○ Philosophy on use of ESA and program prioritization for funding must be determined prior to allocation of ESA</li> <li>○ ESA fund balance stability is questionable</li> </ul> </li> </ul>

**Funding**

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

<b>Program Funding Table Work Force Services Division</b>						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 916,054	3.0%	\$ 811,024	2.5%	\$ 810,898	2.5%
02069 Natural Resource Worker	-	-	150,000	0.5%	150,000	0.5%
02081 Icdm Conference	-	-	-	-	-	-
02242 Contracts From Srs	-	-	-	-	-	-
02245 Jobs For Mt'S Graduates (Jmg)	-	-	-	-	-	-
02258 Employment Security Account	4,609,757	15.0%	4,028,861	12.6%	4,029,192	12.6%
02288 Mjtp Subgrants/Contracts	2,046,429	6.7%	2,046,429	6.4%	2,046,429	6.4%
02315 Dli Info Exchange	62,636	0.2%	62,636	0.2%	62,636	0.2%
02455 Workers' Comp Regulation	62,659	0.2%	65,877	0.2%	69,857	0.2%
02949 Mjtp Subgrants/Private Funds	-	-	-	-	-	-
02951 Icdm Conference	-	-	-	-	-	-
02965 Jmg Private Donations - Nb	-	-	-	-	-	-
03124 Employment Trng Grants	2,158,232	7.0%	2,178,510	6.8%	2,177,483	6.8%
03126 Job Trng Partnership Act	11,708,292	38.1%	11,708,292	36.6%	11,708,292	36.6%
03128 L & I Federal Funding	1,827,318	5.9%	1,258,234	3.9%	1,199,817	3.7%
03131 Osha Stat Prgm Fed.St Sdy	62,849	0.2%	66,000	0.2%	69,850	0.2%
03194 Research/Analysis/Soicc	942,816	3.1%	939,184	2.9%	966,546	3.0%
03297 Labor And Industry Veteran Gra	819,175	2.7%	860,000	2.7%	860,000	2.7%
03682 Wagner Peyser	5,524,649	18.0%	5,549,259	17.3%	5,549,529	17.3%
03692 Alien Labor Certification (Alc)	-	-	60,000	0.2%	60,000	0.2%
03693 Wrk Opportunities Tx Crdt/Wotc	-	-	79,000	0.2%	79,000	0.2%
03694 Trade Adjustment Assist/Nafta	-	-	1,055,445	3.3%	1,055,445	3.3%
03954 Ui Administrative Grants	8,709	0.0%	-	-	-	-
03967 Ui Reed Act	-	-	1,100,527	3.4%	1,100,300	3.4%
06051 Montana Career Info System	-	-	-	-	-	-
06551 Rental Recharges	-	-	-	-	-	-
06562 Dli Special Projects	-	-	-	-	-	-
<b>Grand Total</b>	<u>\$ 30,749,575</u>	<u>100.0%</u>	<u>\$ 32,019,278</u>	<u>100.0%</u>	<u>\$ 31,995,274</u>	<u>100.0%</u>

Workforce Services Division operations for the biennium are funded with general fund, state special revenue, and federal funds. General Fund supports the Jobs for Montana’s Graduates, Displaced Homemaker, Job Registry, and Apprenticeship and Training programs. General fund support to the Apprenticeship and Training program has been reduced from base year expenditures in accordance with the department's overall general fund reduction applied by the Office of Budget and Program Planning. State special revenue includes \$8.1 million in Employment Security Account (ESA) funding and \$4.1 million in Workforce Investment Act subgrants and contracts. Federal funds include \$23.4 million in Workforce Investment Act funds, \$13.6 million in federal Labor and Industry funds (including Wagner-Peyser funds), and \$4.4 million in employment training grants. New for this biennium is the addition of \$2.2 million in federal Reed Act funds to the division's funding structure, which is a continuation of a funding switch first applied during the 2003 special session. This fund switch (DP 7001, below) reduces ESA funding within WSD by \$1.1 million in each year of the biennium and replaces it with a like amount of Reed Act funding. For more information on this fund switch, please see the LFD Issue following the narrative for DP 7001 under New Proposals.

Federal funding formulas remain basically the same as in previous biennia, with funding determined by the state's ranking amongst other states within several economic categories. These categories include the number of unemployed, the unemployment rate, and the number of residents considered economically disadvantaged.

**LFD  
COMMENT**

These funding formulas provide an anomaly for state service providers relying on this funding. Montana's economy has recently been less volatile than the national economy due to our reliance on income sources other than the high-tech markets that have played a major role in the recent national economic surges and downturns. The result is that as economic conditions improve, Montana's gains are less than the national average. Therefore, Montana's relative standing among other states decreases, in turn, increasing allotted funding. As economic conditions deteriorate, the opposite proves true - although economic measures are also decreasing, Montana's relative standing among other states actually improves, in turn decreasing allotted funding. The department states that recent national and local economic conditions have shown the potential for a decrease in federal funding levels. If that position will maintain, and to what extent, is unknown at this time. To date, the department has been able to forecast expenditures and postpone non-critical purchases in order to continue providing requested services during higher-need, lower-funding years, and then 'catch up' during the lower-need, higher-funding years.

**Program Issues**Employment Security Account

The Employment Security Account (ESA) was established by the 1983 legislature as a way to address then-insufficient federal funding. The intent of the ESA was to maintain delivery of employment services through, and prevent the closure of, rural Job Service Centers. At that time, the ESA was funded through an assessment of 0.10 percent on all taxable wages paid by employers. The 1999 legislature passed HB 282, which raised the assessment to its current level of 0.13 percent.

Prior to 1989, most of the revenues collected into the ESA were transferred into the Unemployment Insurance Trust Fund, as allowed by statute. Since 1989, the ESA has been used primarily to maintain the current level of employment services. However, to facilitate general fund relief in the August, 2002 Special Session, use of the ESA was expanded. Most of the ESA funding budgeted directly for the local job service centers was replaced with federal Reed Act funding, and the freed up ESA funds were used to replace general fund in several programs. Additionally, for the 2005 biennium, the executive proposes to continue a portion of the fund switch to replace general fund in the Youth Challenge program, within the Department of Military Affairs, with ESA funding. Although the overall level of expenditures from the ESA has not changed, these funding switches have still established a precedent for future use and expansion of the fund. Figure 1 shows changes in use of the ESA through fiscal 2000 (first year of 0.13 percent assessment), fiscal 2002 (base year), fiscal 2003 (includes special session fund switches), and fiscal 2004 (executive budget proposal).

**Figure 1**

**Actual and Proposed Use of  
Employment Security Account**

	Fiscal Year			
	2000	2002	2003	2004
<u>Services Traditionally Funded by ESA</u>				
Workforce Services Division Operations	\$3,619,406	\$4,407,199	\$608,250	\$3,599,473
Apprenticeship and Training	241,106	282,503	330,752	343,982
Employment Relations Division	762,451	810,620	846,718	880,587
Legal/Hearings Bureau	243,087	256,600	289,481	301,060
Research and Analysis Bureau	74,143	107,601	96,105	99,949
Unemployment Insurance Division	<u>267,371</u>	<u>270,153</u>	<u>295,754</u>	<u>301,670</u>
Subtotal	\$5,207,564	\$6,134,676	\$2,467,060	\$5,526,721
Other Services				
Jobs for Montana's Graduates	-	-	532,988	-
Apprenticeship Grants	-	-	140,000	-
Displaced Homemakers	-	-	219,765	-
Job Registry	-	-	18,808	-
DPHHS - Voc. Rehab. - Section 110	-	-	1,182,264	-
DPHHS - Voc. Rehab. - Extended Employment	-	-	782,935	-
Military Affairs - Youth Challenge Program	-	-	1,123,240	1,131,049
MT School for the Deaf and Blind	-	-	111,000	-
Subtotal	\$0	\$0	\$4,111,000	\$1,131,049
Accounting Adjustments	-	-	781,912	-
Total ESA Expenditures	<u>\$5,207,564</u>	<u>\$6,134,676</u>	<u>\$7,359,972</u>	<u>\$6,657,770</u>

The ESA is established in 39-51-409 MCA. There are no statutory or administrative limitations on use of the ESA. However, to gain support for the increase in the ESA assessment in 1999, the department states that it made assurances to the employers that the department would strive to use the ESA only to maintain established levels of services already provided with the ESA without expanding the services. Additionally, the programs funded during the August 2002 Special Session, while expanding the use, stayed within the executive’s guidelines of providing services that enhanced or expanded Montana’s available workforce. Therefore, discussions on the use of the ESA will tend to be philosophical in nature.

To determine allocation of the ESA, the legislature will need to decide on the philosophy it wishes to apply to using funds from the account.

If the legislature wishes to stay within the precedent established during creation and subsequent modification of statute authorizing the ESA, programs funded would include those funded in the base year, which are shown in the fiscal 2002 column in figure 1.

If the legislature wishes to create general fund savings by expanding use of the ESA while maintaining a focus on enhancing or expanding Montana’s available workforce, the following state government programs, currently funded with general fund in the amounts indicated, could be considered for ESA funding:

- The state cost-offset grants for Apprenticeship and Training - \$140,000
- Jobs for Montana’s Graduates - \$519,000
- Displaced Homemaker - \$235,000
- Job Registry - \$17,000
- Youth Challenge program - \$1.1 million
- Vocational Rehabilitation services administered by the Department of Public Health and Human Services - \$2.4 million

- Education, training and work related services funded with general fund counted as Temporary Assistance for Needy Families (TANF) maintenance of effort (MOE) administered by the Department of Public Health and Human Services - \$9.2 million

If the legislature wishes to create general fund savings while applying no limitations to the use of ESA, then most, if not all, programs supported all or in part by general fund could be eligible for ESA support.

The decision of where to use ESA funding involves three other factors:

- Whether the legislature wishes to continue the programs proposed for funding with the ESA by the executive, and at what level.
- The corollary impact of increasing the amount of general fund available within an agency. For example, replacing general fund within one program in DPHHS could free up general fund to be used within the department to eliminate or mitigate certain service reductions currently proposed by the executive. The issue for the legislature then becomes whether mitigation of the service reductions in DPHHS is a higher priority than the uses of ESA proposed by the executive.
- Based on current revenue projections and allocations in the executive budget, the stability of the ESA fund balance is questionable. Therefore, the ESA most likely cannot accommodate expanded uses without a backfill with other funding or a reduction in appropriations currently made from the account. For more information on the current and projected status of the ESA, please refer to the LFD Issue following DP 7001 later in this section.

Therefore, the following options for use of the ESA are available:

- Maintain use of the ESA as funded in fiscal 2002. The Youth Challenge program would have to be funded with general fund or eliminated.
- Use ESA funding with a broad definition of workforce development and expand use of the ESA into some/all of the programs identified above based on an overall consideration and prioritization of those programs for state funding.
- Use ESA funding to replace general fund and mitigate other reductions based on an overall consideration and prioritization of those programs for state funding.

Program reductions and eliminations (general fund portion for the biennium) that the legislature could consider funding with general fund made available due to an ESA funding switch include:

- Mental health services for children
- Medicaid limitation of physicians visits to 10 per year, \$1.5 million
- MIAMI (prenatal services), \$1.1 million
- Big Brothers Big Sisters, \$0.4 million
- Daycare for children at risk of abuse and neglect, \$0.7 million
- In-home services for children at risk of abuse and neglect \$2.3 million
- Meals on wheels, \$0.5 million
- Hospice services, \$0.4 million
- Visual services medical program, \$0.2 million
- Extended employment and independent living services, \$1.0 million

Based on this discussion of the ESA, the following programs within the Workforce Services Division should be discussed in the context of the services provided and funding sources.

### **Apprenticeship and Training Program**

The Apprenticeship and Training program helps provide aspiring electricians, plumbers, and other skilled workers the documented training (on-the-job and classroom) required per statute to become experienced and certified within their trade, in addition to providing them an opportunity to earn a wage while learning their trade. Montana's Apprenticeship and Training program supports both union and independent employers. The program currently serves approximately 600 active employers/sponsors, and 1,000 registered apprentices.

Funding for the apprenticeship program is from the general fund and from the ESA. The 2001 legislature appropriated the apprenticeship program \$140,000 general fund and approximately \$300,000 state special revenue (ESA) in each year of the 2003 biennium. During the August, 2002 Special Session, general fund within the program was replaced entirely with ESA funding as part of a larger federal/state/general fund switch. For the 2005 biennium, the executive proposes to maintain ESA funding at the 2002 level, and reduce general fund by 55 percent to approximately \$63,000 per year.

Support for the Apprenticeship and Training program is provided in two main areas: program operations, and training cost-offset grants. ESA funding supports program staff and travel needed for oversight of the program, which includes establishing standards for, overseeing, and recording apprenticeship agreements between employer/employee; and developing new on-the-job training programs, as established in 39-6-101 MCA. During the base year, the department spent approximately \$280,000 to accomplish these responsibilities.

General fund provides state-supported cost offset for training-related instruction. During the base year (fiscal 2002) the apprenticeship program spent all of its \$140,000 general fund appropriation on training-related instruction funding, supporting instructors in 20 union and independent programs, and correspondence course work for apprentices in smaller, independent programs. 16,342 hours of instructor co-pay and 926 correspondence courses were paid for in fiscal 2002.

Therefore, reducing or eliminating general fund support without a backfill from the ESA will reduce the amount of cost-offset grants offered by the program. Employers and/or apprentices would have to pay a larger share of classroom instruction and correspondence classes themselves. If the current situation represents a balance between available workforce, available jobs, and the economic incentive for employers to employ apprentices, it can be expected that a reduction in cost-offset grants will eventually result in a lower number of employers/apprentices registered with the program, and a decrease in the available workforce. However, the specific impacts are difficult to project and can be expected to vary based on economic conditions.

There are three primary issues the legislature should consider when determining continuation of and/or funding level for the program in the 2005 biennium.

*1) Is the state support of the Apprenticeship and Training program consistent with support given to other education and training programs within the state?*

To answer this question, it is helpful to find a program for comparison. One example, which may be comparable, is the College of Technology (formerly Vocational-Technical) program within the Montana University System. Although many differences can be found, both programs support specialized training, over a period of years, which culminates in an individual being trained/certified to perform a trade. Using this example, it can be argued that some level of state support for the Apprenticeship and Training program is not inappropriate, although the level of support and program beneficiaries (employers, employees) are not entirely similar.

*2) Should the state provide administrative oversight and program assistance for the Apprenticeship program?*

As stated above, statute currently requires the department to provide program oversight. Consequently, reducing or eliminating program oversight would require a statutory change. Elimination of state oversight would move responsibility for apprenticeship agreements and training programs to the individual employers or the trade organizations. Consistency among trades or possibly among individual employers/sponsors would not be maintained unless oversight was assumed by a central organization, perhaps a trade organization or a licensing board (this would expand the responsibilities of the licensing boards significantly).

*3) Should the state provide training cost-offset grants to the employers, or should the apprentice pay for a portion of their training?*

The Apprenticeship and Training program works on a partnership. The apprentice agrees to work for the employer and successfully complete all tasks and training, and the employer agrees to pay the apprentice and provide both on-the-job and classroom training. Registered apprentices earn a staggered wage from the employer. A first-year apprentice earns approximately 40 percent of the average journeyman wage, and that percentage increases as the apprentice's experience increases. Figures provided by the department place the average apprentice gross annual wage at over \$31,000 per year, making this one of the few state-supported training

programs structured so the participant earns a wage while receiving training at zero or minimal expense. For comparison purposes, \$31,000 per year is slightly above 200 percent of the federally-defined poverty level for a family of three.

Generally, employers pay all training-related costs, although there are exceptions across the various trades. To this effect, the program is 100 percent subsidized for the apprentice, although not all of that support comes from the state. However, an option exists to eliminate the state support for training costs, and encourage or require the apprentices to pay a portion of their training. With approximately 1,000 apprentices across the state, elimination of the state cost-offsetting grants could be negated if each apprentice were to contribute \$140 each year for their training. If costs of program oversight were included, the approximate annual cost to an apprentice would be \$425, or 1.4 percent of the apprentices' average gross wage. In comparison, \$425 is less than the average cost for four semester hours at a College of Technology school within the Montana University system. Requiring apprentices to pay for a portion of their training would actually make the Apprenticeship and Training program a closer comparison to the College of Technology program used as an example in question one above.

#### Options:

- Continue both functions of the Apprenticeship and Training program – program oversight and training cost offset for employers
- Eliminate or reduce the program oversight portion of the program, which would require a change in statute that currently mandates the program oversight
- Eliminate cost-offset support to employers and encourage or require apprentices to pay a portion of their training

#### **Job Registry**

The Job Registry program was created under the State Employee Protection Act (Title 2, Section 18, part 12, MCA), with an intent of helping qualifying state employees regain employment with the state of Montana. Qualifying employees are defined as those displaced from their jobs through no fault of their own (statutorily qualifying circumstances include reductions-in-force, privatization, reorganization, or other actions by the legislature). Displaced state employees seeking reemployment within state government do not qualify for federal Workforce Investment Act funding, due to a technical requirement to seek employment with a new employer. Services to employees include notification of job announcements for one year after termination and inclusion in a special job registry for two years. Most staff time is now devoted to the review of new state vacancy announcements and the subsequent identification of openings for which individuals on the registry possess minimum qualifications, which is a mandatory provision of the State Employee Protection Act.

Since fiscal 2000, the average number of individuals on the registry has ranged from 32 to 14. At the end of fiscal 2002, there were 12 ex-state employees on the registry. In fiscal 2002, only three individuals on the job registry were placed back into state government.

The 2001 legislature funded the Job Registry Program with approximately \$37,000 general fund in each year of the 2003 biennium. The fiscal 2003 funding level was effectively reduced to approximately \$16,000 as a result of the Governor's expenditure reductions in the summer of 2002. The executive has carried those reductions into the 2005 biennium, and proposes to fund the Job Registry program at a level of approximately \$17,000 general fund each year.

There are three primary issues when determining whether and/or at what level the program should be funded in the 2005 biennium.

- There have historically been a low number of registrants and successful placements, making the program high cost on an individual basis. However, budget constraints in the 2005 biennium could increase the number of employees qualifying for the service, in addition to the executive proposal to reduce program funding by 54 percent from the fiscal 2002 level.
- Current program activities of tracking position openings and notifying employees of applicable openings are services the employees could and might be expected to perform themselves. Presently, there is not sufficient funding to increase services to qualifying employees.

- Program effectiveness is hindered by the lack of an enforceable requirement for agencies to hire personnel from the list.

Options for funding the Job Registry program include:

- Eliminate program funding and the program itself, which would require a change in statute that currently mandates the Job Registry program
- Amend statute to provide stricter requirements for agencies to hire from the registry, and fund the program at a level to allow staff to adequately manage the new program services. One option would be to fund at the fiscal 2002 level
- Accept the executive proposal for program funding

### **Jobs for Montana's Graduates**

The Jobs for Montana's Graduates (JMG) program was created in 1990, with intent to assist Montana high school students to stay in school, graduate, and successfully transition from school to work. Students targeted for JMG enrollment include those who:

- have experienced high absenteeism or school suspension;
- possess little or no work experience;
- have limited social and communication skills;
- score average or below average academically; and/or
- have no specific post-graduation plans.

JMG is offered at 44 schools and programs, including 10 schools located on Montana's Indian Reservations, eight alternative schools, and two out-of-school programs (the Montana National Guard Youth Challenge program and the Yellowstone Youth Academy). In the 2002-2003 school year, JMG projects to serve approximately 900 students in grades 9 through 12.

Performance standards measured by the department for the 2001-2002 school year are:

- Senior graduation rate – 88.1 percent
- Senior full-time placement rate – 76.71 percent (includes military)
- Average wage at placement - \$7.17
- Non-senior return to school rate – 80.6 percent

JMG is funded by the executive with general fund at approximately \$519,000 each year of the 2005 biennium, which equates to an approximate cost per student of \$576. This funding supports three department staff for program start-up, guidance, and oversight, including teacher training twice yearly (approximately \$345,000 in fiscal 2002); and direct funding to schools to implement the program (\$162,500 in fiscal 2002). Local school districts provide a majority of program funding through the provision of teachers, facilities, and supplies for the classes. Students may also participate in fundraising to support local program costs. During the August 2002 special session, general fund within JMG was replaced completely with funding from the ESA account, as part of a larger general fund/state/federal funding switch. Program funding levels were not reduced.

There are two primary issues when determining continuation and/or funding level for the JMG program.

*1) Does the legislature want to use general fund to provide a workforce development program? If so, is this one of the legislature's priorities for funding?*

The JMG program is one of at least two state-supported programs serving youth meeting a program definition of 'at risk.' Specifically, the JMG program is designed to keep youth in school through graduation and prepare them for employment or post-secondary education, while the Department of Military Affairs' Youth Challenge program is designed to impact youth after they have dropped out. These programs, through use of general fund and historical/projected use of the ESA, compete directly for funding with other programs as identified in the Program Issue narrative on the ESA. If the program is eliminated, affected youth can potentially be served through the WIA Title IB youth program or the Youth Challenge program, both of which provide assistance in

gaining life/employment skills, and a high school diploma or GED, although in varying levels of structure and intensity. For more information on those programs, please see the LFD Issue in the narrative for the Youth Challenge program within the Department of Military Affairs.

One option to reduce general fund within the program without reducing program services would be to replace some or all of the general fund with state special revenue from the ESA account. However, as with general fund, the decision to use ESA funding for JMG should be preceded by a discussion as to how the program falls within state priorities for providing workforce development services. Additionally, given the projected status of the ESA, replacing general fund with ESA funding is most-likely a short-term proposal contingent on backfilling the ESA with other funding. For more information on ESA usage and the current and projected status of the ESA, please refer to the LFD Issue following DP 7001 later in this section.

*2) What functions of JMG should be state-supported versus supported within the local community?*

As stated above, state funding supports both program oversight and direct funding to participating schools. The majority of school grants fall in the \$3,000 to \$4,000 range, with a handful of grants at the \$8,000 to \$10,000 level. If the legislature desires to provide centralized guidance and assistance, yet reduce the general fund commitment, one option is to eliminate the direct funding to schools, which would require the local school district and/or community to provide all local program funding - a clear shift of program costs. This however, would save \$162,500 general fund each year.

Similarly, the legislature could eliminate all program oversight and staff assistance, and provide only the direct funding to schools. This option would not cause an overt increase in local community costs, but could lead to degradation of the program through lack of accountability and consistency across schools. This option would save \$345,000 per year.

Options:

- Eliminate the program and associated funding
- Eliminate that portion of funding designated for direct funding to schools
- Eliminate that portion of funding designated for program oversight and staff assistance
- Fund the program at the executive-recommended level with general fund
- Replace some or all general fund with ESA funding

**Displaced Homemaker**

The state Displaced Homemaker program is established in Title 39, Chapter 7, part 3, MCA, with a stated legislative intent to “provide necessary counseling, training, jobs, services, and health care for displaced homemakers so they may achieve independence and the economic security vital to a productive life.” Eligible displaced homemakers must be Montana residents 18 years or older, and meet the following criteria:

- Displacement through event such as divorce or death of a spouse;
- Dependent on public assistance or income of a relative, but no longer supported by that income;
- A parent whose dependent children receive Aid to Families with Dependent Children (AFDC) and will be ineligible to receive those benefits within two years of application to the program;
- Unemployed or underemployed and experiencing difficulty obtaining employment or suitable employment; or
- A criminal offender.

Displaced homemakers who have been dependent upon public assistance may also be served through the WIA Title IB adult program.

Displaced homemakers may be eligible for services under the WIA Title IB dislocated worker program if they:

- have been providing unpaid services to family members in the home;
- have been dependent upon the income of another family member, but are no longer supported by that income; and
- are unemployed or underemployed and experiencing difficulty in obtaining or upgrading employment.

Both the WIA Title IB and Dislocated Worker programs are federally-funded programs. The department reports that contracted Displaced Homemaker providers actively coordinate their efforts with WIA and non-WIA agencies within their areas of coverage to allow individuals to benefit from collaboration and dual enrollment when appropriate.

Statute allows the Commissioner of the Department of Labor and Industry to contract with or make grants to public or private nonprofit organizations to establish, organize and administer programs which may include services such as:

- Job counseling services
- Job training and placement services
- Referral to or development of programs which provide information and assistance on health care, financial matters, nutrition, and legal problems
- Support services, such as child care, transportation assistance, or grants for education
- Development of outreach programs to serve rural areas where a need has been identified

Approximately 90 percent of program funding is spent directly on contracts with Displaced Homemaker providers, with 10 percent being held by the department to cover administrative functions. The 2001 legislature appropriated \$235,605 general fund each year for the 2003 biennium. This funding allowed the department to contract with 10 service providers in fiscal 2002. In fiscal 2002, Montana spent approximately \$233,000 (including administration costs) on 164 enrolled clients. Of these, 66 were exited to unsubsidized employment, placing the cost per successful client at approximately \$3,500. Due to the wide variance of services provided and situations experienced by all job service center clients, it is difficult to compare this number to the costs of services provided by the federal WIA funding stream.

In fiscal 2003, the Governor's mandated expenditures reductions resulted in the department canceling the contract with the Great Falls Job Service Center, leaving nine providers serving Billings, Belgrade, Butte, Havre, Helena, Kalispell, Lewistown, Miles City, and Missoula. Additionally, during the August 2002 special session, general fund within the Displaced Homemaker program was replaced completely with funding from the ESA account, as part of a larger general fund/state/federal funding switch. For the 2005 biennium, the executive proposes to continue the program contracts at the fiscal 2003 level.

There are three primary issues to consider when determining the continuation of and level of funding for the Displaced Homemaker program.

*1) The Displaced Homemaker program serves a relatively small number of clients with a moderate level of success and potentially duplicates services under the WIA.*

The program serves a relatively small number of clients, with a success rate of 40 percent and a cost per successful client of approximately \$3,500 in fiscal 2002. These clients may have also been eligible for and received services through the WIA Title IB adult or dislocated worker programs, although data is not maintained that readily identifies which program provided services to individual clients. Eliminating the program would result in a complete loss of service for individuals who do not qualify for the WIA Title IB adult or dislocated worker programs and a reduction in service for those who do qualify for at least one of those programs. The department states that an expected decrease in federal WIA funding (for more information on the decrease, please see the LFD Comment immediately following the program narrative above), will stretch the ability of the WIA Title IB and Dislocated Worker programs to provide additional coverage to qualifying displaced homemakers.

*2) The Displaced Homemaker program should be part of a larger discussion on use of general fund and the ESA, including an overall prioritization of services funded with general fund and/or ESA.*

As stated above in the Program Issues narrative on the ESA, there are several inter-related issues to be decided when allocating general fund and ESA, including the need for prioritization of services competing for general fund and/or ESA funding. Consequently, one option to reduce general fund within the program would be to

replace some or all of the general fund with state special revenue from the ESA account. However, as with general fund, the decision to use ESA funding for the Displaced Homemaker program should be preceded by a discussion as to how the program falls within state priorities for providing workforce development services. Additionally, given the projected status of the ESA, replacing general fund with ESA funding is most-likely a short-term proposal contingent on backfilling the ESA with other funding. For more information on ESA usage and the current and projected status of the ESA, please refer to the corresponding writeups in this section.

3) *The number of contracts can be adjusted based on selection of criteria for awarding contracts to service providers.*

As stated above, in fiscal 2002, the state spent approximately \$233,000 to service 164 clients. If desired, one option to reduce funding to the program would be to direct the department to limit the number of contracts with service providers based on identification of those service providers with:

- o the largest number of clients
- o the largest number of clients not qualifying for federal assistance
- o the largest number of clients living in rural areas with limited access to other services, or
- o other legislatively-determined criteria

Options:

- o Eliminate program funding, which would require a statute change eliminating the state’s responsibility to provide these services
- o Reduce program funding to a legislatively-determined level based on the recommendation in issue three
- o Accept the executive-recommended funding level
- o Replace some or all general fund with ESA funding

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					1,452,151					1,460,543
Vacancy Savings					(501,909)					(502,225)
Inflation/Deflation					27,821					36,795
Fixed Costs					128,453					88,428
<b>Total Statewide Present Law Adjustments</b>					<b>\$1,106,516</b>					<b>\$1,083,541</b>
DP 12 - Operating Increase	0.00	(75,415)	3,174	94,167	21,926	0.00	(75,414)	3,291	92,992	20,869
DP 18 - Natural Resource Worker Scholarship Pg. - SB322	0.00	0	141,261	0	141,261	0.00	0	141,289	0	141,289
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>(\$75,415)</b>	<b>\$144,435</b>	<b>\$94,167</b>	<b>\$163,187</b>	<b>0.00</b>	<b>(\$75,414)</b>	<b>\$144,580</b>	<b>\$92,992</b>	<b>\$162,158</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$1,269,703</b>					<b>\$1,245,699</b>

**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 - Operating Increase - This request contains two separate changes:

- o The executive requests an increase in operating expenses to accommodate an increase in the agency's indirect cost allocation plan. Funding is primarily from federal special revenue (\$187,159 over the biennium), with smaller amounts from state special revenue (\$6,465 over the biennium) and general fund (\$3,616 over the biennium).
- o The executive proposes to reduce general fund within the Apprenticeship and Training program by \$77,222 in fiscal 2004 and \$77,223 in fiscal 2005. Base year general fund expenditures within the program were \$140,000. This reduction would fund the Apprenticeship and Training program at a reduced level of general fund grants

(approximately \$63,000 per year), but would not affect the level of ESA funding in the program, which is approximately \$280,000 per 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 Commissioner's Office/Centralized Services Division.

**LFD  
COMMENT**

This reduction is applied to meet the department's mandated general fund reduction, based on a continuation of the Governor's fiscal 2003 expenditure reductions and reductions made during the 2003 special session. The department took the reduction entirely in this division, within the Apprenticeship and Training program. For more information on the Apprenticeship and Training program, please see the Program Issues narrative above.

DP 18 - Natural Resource Worker Scholarship Pg. - SB322 - The executive requests additional state special revenue authority to accommodate the Natural Resource Worker Scholarship Program created by SB 322 in the 2001 session. Funding will not be established until fiscal year 2004 so there were no expenditures in the base year. The 0.25 FTE allocated to the program is funded in the adjusted base, so this request equals the balance of the \$150,000 allocated to the program.

**LFD  
COMMENT**

SB 22, passed by the 2001 legislature, created the Natural Resource Workers' Education Program and funds the Natural Resource Workers' Tuition Scholarship Account from Resource Indemnity and Ground Water Assessment tax collections. The scholarship account is funded through a transfer from those collections upon certification by the Governor to the Secretary of State that the balance of the Resource Indemnity Trust Fund has reached \$100 million. Statute directs a transfer of \$150,000 in the first year and transfers in subsequent years only to bring the balance of the account back up to \$150,000, including any donations or grants the department may have received to apply toward scholarships. Qualifying individuals are to be awarded tuition scholarships defined in 39-10-103, MCA as "tuition and mandatory fees, excluding room and board, rounded up to the nearest dollar, and a book allowance that are not covered by the federal Pell grant program, federal supplemental educational grant program, or Workforce Investment Act of 1998." The department started awarding scholarships for the fall semester of 2002. Through November 1, 2002, 3 out of 26 applicants had been awarded scholarships. The department states that most applicants did not qualify due to either being covered under another program (usually WIA), or not meeting the minimum work requirements within a natural resources industry field.

Given the short time with which to evaluate the program, it is difficult to provide information which may help the legislature make a determination on the success and impacts of the program. It is also difficult to project future need and number of applicants for the scholarship in order to accurately determine the appropriate funding level for the scholarship account. Therefore, the legislature may wish to ask the department for an update during the 2003 session as to the program applicants and awardees for the 2003 spring semester.

Additionally, the ability of the Resource Indemnity and Ground Water Assessment tax collections to replenish the account may be in question. For further information, please refer to the narrative on the Resource Indemnity Trust within the Department of Natural Resources and Conservation.

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7001 - ESA/Reed Act Fund Switch 01	0.00	0	(1,100,527)	1,100,527	0	0.00	0	(1,100,300)	1,100,300	0
<b>Total</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$1,100,527)</b>	<b>\$1,100,527</b>	<b>\$0</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$1,100,300)</b>	<b>\$1,100,300</b>	<b>\$0</b>

**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 7001 - ESA/Reed Act Fund Switch - The executive proposes to replace \$1.1 million in ESA (state special revenue) funding each year of the biennium with a like amount of federal Reed Act funding. This funding switch is intended to allow the freed-up ESA funding to be used in the National Guard Youth Challenge program.

**LFD ISSUE**

On March 13, 2002, as a result of excess funds in the Federal Unemployment Tax Accounts, Congress authorized a one-time-only \$8 billion distribution to state accounts in the Unemployment Trust Fund. Montana's share was \$18.6 million. In a May 9, 2002 letter, the federal Department of Labor stated "This distribution gives states an opportunity to make significant improvements in unemployment insurance (UI) and employment service (ES) operations in areas where grant funds have not been sufficient." This letter also listed suggested uses for the Reed Act funding, including:

- o revolving funds for UI and ES automation
- o UI and ES performance improvement
- o reducing UI fraud and abuse
- o improvement in UI claims filing and payment methods
- o one-stop administration

During the August 2002 Special Session, the legislature used \$4.1 million in Reed Act funds to replace a like amount of ESA funding within WSD. The freed-up ESA funding was in turn used to replace general fund within the Departments of Labor and Industry, Military Affairs, and Health and Human Services; and the Montana School for the Deaf and Blind. For the 2005 biennium, the executive proposes using \$1.1 million of Reed Act funding to replace the same amount of ESA funding, which will in turn be used to fund the state match portion of the National Guard Youth Challenge program funding. The department has budgeted the remaining Reed Act funds for administration of the UI program, ES administration, and bond payments.

**Pertinent Issues Concerning use of Reed Act Funds**

*1) Reed Act funds have strict and complicated guidelines for their use.*

Citing federal law (section 209 of the Temporary Extended Unemployment Compensation Act of 2002), the US Department of Labor (DOL) provided guidance stating that Reed Act funds can only be used for UI administration, UI benefits, and ES-related activities. In coordination with the US Department of Labor, these activities were defined by the department as those activities allowed under the Wagner-Peyser Act. Based on this assessment, during the August, 2002 Special Session, the department identified approximately \$4.7 million in budgeted ESA expenditures that would potentially be eligible for replacement with Reed Act funds. It appears the department has applied a reasonable standard for determining the maximum amount of ESA funding which could be replaced by Reed Act fund. Therefore, use beyond the identified \$4.7 million could result in unauthorized use of the state Reed Act distribution.

**LFD  
COMMENT  
(continued)**

2) *Distribution is one-time-only, with future distributions unplanned and uncertain.*

Of the \$18.6 million received by Montana, \$5.2 million, or 28 percent, has been spent or budgeted for funding switches to address the general fund shortfall. This 28 percent has only maintained the current level of services, and has not directly fostered improvements to either UI or ES operations. Additional use of Reed Act funds (including those in the executive 2005 biennium budget) to address the general fund shortfall will decrease the department's ability to make automation and performance improvements to UI and ES processes. Additionally, any funding switch reliant on Reed Act funding is a short-term proposal and does not provide a long-term funding source, nor does it address issues of prioritization of programs for general fund support.

3) *UI performance indicators show need for improvement.*

The department has identified areas for improvement within UI operations, with one of the most critical being payment timeliness. Since the last formal reporting period ending March 31, 2002, the department reports a decrease in nearly all of the 12 Tier 1 reporting measures. Additionally, the UI division reports a workload increase (based on claims filed) of 16.3 percent from fiscal 2001 to fiscal 2002, and an increase of 29.5 percent from calendar 2001 to calendar 2002. Phone centers have not been able to handle customer calls in a timely manner, creating access issues for the public. The department is responding by attempting to hire an additional 9.0 FTE, as well as moving ahead with implementation of internet-based claims filing.

**Pertinent Issues Concerning use of ESA Funds**

1) *Use of the ESA is expanding.*

- o As identified in the program issue narrative on the ESA, use of the ESA has expanded beyond the original uses for the account. Use of the ESA should be based on the philosophical approach taken by the legislature.

2) *The Stability of the ESA fund balance is questionable.*

Figure 2 shows historical and projected revenues, expenditures, and ending fund balance for the ESA.

**Figure 2**  
Account Review  
Employment Security Account

	Fiscal Year					
	Actual			Projected		
	2000	2001	2002	2003	2004	2005
Beginning Fund Balance	\$353,929	\$384,353	\$1,392,752	\$1,429,344	\$573,579	\$446,799
Revenues	\$5,315,242	\$6,231,276	\$6,195,707	\$6,504,207	\$6,530,990	\$6,547,211
Expenditures *	(5,284,818)	(5,222,877)	(6,159,115)	(7,359,972)	(6,657,770)	(6,886,069)
Ending Fund Balance	<u>\$384,353</u>	<u>\$1,392,752</u>	<u>\$1,429,344</u>	<u>\$573,579</u>	<u>\$446,799</u>	<u>\$107,941</u>

\* Fiscal 2002 expenditures include a one-time fund balance adjustment of (\$24,439).

The projected ESA fund balance at the end of the 2005 biennium is \$107,941, or 2 percent of overall budgeted expenditures. Based on department projections, and because on-going expenditures exceed revenues, the account fund balance will become negative in the 2007 biennium. Due to the uncertainty of revenues, which are based on taxable wage, and therefore, based on economic conditions in the state, it is uncertain as to actual timelines for when an account shortfall may need to be addressed (the fiscal 2002 ending fund balance exceeded projections by \$500,000). However, assuming projections to be relatively accurate, there appears to be no room to expand use of the ESA without backfilling it or driving the account negative prematurely.

**LFD  
ISSUE  
(continued)**

3) *Many programs are potentially competing for general fund and/or ESA usage, including programs in the departments of Labor and Industry, Military Affairs, and Health and Human Services.*

As discussed in the program issues narrative above, allocation of ESA funding should be based on a discussion of the legislative approach for use of the ESA, along with a concerted prioritization of all programs identified for potential ESA funding.

Therefore, when addressing this funding switch, the legislature has several options:

- Do not accept the Reed Act/ESA funding switch proposal, and fund all programs as provided in the base year (Youth Challenge program is one-time only, and therefore not funded in the base year).
- Do not accept the funding switch proposal. Prioritize all candidates for ESA/general fund use and fund accordingly, based on that overall prioritization, including discontinuation of programs, if desired.
- Accept the executive recommended fund switch.

**Proprietary Rates****Program Description**

Montana Career Information System (06051)

The Montana Career Information System (MCIS) has been active in Montana since 1980. The purpose of MCIS is to deliver current career and labor market information to Montanans in an easy-to-use, easy-to-understand format. This is the only career information delivery system in the country that has specific Montana labor market information included in each file. MCIS is currently being used at over 200 sites throughout the state by a wide variety of users: job service offices, vocational rehabilitation offices, high schools, community colleges, universities, tribal colleges, education and training agencies, and adult education programs.

**Revenues and Expenses**

The Montana Career Information System (MCIS) is funded by user fees not to exceed \$1,500 per site. Discounted rates are available for small schools and groups. High schools with enrollments over 200, all post-secondary schools, and all agencies and businesses are charged \$1,150 per year. Smaller high schools are charged \$575-\$977 depending on enrollment, and school districts are charged \$2,000 per year. Software for Macintosh computers is an additional \$200, and additional licensing for a middle school, if the high school has MCIS, is \$200 per year.

**Rate Explanation**

The goal of MCIS management is to cover the operating costs of the program while recovering sufficient revenue to maintain 60 days of working capital, which equals approximately \$24,000. This working capital amount and the recovery rates have been determined necessary by the department, due to timing issues between incurring of expenses and the provision of services/reimbursement from the schools.

**Report on Internal Service and Enterprise Funds, 2005 Biennium**

Fund	Fund Name	Agency #	Agency Name	Program Name
06051	Montana Career Info System	66020	Dept. of Labor & Industry	Job Service

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
<b>Operating Revenues:</b>						
Fee revenue						
Charges for Services	-	-	-	173,590	175,667	175,143
Net Fee Revenue	135,686	162,772	173,590	173,590	175,667	175,143
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	6	-	-	-
Total Operating Revenues	135,686	162,772	173,596	173,590	175,667	175,143
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	135,686	162,772	173,596	173,590	175,667	175,143
<b>Operating Expenses:</b>						
Personal Services	49,672	80,073	78,112	87,890	87,872	87,628
Other Operating Expenses	57,126	84,503	80,118	70,830	87,795	87,515
Miscellaneous, operating	8,912	12,971	10,574	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	115,710	177,547	168,804	158,720	175,667	175,143
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	115,710	177,547	168,804	158,720	175,667	175,143
Operating Income (Loss)	<b>19,976</b>	<b>(14,775)</b>	<b>4,792</b>	<b>14,870</b>	-	-
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	19,976	(14,775)	4,792	14,870	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	6,377	30,033	15,258	20,050	34,920	34,920
Net Income (Loss)	19,976	(14,775)	4,792	14,870	-	-
Retained Earnings/Fund Balances - June 30	<b>26,353</b>	<b>15,258</b>	<b>20,050</b>	<b>34,920</b>	<b>34,920</b>	<b>34,920</b>
60 days of expenses (Total Operating Expenses divided by 6)	19,285	29,591	28,134	26,453	29,278	29,191

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	107.50	0.00	0.00	107.50	0.00	0.00	107.50	107.50
Personal Services	3,771,812	469,592	0	4,241,404	468,996	0	4,240,808	8,482,212
Operating Expenses	2,255,957	138,496	0	2,394,453	148,842	0	2,404,799	4,799,252
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$6,027,769</b>	<b>\$608,088</b>	<b>\$0</b>	<b>\$6,635,857</b>	<b>\$617,838</b>	<b>\$0</b>	<b>\$6,645,607</b>	<b>\$13,281,464</b>
State/Other Special	283,213	21,742	0	304,955	21,742	0	304,955	609,910
Federal Special	5,744,556	586,346	0	6,330,902	596,096	0	6,340,652	12,671,554
<b>Total Funds</b>	<b>\$6,027,769</b>	<b>\$608,088</b>	<b>\$0</b>	<b>\$6,635,857</b>	<b>\$617,838</b>	<b>\$0</b>	<b>\$6,645,607</b>	<b>\$13,281,464</b>

**Program Description**

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs, which provide temporary, partial wage replacement to involuntarily unemployed individuals. The UI Division is organized into three bureaus: UI Benefits, UI Program Support, and UI Phone Claims. The UI Benefits Bureau manages special federal programs, provides training, oversees overpayment and fraud collections, and processes mail into the division's imaging system. The UI Program Support Bureau manages the Trust Fund, division budget, and information technology, provides data analysis, and assures program integrity. The UI Phone Claims Bureau has two phone centers (Billings and Helena) for claimants to file unemployment claims and employers to make UI related inquiries, and adjudicates disputed benefit claims.

<b>Unemployment Insurance Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ Although not included in the HB 2 budget the Unemployment Insurance Division stands to lose federal Reed Act spending authority upon approval of executive recommended funding switches in the Workforce Services Division. For further information, see the LFD Issue for DP 7001 in the narrative for the Workforce Services Division</li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>○ Issues/Options associated with the Reed Act funding switch. For more information, see the LFD Issue for DP 7001 in the narrative for the Workforce Services Division</li> </ul>

**Funding**

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

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02258 Employment Security Account	\$ 270,153	4.5%	\$ 289,955	4.4%	\$ 289,955	4.4%
02315 Dli Info Exchange	13,060	0.2%	15,000	0.2%	15,000	0.2%
03128 L & I Federal Funding	-	-	-	-	-	-
03277 U.I. Penalty & Interest	316,288	5.2%	350,000	5.3%	350,000	5.3%
03954 Ui Administrative Grants	5,428,268	90.1%	5,980,902	90.1%	5,990,652	90.1%
03967 Ui Reed Act	-	-	-	-	-	-
<b>Grand Total</b>	<b>\$ 6,027,769</b>	<b>100.0%</b>	<b>\$ 6,635,857</b>	<b>100.0%</b>	<b>\$ 6,645,607</b>	<b>100.0%</b>

The UI division is funded with state special revenue funds, including \$580,000 from the ESA, and federal funds, which are primarily UI Administrative Grants (\$12.0 million). During the 2005 biennium the division will also have access to federal funds as a result of Reed Act distributions. For more information on Reed Act funding, please see the LFD Issue following the narrative for New Proposal 7001 within the Workforce Services Division.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments					639,602					638,975
Personal Services					(176,460)					(176,429)
Vacancy Savings					(11,566)					(11,309)
Inflation/Deflation					68,294					77,934
Fixed Costs										
<b>Total Statewide Present Law Adjustments</b>					<b>\$519,870</b>					<b>\$529,171</b>
DP 4 - Increase in operating costs	0.00	0	0	88,218	88,218	0.00	0	0	88,667	88,667
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$88,218</b>	<b>\$88,218</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$88,667</b>	<b>\$88,667</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$608,088</b>					<b>\$617,838</b>

**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 4 - Increase in operating costs - DP 4 - Increase In Operating Costs - the executive requests increased federal special revenue authority for the following:

- o Fund increases to the department's cost allocation plan - \$42,000 each year;
- o Fund increased processing and printing through Department of Administration - \$40,000 each year; and
- o Per diem expenses for members of Board of Labor Appeals - \$6,400 each year.

<b>LFD COMMENT</b>	The per diem request equals the same level of expenditure the department incurred during the base year. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law adjustment.
--------------------	--

<b>LFD COMMENT</b>	For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the program narrative for the Commissioner's Office/Centralized Services Division
--------------------	--

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	20.50	0.00	0.00	20.50	0.00	0.00	20.50	20.50
Personal Services	969,374	132,230	0	1,101,604	131,443	0	1,100,817	2,202,421
Operating Expenses	298,452	19,754	0	318,206	19,342	0	317,794	636,000
<b>Total Costs</b>	<b>\$1,267,826</b>	<b>\$151,984</b>	<b>\$0</b>	<b>\$1,419,810</b>	<b>\$150,785</b>	<b>\$0</b>	<b>\$1,418,611</b>	<b>\$2,838,421</b>
General Fund	159,270	13,547	0	172,817	13,816	0	173,086	345,903
State/Other Special	653,702	97,746	0	751,448	96,747	0	750,449	1,501,897
Federal Special	411,728	15,861	0	427,589	15,497	0	427,225	854,814
Proprietary	43,126	24,830	0	67,956	24,725	0	67,851	135,807
<b>Total Funds</b>	<b>\$1,267,826</b>	<b>\$151,984</b>	<b>\$0</b>	<b>\$1,419,810</b>	<b>\$150,785</b>	<b>\$0</b>	<b>\$1,418,611</b>	<b>\$2,838,421</b>

**Program Description**

The Commissioner's Office and the Legal and Centralized Services Division provide program direction, legal, administration, and support services to the department. Legal and Centralized Services provides the central support functions of the department through five bureaus: 1) Fiscal Support; 2) Technical Services; 3) Human Resources; 4) Hearings; and 5) Legal Services.

<b>Commissioner's Office/Legal and Centralized Services Division</b>	
<b>Major Budget Highlights</b>	
o	No major changes to mission or operations from 2003 biennium
<b>Major LFD Issues</b>	
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.

<b>Program Funding Table</b>						
<b>Commissioner'S Office/Csd</b>						
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	\$ 159,270	12.6%	\$ 172,817	12.2%	\$ 173,086	12.2%
02258 Employment Security Account	256,602	20.2%	230,054	16.2%	229,707	16.2%
02315 Dli Info Exchange	543	0.0%	500	0.0%	500	0.0%
02448 Building Codes State Spec Rev	58,073	4.6%	80,925	5.7%	80,808	5.7%
02455 Workers' Comp Regulation	161,011	12.7%	203,906	14.4%	203,745	14.4%
02824 Board Of Medical Examiners	64,537	5.1%	87,817	6.2%	87,677	6.2%
02833 Board Of Nursing	58,783	4.6%	73,181	5.2%	73,064	5.2%
02854 Bd. Of Real Estate Appraisers	-	-	-	-	-	-
02941 Uninsured Employer Fund	54,153	4.3%	75,065	5.3%	74,948	5.3%
03122 Eeoc & Hud	14,952	1.2%	16,224	1.1%	16,250	1.1%
03128 L & I Federal Funding	-	-	-	-	-	-
03954 Ui Administrative Grants	396,776	31.3%	411,365	29.0%	410,975	29.0%
06546 Commissioner'S Office/Csd	43,126	3.4%	67,119	4.7%	67,014	4.7%
06547 L/Csd - Direct Charge	-	-	837	0.1%	837	0.1%
06552 Pol Admin Services	-	-	-	-	-	-
<b>Grand Total</b>	<b>\$1,267,826</b>	<b>100.0%</b>	<b>\$1,419,810</b>	<b>100.0%</b>	<b>\$1,418,611</b>	<b>100.0%</b>

The division operations are funded from several sources:

- o general fund, which pays expenses associated with hearings of Human Rights cases and CSD legal support to the Human Rights Bureau in the Employment Relations Division
- o state special revenue funds from several accounts including the Employment Security and Workers' Compensation Regulation accounts, along with revenue from several licensing boards within the Business Standards Division
- o federal funds, mainly from UI administration grants
- o proprietary funds from the department internal cost allocation plan

The proprietary funds are based on legislatively approved rates, and are not appropriated in HB 2, and are therefore not shown in the table. For further discussion of the proprietary funds, see the Proprietary Rates narrative at the end of this section.

Present Law Adjustments	Fiscal 2004				Fiscal 2005					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					170,063					169,244
Vacancy Savings					(45,577)					(45,545)
Inflation/Deflation					(77)					44
Fixed Costs					(3,628)					(4,256)
<b>Total Statewide Present Law Adjustments</b>					<b>\$120,781</b>					<b>\$119,487</b>
DP 11 - Misc. Operating Increase	0.00	7,079	16,037	5,994	31,203 *	0.00	7,079	16,119	6,007	31,298 *
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$7,079</b>	<b>\$16,037</b>	<b>\$5,994</b>	<b>\$31,203 *</b>	<b>0.00</b>	<b>\$7,079</b>	<b>\$16,119</b>	<b>\$6,007</b>	<b>\$31,298 *</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$151,984 *</b>					<b>\$150,785 *</b>

**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 - Misc. Operating Increase - The executive requests increased authority for the following:

- o additional personal services funding for positions filled since the budget snapshot was taken, with a higher salary than entry-level - \$19,000 each year
- o increases to the department cost allocation plan - \$12,000 each year

<b>LFD COMMENT</b>	For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the Proprietary Rates narrative for this program.
--------------------	--

**Proprietary Rates**

**Program Description**

Cost Allocation Plan (CAP) - The Commissioner's Office and the Legal/Centralized Services Division are partially funded through a cost allocation plan under which the various other divisions in the agency are assessed a percentage of their personal services costs to support centralized functions. The services provided through this accounting entity are administration, accounting, purchasing, budgeting, personnel, training, mail distribution, and information services.

Input/Output Control Operations Functions - The Legal/Centralized Services Division recovers costs of a unit called the Input/Output control Operations Function, which provides traffic control of data input, jobs for the mainframe computer system, and report output.

### **Revenues and Expenses**

There are no changes in projected services from the 2003 biennium. The goal of program management is to assess costs of centralized functions equitably to all divisions while maintaining a 60-day working capital level of approximately \$360,000.

### **Rate Explanation**

Cost Allocation Plan - The CAP rate is determined by dividing projected personal services expenditures on FTE not supported by CAP revenue by the projected revenue needed to perform centralized services required for the department.

Input/Output Control Operation Functions - Internal users are directly charged for the services received and are billed quarterly. Direct charges are for services that are easily identifiable and charged directly to the beneficiary of the service. Direct charges are estimated during the budget submission process, and actual costs incurred are charged to the appropriate division/bureau.

### **Significant Present Law**

BSD Hearings - SB 445 transferred three programs from the Department of Commerce to the Department of Labor and Industry. Prior to being assumed by the Hearings Bureau within the Department of Labor and Industry, hearings for the Building Codes Division were performed by Agency Legal Services within the Department of Commerce. The Hearings Bureau did not take over these hearings until three quarters of the way through the base year. This increase will adjust the rate to bring projected revenues in line with projected expenditures.

### **Requested Language**

The department proposes the following language for its CAP rate:

"Cost Allocation Plan (CAP)

It is the intent of the legislature that the rates charged for these function be the rates agreed upon by the United State Department of Labor federal cost negotiator. It is anticipated that the assessment will be as much as 10 percent and 12 percent of a program's actual personal services costs incurred in fiscal year 2002 and fiscal year 2003."

**LFD  
COMMENT**

The legislature sets the maximum rate that can be charged; therefore, the proposed language is not necessary. If the legislature wishes to specify the calculation of rates in addition to the maximum rate charged, the following language could be used: "The rates charged for these functions are the rates agreed upon by the United State Department of Labor federal cost negotiator, up to 10 percent and 12 percent of a program's actual personal services costs incurred in fiscal year 2002 and fiscal year 2003."

## Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06546, 06547, 06551, 06562, 06574	L&I Central Services	66020	Dept. of Labor & Industry	CSD

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
<b>Operating Revenues:</b>						
Fee revenue						
Cost Allocation Plan	-	-	-	2,375,938	2,833,585	2,835,836
Net Fee Revenue	929,663	553,176	(846,939)	2,375,938	2,833,585	2,835,836
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	4,333	15,627	1,195,050	-	-	-
Total Operating Revenues	933,996	568,803	348,111	2,375,938	2,833,585	2,835,836
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	933,996	568,803	348,111	2,375,938	2,833,585	2,835,836
<b>Operating Expenses:</b>						
Personal Services	1,198,879	1,179,360	1,690,809	1,769,867	2,147,664	2,145,081
Other Operating Expenses	502,950	468,912	535,617	29,420	12,831	12,831
Miscellaneous, operating	27,235	24,199	37,372	576,651	673,090	677,924
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	1,729,064	1,672,471	2,263,798	2,375,938	2,833,585	2,835,836
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	1,729,064	1,672,471	2,263,798	2,375,938	2,833,585	2,835,836
Operating Income (Loss)	<b>(795,068)</b>	<b>(1,103,668)</b>	<b>(1,915,687)</b>	-	-	-
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	(5,059)	(6,377)	-	-	-
Federal Indirect Cost Recoveries	914,712	971,744	1,868,635	-	-	-
Other Nonoperating Revenues (Expenses)	316	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	915,028	966,685	1,862,258	-	-	-
Income (Loss) Before Operating Transfers	119,960	(136,983)	(53,429)	-	-	-
Contributed Capital	10,947	10,947	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	345,215	465,176	339,140	285,711	285,711	285,711
Net Income (Loss)	130,907	(126,036)	(53,429)	-	-	-
Retained Earnings/Fund Balances - June 30	<b>476,122</b>	<b>339,140</b>	<b>285,711</b>	<b>285,711</b>	<b>285,711</b>	<b>285,711</b>
60 days of expenses (Total Operating Expenses divided by 6)	288,177	278,745	377,300	395,990	472,264	472,639

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	116.51	0.00	0.00	116.51	0.00	0.00	116.51	116.51
Personal Services	4,637,473	410,970	0	5,048,443	408,370	0	5,045,843	10,094,286
Operating Expenses	2,356,730	106,599	0	2,463,329	105,250	0	2,461,980	4,925,309
Equipment	103,222	0	0	103,222	0	0	103,222	206,444
Benefits & Claims	258,597	0	0	258,597	0	0	258,597	517,194
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$7,356,022</b>	<b>\$517,569</b>	<b>\$0</b>	<b>\$7,873,591</b>	<b>\$513,620</b>	<b>\$0</b>	<b>\$7,869,642</b>	<b>\$15,743,233</b>
General Fund	869,937	(15,388)	0	854,549	(17,677)	0	852,260	1,706,809
State/Other Special	5,751,732	546,310	0	6,298,042	544,650	0	6,296,382	12,594,424
Federal Special	734,353	(13,353)	0	721,000	(13,353)	0	721,000	1,442,000
<b>Total Funds</b>	<b>\$7,356,022</b>	<b>\$517,569</b>	<b>\$0</b>	<b>\$7,873,591</b>	<b>\$513,620</b>	<b>\$0</b>	<b>\$7,869,642</b>	<b>\$15,743,233</b>

**Program Description**

The Employment Relations Division (ERD) provides five service areas:

- Workers' Compensation (WC) Regulation, which regulates WC insurance coverage requirements, policy compliance, medical regulations, and cost containment; and WC Claims Assistance Bureau, which assists organizations and individuals to arrive at early, less expensive settlement of their disputes
- Labor Standards Bureau, which enforces state and federal labor laws related to the payment of wages, and provides collective bargaining mediation
- Safety Bureau, which administers federal and state industrial safety laws
- Human Rights Bureau, which enforces Montana Human Rights Act and Governmental Code of Fair Practices through investigations, conciliation, hearings, and education. This bureau is responsible for enforcing laws which prohibit discrimination in employment, housing, public accommodations, financing and credit transactions, insurance, education, and government services
- Contractor Registration and Independent Contractor Exemption programs, which register contractors
- Board of Personnel Appeals, which deals with issues related to wage and hour, and collective bargaining disputes between employers and employees and is administratively attached.

<b>Employment Relations Division Major Budget Highlights</b>
○ No major changes to mission or operations from 2003 biennium
<b>Major LFD Issues</b>
○ None

**Funding**

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

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 869,937	11.8%	\$ 854,549	10.9%	\$ 852,260	10.8%
02091 Independ Contractors Exemption	177,360	2.4%	289,813	3.7%	289,173	3.7%
02236 Industrial Accident Rehab	69,302	0.9%	69,302	0.9%	69,302	0.9%
02258 Employment Security Account	810,626	11.0%	843,711	10.7%	845,309	10.7%
02263 Subsequent Infury-Admin	33,275	0.5%	35,000	0.4%	35,000	0.4%
02315 Dli Info Exchange	3,256	0.0%	-	-	-	-
02346 Contractor Registration	192,396	2.6%	179,731	2.3%	179,348	2.3%
02455 Workers' Comp Regulation	3,664,106	49.8%	4,163,768	52.9%	4,160,413	52.9%
02941 Uninsured Employer Fund	801,411	10.9%	716,717	9.1%	717,837	9.1%
03122 Eeoc & Hud	119,987	1.6%	126,000	1.6%	126,000	1.6%
03128 L & I Federal Funding	-	-	-	-	-	-
03130 Coal Mine Safety	131,511	1.8%	130,000	1.7%	130,000	1.7%
03195 On-Site Consultation	481,381	6.5%	465,000	5.9%	465,000	5.9%
03954 Ui Administrative Grants	<u>1,474</u>	<u>0.0%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grand Total	<u>\$ 7,356,022</u>	<u>100.0%</u>	<u>\$ 7,873,591</u>	<u>100.0%</u>	<u>\$ 7,869,642</u>	<u>100.0%</u>

The division operations are funded from several sources:

- o general fund, which supports the Silicosis and Social Security Benefits program and a portion of the Human Rights Bureau;
- o state special revenue funds from several accounts including the Workers' Compensation Regulation, Employment Security, Uninsured Employer, Independent Contractor Exemption, and Contractors' Registration accounts; and
- o federal funds, including Coal Mine Safety, on-site consultation, and Equal Employment Opportunity funds.

	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					608,300					605,593
Vacancy Savings					(209,830)					(209,723)
Inflation/Deflation					9,389					18,526
Fixed Costs					(5,912)					(16,822)
<b>Total Statewide Present Law Adjustments</b>					<b>\$401,947</b>					<b>\$397,574</b>
DP 2 - AUTOMATED REPORTING										
0.00	0		50,000	0	50,000	0.00	0	50,000	0	50,000
DP 10 - OPERATING COST ADJUSTMENTS										
0.00	0		59,622	6,000	65,622	0.00	0	60,046	6,000	66,046
<b>Total Other Present Law Adjustments</b>										
<b>0.00</b>	<b>\$0</b>		<b>\$109,622</b>	<b>\$6,000</b>	<b>\$115,622</b>	<b>0.00</b>	<b>\$0</b>	<b>\$110,046</b>	<b>\$6,000</b>	<b>\$116,046</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$517,569</b>					<b>\$513,620</b>

**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 2 - AUTOMATED REPORTING** - The executive requests state special revenue authority for additional information technology consulting services to augment current processes used for electronic reporting of required information to the workers' compensation database (WCAP). Funding is from the Workers' Compensation Regulation fund.

**LFD COMMENT** The department states these improvements will provide improved electronic access for small employers, insurance companies and the State Compensation Insurance Fund, allowing them to report required data on injuries and proof of coverage directly to ERD without having to pay for reporting through a value added network.

**LFD ISSUE** These costs will be one-time-only; therefore, the legislature may wish to designate this funding as one-time-only.

**DP 10 - OPERATING COST ADJUSTMENTS** - The executive requests increased state and federal special revenue authority for the following:

- Fund increases to the department's cost allocation plan - \$53,000 each year
- Per diem expenses for members of Board of Personnel Appeals and Human Rights Commission - \$12,500 each year

**LFD COMMENT** The per diem request is close to the same level appropriated during the 2003 biennium. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law 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 Commissioner's Office/Centralized Services Division.

## Proprietary Rates

### Program Description

The Subsequent Injury Fund was established in 1973 to assist persons with disabilities in becoming employed, by offering a financial incentive to the employers who hire them. The incentive has a limit of 104 weeks of benefits paid by their Workers' Compensation carrier in the event of an on-the-job injury to the certified employee, thus minimizing workers' compensation expenses.

### Revenues and Expenses

Beginning July 1, 1999, the fund is maintained by annual assessment of all Montana Workers' Compensation insurers, including self-insured employers, private insurers and the State Fund. The assessment is statutorily set (39-71-915 MCA) at the amount expended by the fund for the benefit payments, plus the cost of administration in the previous calendar year, less other income. The assessment is allocated among insurers based on their compensation and medical payments for the previous calendar year. The fund balance is maintained at approximately \$1,000,000 to provide an operating balance for payment of benefits and administrative costs.

**Report on Internal Service and Enterprise Funds, 2005 Biennium**

Fund	Fund Name	Agency #	Agency Name	Program Name
06040	Subsequent Injury Fund	66020	Dept. of Labor & Industry	Employment Relations

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
<b>Operating Revenues:</b>						
Fee revenue						
Subsequent Injury Fund Assessment	-	-	-	241,075	184,112	184,112
Net Fee Revenue	(641)	922	101,045	241,075	184,112	184,112
Investment Earnings	72,786	171,513	141,382	80,097	80,000	80,000
Securities Lending Income	26,036	31,318	17,879	17,800	17,800	17,800
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	(15,400)	(15,400)	(15,400)
Total Operating Revenues	98,181	203,753	260,306	323,572	266,512	266,512
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	98,181	203,753	260,306	323,572	266,512	266,512
<b>Operating Expenses:</b>						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	257,283	499,468	217,840	290,369	233,309	233,309
Operating Income (Loss)	<b>(159,102)</b>	<b>(295,715)</b>	<b>42,466</b>	<b>33,203</b>	<b>33,203</b>	<b>33,203</b>
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(159,102)	(295,715)	42,466	33,203	33,203	33,203
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(30,754)	(33,203)	(33,203)	(33,203)	(33,203)
Retained Earnings/Fund Balances - July 1 - As Restated	(128,626)	(287,728)	(614,197)	(604,934)	(604,934)	(604,934)
Net Income (Loss)	(159,102)	(326,469)	9,263	-	-	-
Retained Earnings/Fund Balances - June 30	<b>(287,728)</b>	<b>(614,197)</b>	<b>(604,934)</b>	<b>(604,934)</b>	<b>(604,934)</b>	<b>(604,934)</b>
60 days of expenses (Total Operating Expenses divided by 6)	42,881	83,245	36,307	48,395	38,885	38,885

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	104.53	0.00	1.50	106.03	0.00	1.50	106.03	106.03
Personal Services	3,648,645	859,905	45,174	4,553,724	863,354	45,038	4,557,037	9,110,761
Operating Expenses	4,859,224	842,742	18,623	5,720,589	866,952	16,123	5,742,299	11,462,888
Equipment	232,588	30,000	0	262,588	30,000	0	262,588	525,176
Grants	115	30,000	0	30,115	30,000	0	30,115	60,230
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$8,740,572</b>	<b>\$1,762,647</b>	<b>\$63,797</b>	<b>\$10,567,016</b>	<b>\$1,790,306</b>	<b>\$61,161</b>	<b>\$10,592,039</b>	<b>\$21,159,055</b>
State/Other Special Proprietary	8,740,572	1,762,647	63,797	10,567,016	1,790,306	61,161	10,592,039	21,159,055
	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$8,740,572</b>	<b>\$1,762,647</b>	<b>\$63,797</b>	<b>\$10,567,016</b>	<b>\$1,790,306</b>	<b>\$61,161</b>	<b>\$10,592,039</b>	<b>\$21,159,055</b>

**Program Description**

The Business Standards Division (BSD) consists of four bureaus:

- o The Building Codes Bureau (BCB) establishes and enforces minimum building, plumbing, mechanical, electrical, energy, elevator and boiler codes for use throughout Montana, including factory built buildings. It approves and certifies local government code enforcement programs to utilize codes adopted by the bureau. The BCB also assists the Board of Plumbers and State Electrical Board with license law enforcement by checking for proper licensing when inspecting projects for code compliance.
- o The Weights & Measures Bureau (WMB) is responsible for licensing, inspecting, testing and certifying all weighing and measuring devices used in making commercial transactions in the Montana. WMB also enforces laws and regulations pertaining to the quantity control of prepackaged goods, the quality control of petroleum products and is responsible for maintaining the state standards of mass and volume applied when calibrating other mass and volume standards used in testing commercial devices.
- o The Health Care Licensing Bureau (HCLB) provides administrative, clerical and compliance support for 19 licensing boards and one program that licenses professionals and individuals working in the health care field.
- o The Business & Occupational Licensing Bureau (BOLB) provides administrative, clerical and compliance support for 14 licensing boards and four licensing programs that license professionals and individuals working in non-health-care-related professions and occupations.

<b>Business Standards Division</b>
<b>Major Budget Highlights</b>
o Reorganized from Department of Commerce to Department of Labor and Industry in fiscal 2002
<b>Major LFD Issues</b>
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.

<b>Program Funding Table</b>						
<b>Business Standards Division</b>						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02034 Earmarked Alcohol Funds	\$ 24,592	0.3%	\$ 44,087	0.4%	\$ 44,087	0.4%
02078 Occupational Therapists	22,414	0.3%	20,100	0.2%	19,195	0.2%
02079 Fire Protection & Permitting	13,052	0.1%	30,730	0.3%	31,167	0.3%
02109 Board Of Outfitters	479,974	5.5%	555,867	5.3%	562,557	5.3%
02155 Boiler,Blaster,Crane Licensing	133,837	1.5%	196,418	1.9%	201,630	1.9%
02160 Licensing Pvt EmPLY Agencies	-	-	70,000	0.7%	70,000	0.7%
02359 Chemical Dependency Counselors	25,043	0.3%	78,020	0.7%	80,475	0.8%
02446 Board Of Psychologist Exam	38,088	0.4%	55,992	0.5%	56,999	0.5%
02448 Building Codes State Spec Rev	3,139,067	35.9%	3,791,812	35.9%	3,759,522	35.5%
02673 Continuing Education Program	15,486	0.2%	15,486	0.1%	15,486	0.1%
02805 Weights & Measures Bureau	686,114	7.8%	782,965	7.4%	781,808	7.4%
02808 Board Of Landscape Architects	26,945	0.3%	24,433	0.2%	24,545	0.2%
02809 Board Of Speech Pathologists	18,940	0.2%	35,648	0.3%	35,734	0.3%
02810 Bd Of Radiologic Technologists	42,833	0.5%	56,839	0.5%	56,615	0.5%
02811 Clinical Lab Science Pract.	33,626	0.4%	50,375	0.5%	50,982	0.5%
02812 Physical Therapists	22,209	0.3%	34,344	0.3%	35,092	0.3%
02813 Bd Of Nursing Home Admin	22,311	0.3%	39,156	0.4%	40,127	0.4%
02814 Bd Of Hearing Aid Dispensers	19,195	0.2%	28,410	0.3%	29,017	0.3%
02815 Board Of Public Accountants	301,980	3.5%	287,413	2.7%	290,200	2.7%
02816 Board Of Sanitarians	10,508	0.1%	8,297	0.1%	8,428	0.1%
02818 Electrical Board	117,457	1.3%	189,233	1.8%	193,997	1.8%
02819 Real Estate	507,167	5.8%	604,945	5.7%	607,759	5.7%
02820 Board Of Architects	56,402	0.6%	45,829	0.4%	46,510	0.4%
02821 Board Of Funeral Service	57,272	0.7%	52,938	0.5%	53,687	0.5%
02822 Board Of Chiropractors	46,305	0.5%	57,355	0.5%	58,452	0.6%
02823 Professional Engineers	259,855	3.0%	258,005	2.4%	258,948	2.4%
02824 Board Of Medical Examiners	606,467	6.9%	651,300	6.2%	656,888	6.2%
02826 Cosmetology Board	284,541	3.3%	383,040	3.6%	387,512	3.7%
02828 Board Of Plumbers	130,040	1.5%	185,468	1.8%	188,240	1.8%
02829 Private Investigator	87,109	1.0%	95,885	0.9%	97,167	0.9%
02830 Board Of Dentistry	156,137	1.8%	193,073	1.8%	196,022	1.9%
02831 Board Of Optometrists	27,978	0.3%	40,287	0.4%	41,140	0.4%
02832 Board Of Pharmacy	202,906	2.3%	344,036	3.3%	345,647	3.3%
02833 Board Of Nursing	740,560	8.5%	754,771	7.1%	756,655	7.1%
02834 Board Of Veterinarians	44,750	0.5%	56,970	0.5%	57,856	0.5%
02835 Board Of Barbers	44,496	0.5%	52,041	0.5%	53,044	0.5%
02840 Board Of Social Workers	84,538	1.0%	119,251	1.1%	121,021	1.1%
02841 Board Of Athletics	26,718	0.3%	45,854	0.4%	46,410	0.4%
02852 Bd. Of Alternative Health Care	23,109	0.3%	34,559	0.3%	35,192	0.3%
02854 Bd. Of Real Estate Appraisers	149,131	1.7%	168,637	1.6%	170,663	1.6%
02855 Bd Of Respiratory Care	11,420	0.1%	27,147	0.3%	25,563	0.2%
06552 Pol Admin Services	-	-	-	-	-	-
Grand Total	<u>\$ 8,740,572</u>	<u>100.0%</u>	<u>\$ 10,567,016</u>	<u>100.0%</u>	<u>\$ 10,592,039</u>	<u>100.0%</u>

The division is funded entirely from state special revenue and proprietary funds.

- the Building Codes Bureau is funded from inspection fees deposited into the Building Codes state special revenue fund;
- the Weights and Measures Bureau is funded from license and inspection fees deposited into the Weights and Measures state special revenue fund;

- the Health Care Licensing Bureau is funded with state special revenue from the licensing boards and programs it oversees;
- the Business and Occupational Licensing Bureau is funded with state special revenue from the licensing boards and programs it oversees; and
- division administrative functions are centrally-funded from a proprietary fund with indirect charges paid by all bureaus within the division. These proprietary funds are based on legislatively-approved rates, and are not appropriated in HB 2; therefore, they are not shown in the table. For further discussion of the proprietary funds, see the Proprietary Rates section at the end of this narrative.

	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					909,003					910,714
Vacancy Savings					(182,318)					(182,380)
Inflation/Deflation					24,184					29,239
Fixed Costs					34,798					29,578
<b>Total Statewide Present Law Adjustments</b>					<b>\$785,667</b>					<b>\$787,151</b>
DP 3 - Restore OTO - BOLB & BCB Vehicle Request										
	0.00	0	27,281	0	27,281	0.00	0	28,131	0	28,131
DP 6 - Legal Contingency Fund										
	0.00	0	70,000	0	70,000	0.00	0	70,000	0	70,000
DP 7 - Real Estate Regulation Grants Increase										
	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 8 - BCB & W&M Operating Increase										
	0.00	0	144,200	0	144,200	0.00	0	108,927	0	108,927
DP 9 - Oracle System Support										
	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 13 - Board Operating Increase										
	0.00	0	655,499	0	655,499	0.00	0	716,097	0	716,097
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$976,980</b>	<b>\$0</b>	<b>\$976,980</b>	<b>0.00</b>	<b>\$0</b>	<b>\$1,003,155</b>	<b>\$0</b>	<b>\$1,003,155</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$1,762,647</b>					<b>\$1,790,306</b>

**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 3 - Restore OTO - BOLB & BCB Vehicle Request - The executive requests an increase in state special revenue of approx \$28,000 each year of the biennium for the following:

- a decrease in personal car mileage as a result of increase use of leased vehicles vs. employees' personal vehicles within the State Electrical Board, Board of Cosmetologists, Board of Barbers, and the Board of Outfitters - \$5,400 reduction each year; and
- additional equipment funding to purchase two new vehicles within the Building Codes Bureau. This request is restoring a portion of vehicle replacement funding that the legislature designated as OTO during the 2001 session - \$30,000 each year.

**LFD  
COMMENT**

The 2001 legislature provided the Building Codes Bureau approximately \$46,000 in each year of the 2003 biennium for the purpose of purchasing replacement vehicles. The legislature designated this funding as one-time-only, and added language to HB 2 requiring the department to "report to the 2003 legislature on options for a fleet management plan to stabilize vehicle replacement costs within the Building Codes Division." The Building Codes Bureau has defined its formal vehicle replacement plan to contain the following elements:

- Approximately 25 percent of vehicles (11 of 41) require replacing each year
- Vehicles are targeted for replacement at 100,000 miles
- Annual vehicle replacement projections are based on average miles driven by each inspector
- Six of the lowest-mileage vehicles targeted for replacement are kept for use by office staff for out-of-town travel and as temporary replacement vehicles.

DP 6 - Legal Contingency Fund - The executive requests \$70,000 each year in state special revenue authority to reestablish the legal proceeding contingency fund, which was funded as one-time-only during the 2001 session. The legal proceeding contingency fund supports all boards and programs within the division in most legal matters. This request is at the same level as requested and appropriated during the 2001 session.

**LFD  
ISSUE**

If the legislature wishes to appropriated funding to be used solely for the legal proceeding contingency fund, the appropriation can be designated as restricted.

DP 7 - Real Estate Regulation Grants Increase - The executive requests additional state special revenue authority from the Real Estate Recovery Account to offer education grants to private education providers offering continuing education in rural areas and in specialty topic areas, where revenue will not meet expenses. The grants are not intended to provide 100% funding for an educational course. This request is for \$30,000 each year of the biennium.

DP 8 - BCB & W&M Operating Increase - The executive requests increased state and federal special revenue authority for the following, funded from Building Codes and Weights and Measures state special revenue:

- Building Codes inspector travel increase due to vacancies in the base year - \$32,000 each year
- Rent adjustments - (\$30) in fiscal 2004, \$1,527 in fiscal 2005
- Increased indirect costs to support BSD administration - approximately \$115,000 each year

**LFD  
COMMENT**

For more information regarding the indirect costs charged to each program, refer to the discussion on rates contained in the Proprietary Rates narrative for this program.

DP 9 - Oracle System Support - The executive requests additional state special revenue authority for all business and occupational licensing boards for consulting services (\$50,000 each year). The increase will fund various modifications to the Oracle database as a result of changes in requirements, and will service 33 boards and 5 programs with over 200 registration/license types.

DP 13 - Board Operating Increase - The executive requests increased state and federal special revenue authority for the following:

- o Increased recharges for support bureau and division functions - \$283,254 in fiscal 2004, \$351,352 in fiscal 2005
- o Per diem for board members - approximately \$128,000 each year
- o Rent increases - approximately \$15,000 each year
- o Various contracted services for the Board of Athletics, State Electrical Board, Board of Realty Regulation, and Board of Plumbers - approximately \$100,000 each year
- o Miscellaneous operating costs adjustments

<b>LFD COMMENT</b>	The per diem request is approximately \$25,000 per year over base year expenditures. However, this specific type of personal services expenditure is not automatically carried over into the base, and must be requested in its entirety as a present law adjustment.
--------------------	---

New Proposals	Fiscal 2004					Fiscal 2005					
	Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5 - Board FTE Request											
05	1.50	0	63,797	0	63,797	1.50	0	61,161	0	61,161	
<b>Total</b>	<b>1.50</b>	<b>\$0</b>	<b>\$63,797</b>	<b>\$0</b>	<b>\$63,797</b>	<b>1.50</b>	<b>\$0</b>	<b>\$61,161</b>	<b>\$0</b>	<b>\$61,161</b>	

**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 5 - Board FTE Request - The executive requests state special revenue authority for 1.5 FTE. 1.0 FTE is requested for the Board of Pharmacy to accommodate increased workload due to the addition of mandatory registration of pharmacy technicians, as passed by the 2001 legislature. 0.5 FTE is requested for the Board of Plumbers to accommodate increased continuing education workload due to an increased number of plumbers. Funding is from the Board of Pharmacy and Board of Plumbers state special revenue funds.

**Proprietary Rates**

**Program Description**

The intent of the BSD Administration internal service fund is to cover division and bureau level costs of operation that are common to the bureaus, boards and programs of the division. Common costs of operation are assessed through recharges to the various state special revenue accounts maintained within the division.

The fund provides support to the Building Codes, Weights and Measures, Business and Occupational Licensing, and Health Care Licensing bureaus. The programs within the Health Care Licensing and Business and Occupational Licensing bureaus include:

- |  |  |
|--|--|
| Health Care Licensing<br>Licensed Addiction Counselors<br>Bd. of Chiropractors<br>Bd. of Dentistry<br>Bd. of Hearing Aid Dispenser<br>Bd. of Respiratory Care Practitioners<br>Bd. of Alternative Health Care<br>Bd. of Medical Examiners<br>Bd. of Funeral Services | Business and Occupational Licensing<br>Bd. of Architects<br>Bd. of Athletics<br>Bd. of Cosmetologists<br>State Electrical Bd.<br>Bd. of Outfitters<br>Bd. of Professional Eng. & Land Surv.<br>Bd. of Public Accountants<br>Bd. of Realty Regulation |
|--|--|

Bd. of Nursing  
Bd. of Nursing Home Admin.  
Bd. of Optometry  
Bd. of Pharmacy  
Bd. of Veterinary Medicine  
Bd. of Psychologists  
Bd. of Speech Pathologists & Audiologists  
Bd. of Radiologic Technologists  
Bd. of Social Workers & Prof. Counselors  
Bd. of Physical Therapy Examiners  
Bd. of Occupational Therapists  
Bd. of clinical Lab. Science Practitioners

Bd. of Real Estate Appraisers  
Bd. of Sanitarians  
Bd. of Private Security Patrol Officers  
Bd. of Landscape Architects  
Bd. of Plumbers  
Fire Prevention Installers Licensing  
Boiler, Blaster, Crane Licensing  
Board of Barbers

### **Revenues and Expenses**

The revenue objective of the BSD Administration fund is to assess the common costs of operations to the state special revenue accounts on an equitable basis, while attempting to maintain a reasonable working capital reserve.

### **Rate Explanation**

Recharge rates are allocated to the state special revenue accounts based upon projected expenditures. Each program is assigned a percentage rate based on assigned FTE. That percentage is then applied to determine each program's share of the necessary revenues.

### **Significant Present Law**

DP 17 - BSD Administration - The department has created the Business Standards Division (BSD) with four bureaus to manage the reorganization adopted last session in SB 445. This request finalized establishment of the BSD internal service fund, including an adjustment for the alternative pay plan.

Report on Internal Service and Enterprise Funds, 2005 Biennium						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06552	Admin Services	66020	Dept. of Labor & Industry	Business Standards Division		
			actual	actual	actual	budgeted
			FY00	FY01	FY02	FY03
						budgeted
						FY05
<b>Operating Revenues:</b>						
Fee revenue						
Cost Allocation Plan						
			-	-	-	2,081,768
						1,840,707
						1,833,458
			<u>2,961,587</u>	<u>2,989,833</u>	<u>2,807,530</u>	<u>2,081,768</u>
						<u>1,840,707</u>
						<u>1,833,458</u>
Investment Earnings						
			-	-	-	-
Securities Lending Income						
			-	-	-	-
Premiums						
			-	-	-	-
Other Operating Revenues						
			5,881	140	-	-
			<u>2,967,468</u>	<u>2,989,973</u>	<u>2,807,530</u>	<u>2,081,768</u>
						<u>1,840,707</u>
						<u>1,833,458</u>
Intrafund Revenue						
			-	-	-	-
			<u>2,967,468</u>	<u>2,989,973</u>	<u>2,807,530</u>	<u>2,081,768</u>
						<u>1,840,707</u>
						<u>1,833,458</u>
<b>Operating Expenses:</b>						
Personal Services						
			2,317,728	2,319,982	2,092,370	1,513,984
						1,301,718
						1,303,187
Other Operating Expenses						
			451,187	603,621	662,086	-
Miscellaneous, operating						
			166,061	181,287	187,568	567,784
						538,989
						530,271
Miscellaneous, other						
			-	-	-	-
			<u>2,934,976</u>	<u>3,104,890</u>	<u>2,942,024</u>	<u>2,081,768</u>
						<u>1,840,707</u>
						<u>1,833,458</u>
Intrafund Expense						
			-	-	-	-
			<u>2,934,976</u>	<u>3,104,890</u>	<u>2,942,024</u>	<u>2,081,768</u>
						<u>1,840,707</u>
						<u>1,833,458</u>
Operating Income (Loss)						
			<b>32,492</b>	<b>(114,917)</b>	<b>(134,494)</b>	-
						-
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets						
			-	(9,385)	(3,005)	-
						-
Federal Indirect Cost Recoveries						
			103,926	110,360	236,799	-
						-
Other Nonoperating Revenues (Expenses)						
			-	-	-	-
			<u>103,926</u>	<u>100,975</u>	<u>233,794</u>	-
						-
						-
Income (Loss) Before Operating Transfers						
			136,418	(13,942)	99,300	-
						-
Contributed Capital						
			47,208	47,208	-	-
						-
Operating Transfers In (Note 13)						
			-	-	-	-
Operating Transfers Out (Note 13)						
			-	-	-	-
						-
Retained Earnings/Fund Balances - July 1 - As Restated						
			93,885	229,525	215,583	314,883
						314,883
			<u>183,626</u>	<u>33,266</u>	<u>99,300</u>	-
						-
			<u>277,511</u>	<u>262,791</u>	<u>314,883</u>	<u>314,883</u>
						<u>314,883</u>
						<u>314,883</u>
60 days of expenses						
			489,163	517,482	490,337	346,961
						306,785
						305,576

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	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	113,621	42,242	0	155,863	41,790	0	155,411	311,274
Operating Expenses	106,530	6,944	0	113,474	6,974	0	113,504	226,978
Grants	1,838,744	1,000,000	0	2,838,744	1,000,000	0	2,838,744	5,677,488
<b>Total Costs</b>	<b>\$2,058,895</b>	<b>\$1,049,186</b>	<b>\$0</b>	<b>\$3,108,081</b>	<b>\$1,048,764</b>	<b>\$0</b>	<b>\$3,107,659</b>	<b>\$6,215,740</b>
General Fund	24,693	0	0	24,693	0	0	24,693	49,386
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	2,034,202	1,049,186	0	3,083,388	1,048,764	0	3,082,966	6,166,354
<b>Total Funds</b>	<b>\$2,058,895</b>	<b>\$1,049,186</b>	<b>\$0</b>	<b>\$3,108,081</b>	<b>\$1,048,764</b>	<b>\$0</b>	<b>\$3,107,659</b>	<b>\$6,215,740</b>

**Program Description**

The Office of Community Services (OCS) provides administration of federal Corporation for National Service programs (AmeriCorps and Campus Corps), community service, and volunteer efforts statewide, including the Volunteer Montana program.

<b>Office of Community Service Major Budget Highlights</b>
○ No major changes to mission or operations from 2003 biennium
<b>Major LFD Issues</b>
○ 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 Office Of Community Service							
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	\$ 24,693	1.2%	\$ 24,693	0.8%	\$ 24,693	0.8%	
02303 Montana Summit/Promise	-	-	-	-	-	-	
03322 Mt Community Service Fsr	2,034,202	98.8%	3,083,388	99.2%	3,082,966	99.2%	
<b>Grand Total</b>	<b>\$ 2,058,895</b>	<b>100.0%</b>	<b>\$ 3,108,081</b>	<b>100.0%</b>	<b>\$ 3,107,659</b>	<b>100.0%</b>	

Federal funds provide over 99 percent of the funding for the OCS program with the remainder provided by general fund, which is used to provide a portion of the state match for the program administration grant. The remainder of the state match is provided through donations and in-kind donations.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					48,736					48,265
Vacancy Savings					(6,494)					(6,475)
Inflation/Deflation					(211)					(137)
Fixed Costs					3,510					3,481
<b>Total Statewide Present Law Adjustments</b>					<b>\$45,541</b>					<b>\$45,134</b>
DP 702 - Grant Funding Increase										
0.00	0	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 703 - Misc. Expenses Increase										
0.00	0	0	0	3,645	3,645	0.00	0	0	3,630	3,630
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,003,645</b>	<b>\$1,003,645</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,003,630</b>	<b>\$1,003,630</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$1,049,186</b>					<b>\$1,048,764</b>

**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 702 - Grant Funding Increase - The executive requests an additional \$1 million in federal special revenue authority each year to accommodate an anticipated increase in federal AmeriCorps program grants. The three new planning grants are projected to be used to develop full-fledged AmeriCorps grant-funded programs with Statewide Headstart, Yellowstone Council on Aging, and Community Connections for Youth through MSU-Billings.

DP 703 - Misc. Expenses Increase - The executive requests additional federal special revenue authority to accommodate an increase in the agency's indirect cost allocation plan.

**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 Commissioner's Office/Centralized Services Division.

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	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	298,285	3,902	0	302,187	2,979	0	301,264	603,451
Operating Expenses	121,963	22,595	0	144,558	22,554	0	144,517	289,075
<b>Total Costs</b>	<b>\$420,248</b>	<b>\$26,497</b>	<b>\$0</b>	<b>\$446,745</b>	<b>\$25,533</b>	<b>\$0</b>	<b>\$445,781</b>	<b>\$892,526</b>
State/Other Special	420,248	26,497	0	446,745	25,533	0	445,781	892,526
<b>Total Funds</b>	<b>\$420,248</b>	<b>\$26,497</b>	<b>\$0</b>	<b>\$446,745</b>	<b>\$25,533</b>	<b>\$0</b>	<b>\$445,781</b>	<b>\$892,526</b>

**Program Description**

The Workers' Compensation Court provides a forum for Montana employees and the insurance industry to resolve disputes arising from work-related injuries and occupational disease. The court is attached to the department for administrative purposes.

<b>Workers' Compensation Court Major Budget Highlights</b>	
○	No major changes to mission or operations from 2003 biennium
<b>Major LFD Issues</b>	
○	None

**Funding**

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

<b>Program Funding Table Workers Compensation Court</b>						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02455 Workers' Comp Regulation	<u>\$ 420,248</u>	<u>100.0%</u>	<u>\$ 446,745</u>	<u>100.0%</u>	<u>\$ 445,781</u>	<u>100.0%</u>
Grand Total	<u>\$ 420,248</u>	<u>100.0%</u>	<u>\$ 446,745</u>	<u>100.0%</u>	<u>\$ 445,781</u>	<u>100.0%</u>

This program is funded entirely with state special revenues (Workers' Compensation Regulation) from assessments on employers, insurers, and the state fund.

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					16,492					15,533
Vacancy Savings					(12,590)					(12,554)
Inflation/Deflation					652					674
Fixed Costs					(182)					(828)
<b>Total Statewide Present Law Adjustments</b>					<b>\$4,372</b>					<b>\$2,825</b>
DP 14 - Operating Expenses Increase	0.00	0	22,125	0	22,125	0.00	0	22,708	0	22,708
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$22,125</b>	<b>\$0</b>	<b>\$22,125</b>	<b>0.00</b>	<b>\$0</b>	<b>\$22,708</b>	<b>\$0</b>	<b>\$22,708</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$26,497</b>					<b>\$25,533</b>

**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 14 - Operating Expenses Increase - The executive requests additional state special revenue authority for the following:

- o increased rent - approximately \$3,000 for the biennium;
- o increased costs for anticipated usage of court reporters for the projected maximum number of cases - \$10,000 each year; and
- o increased travel costs for anticipated staff travel based on projected maximum number of cases. This figure also includes travel costs for the Workers' Compensation Judge and staff attorney to attend judicial training.