

**Agency Proposed Budget**

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	47.00	(5.34)	0.00	41.66	(5.34)	0.00	41.66	41.66
Personal Services	2,091,891	39,026	0	2,130,917	39,576	0	2,131,467	4,262,384
Operating Expenses	2,253,689	446,667	0	2,700,356	404,236	0	2,657,925	5,358,281
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	15,130,854	2,718,469	0	17,849,323	1,403,068	0	16,533,922	34,383,245
Benefits & Claims	210,496	264,504	0	475,000	264,504	0	475,000	950,000
<b>Total Costs</b>	<b>\$19,686,930</b>	<b>\$3,468,666</b>	<b>\$0</b>	<b>\$23,155,596</b>	<b>\$2,111,384</b>	<b>\$0</b>	<b>\$21,798,314</b>	<b>\$44,953,910</b>
General Fund	1,565,311	60,216	0	1,625,527	59,598	0	1,624,909	3,250,436
State/Other Special	1,622,888	1,809,510	0	3,432,398	220,921	0	1,843,809	5,276,207
Federal Special	16,498,731	1,598,940	0	18,097,671	1,830,865	0	18,329,596	36,427,267
<b>Total Funds</b>	<b>\$19,686,930</b>	<b>\$3,468,666</b>	<b>\$0</b>	<b>\$23,155,596</b>	<b>\$2,111,384</b>	<b>\$0</b>	<b>\$21,798,314</b>	<b>\$44,953,910</b>

**Agency Description**

The Department of Commerce is responsible for working with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of Montana's infrastructure, housing, and facilities. The department is composed of eight major divisions, which include the Business Resources, Montana Promotion, Community Development, Housing, and Director's Office/Management Services divisions, as well as the Board of Research and Commercialization Technology, the Montana Facility Finance Authority, the Montana Board of Investments, and the Montana Heritage Commission.

**Agency Highlights**

<b>Department of Commerce Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Increases of \$5.8 million over the biennium consist of a 59 percent increase in federal funds, a 35 percent increase in state funds and a 6 percent increase in general fund. These increases are primarily due to:</li> <li>• Increases in Community Development Block Grants of \$3.3 million</li> <li>• Increases in the Coal Board Grants of \$927,093</li> <li>• Increases in administrative costs for the Department of Commerce of approximately \$462,000</li> <li>• Increases in statewide present law adjustments</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.

Total Agency Funding 2007 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
51 Business Resources Division	\$ 2,810,436	\$ 462,219	\$ 7,596,330	\$ 10,868,985	24%
52 Montana Promotion Division	-	1,519,386	-	1,519,386	3%
60 Community Development Division	440,000	3,294,602	15,864,837	19,599,439	44%
74 Housing Division	-	-	12,016,100	12,016,100	27%
81 Director/Management Services	-	-	950,000	950,000	2%
Grand Total	<u>\$ 3,250,436</u>	<u>\$ 5,276,207</u>	<u>\$ 36,427,267</u>	<u>\$ 44,953,910</u>	<u>100%</u>

**Biennium Budget Comparison**

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	41.66	0.00	41.66	41.66	0.00	41.66	47.00	41.66
Personal Services	2,130,917	0	2,130,917	2,131,467	0	2,131,467	4,308,505	4,262,384
Operating Expenses	2,700,356	0	2,700,356	2,657,925	0	2,657,925	5,050,586	5,358,281
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	17,849,323	0	17,849,323	16,533,922	0	16,533,922	28,120,624	34,383,245
Benefits & Claims	475,000	0	475,000	475,000	0	475,000	627,724	950,000
Total Costs	\$23,155,596	\$0	\$23,155,596	\$21,798,314	\$0	\$21,798,314	\$38,107,439	\$44,953,910
General Fund	1,625,527	0	1,625,527	1,624,909	0	1,624,909	3,149,336	3,250,436
State/Other Special	3,432,398	0	3,432,398	1,843,809	0	1,843,809	4,525,547	5,276,207
Federal Special	18,097,671	0	18,097,671	18,329,596	0	18,329,596	30,432,556	36,427,267
Total Funds	\$23,155,596	\$0	\$23,155,596	\$21,798,314	\$0	\$21,798,314	\$38,107,439	\$44,953,910

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	26.50	(3.34)	0.00	23.16	(3.34)	0.00	23.16	23.16
Personal Services	1,126,589	93,778	0	1,220,367	94,346	0	1,220,935	2,441,302
Operating Expenses	1,115,614	88,934	0	1,204,548	80,427	0	1,196,041	2,400,589
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	2,856,896	156,651	0	3,013,547	156,651	0	3,013,547	6,027,094
<b>Total Costs</b>	<b>\$5,099,099</b>	<b>\$339,363</b>	<b>\$0</b>	<b>\$5,438,462</b>	<b>\$331,424</b>	<b>\$0</b>	<b>\$5,430,523</b>	<b>\$10,868,985</b>
General Fund	1,363,945	41,582	0	1,405,527	40,964	0	1,404,909	2,810,436
State/Other Special	182,270	48,919	0	231,189	48,760	0	231,030	462,219
Federal Special	3,552,884	248,862	0	3,801,746	241,700	0	3,794,584	7,596,330
<b>Total Funds</b>	<b>\$5,099,099</b>	<b>\$339,363</b>	<b>\$0</b>	<b>\$5,438,462</b>	<b>\$331,424</b>	<b>\$0</b>	<b>\$5,430,523</b>	<b>\$10,868,985</b>

**Program Description**

- The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana’s economic and business climate. Working closely with the private sector, the legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs; the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts. Bureaus within the division include:
  - Regional Development Bureau
  - Trade and International Relations Bureau
  - Community Development Block Grant (CDBG) Program
  - Census and Economic Information Center (CEIC)
  - Small Business Development Centers
  - Made In Montana Program

**Program Highlights**

<b>Business Resources Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Increases of \$670,000 over the biennium consists of a 73 percent increase in federal funds, a 15 percent increase in state special revenues, and a 12 percent increase in general fund. These increases are primarily due to:                             <ul style="list-style-type: none"> <li>• Increases in Community Development Block Grants of \$313,000</li> <li>• Business Resources Division administrative costs adjustments of \$216,000</li> <li>• Increases in statewide present law adjustments</li> </ul> </li> </ul>

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table						
Business Resources Divis						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 1,363,945	26.7%	\$ 1,405,527	25.8%	\$ 1,404,909	25.9%
02090 Business Asst-Private	26,333	0.5%	51,333	0.9%	51,333	0.9%
02191 Montana Capitol Co. Act	5,427	0.1%	5,427	0.1%	5,427	0.1%
02210 Microbusiness Admin Acct	80,510	1.6%	104,429	1.9%	104,270	1.9%
02563 Nat'L Dev. Cncl Training Funds	70,000	1.4%	70,000	1.3%	70,000	1.3%
03059 Community Development Block	2,873,654	56.4%	3,170,198	58.3%	3,164,501	58.3%
03061 Eda Revolving Loan Fund	18,393	0.4%	19,288	0.4%	19,252	0.4%
03075 Sba Microloan	77,748	1.5%	81,533	1.5%	81,379	1.5%
03207 Small Business Dev. Centers	506,089	9.9%	530,727	9.8%	529,452	9.7%
03957 Wia Labor Training	77,000	1.5%	-	-	-	-
Grand Total	<u>\$ 5,099,099</u>	<u>100.0%</u>	<u>\$ 5,438,462</u>	<u>100.0%</u>	<u>\$ 5,430,523</u>	<u>100.0%</u>

The Business Resources Division is funded by a combination of 26 percent general fund, 4 percent state special revenue funds, and 70 percent federal funds.

General fund supports the following programs:

Census and Economic Information Center (CEIC)

- The Regional Development Bureau
- A portion of trade and international relations activities
- Match on federal funds for the administrative costs of the community development block grants and Small Business Development centers

State special revenue funds the following:

- Administrative expenses of the micro-business loan program through the interest from loans to micro-business development corporations made from the permanent coal tax trust
- A portion of trade and international relations activities through conference fees and the sale of trade directories, and a grant from the Growth Through Agriculture program of \$90,000 each year
- A portion of Small Business Development Centers through private industry partnering

Federal funds support most expenditures of the Small Business Development Centers and community development block grants.

Trade and international relations activities also receive funding from the Montana Promotion Division allocation of lodging facility use tax, amounting to approximately \$100,000 annually. Since lodging facility use tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as such does not appear in the funding tables.

**Present Law Adjustments**

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

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					310,453					310,600
Vacancy Savings					(57,483)					(57,487)
Inflation/Deflation					(707)					(690)
Fixed Costs					(12,719)					(22,708)
<b>Total Statewide Present Law Adjustments</b>					\$239,544					\$229,715
DP 5101 - BRD FTE Reallocation HB0002	(3.00)	(150,459)	0	0	(150,459)	(3.00)	(150,043)	0	0	(150,043)
DP 5104 - BRD Federal Grants Adjustment HB0002	0.00	0	0	156,651	156,651	0.00	0	0	156,651	156,651
DP 5111 - BRD Administrative Costs Adjustments HB0002	0.00	62,611	45,000	0	107,611	0.00	64,076	45,000	0	109,076
DP 5126 - BRD Statewide FTE Reduction HB0002	(0.34)	(13,984)	0	0	(13,984)	(0.34)	(13,975)	0	0	(13,975)
<b>Total Other Present Law Adjustments</b>	<b>(3.34)</b>	<b>(\$101,832)</b>	<b>\$45,000</b>	<b>\$156,651</b>	<b>\$99,819</b>	<b>(3.34)</b>	<b>(\$99,942)</b>	<b>\$45,000</b>	<b>\$156,651</b>	<b>\$101,709</b>
Grand Total All Present Law Adjustments					\$339,363					\$331,424

DP 5101 - BRD FTE Reallocation HB0002 - The executive proposes transferring 3.00 FTE from HB 2 to a statutory appropriation in order to comply with actions adopted and approved by the 58<sup>th</sup> Legislature. There is no reduction in the total FTE for the division.

In the 2003 legislative session, \$150,000 in HB 2 general fund per year was removed from the Business Resources Division in order to achieve the budget reductions made by the legislature. Since these positions were still in the base, they were funded through present law adjustments in the 2007 biennium. To eliminate these positions from the adjusted base requires a decision package for their removal. The net general fund impact over the 2007 biennium is zero.

**LFD COMMENT**

The department receives a total of \$1.1 million general fund each biennium in statutory appropriations for various economic development activities, including small business development, export trade enhancement, and certified regional development corporations.

When the statewide general fund personal services reduction was made by the 2003 Legislature, the department switched the funding for these 3.00 FTE to the statutory appropriations, reducing the funds available for those economic development activities. The executive proposes to continue funding these positions with the statutory appropriations in the 2007 biennium..

DP 5104 - BRD Federal Grants Adjustment HB0002 - The executive requests federal special revenue authority for Community Development Block Grant Program (CDBG) increases. CDBG economic development funds are projected to increase during the 2007 biennium to an estimated \$2.5 million per year.

DP 5111 - BRD Administrative Costs Adjustments HB0002 - The executive requests a general fund increase of \$126,687 and a state special revenue authority increase of \$90,000 over the biennium for the following:

- Carry forward of base year expenditures for overtime of \$2,794 per year
- Restoration of per diem of \$2,457 per year
- Increases in consulting and professional services of \$45,000 per year for the following: 1) Made-In-Montana Trade Show; 2) Women in Business conference; and 3) Micro-Business Development Corporation training
- Increase in travel for the Economic Development Advisory Council of \$3,803 per year
- Increase in building rent of \$2,070 in FY 2006 and \$4,067 in FY 2007. An increase of 2 percent a year is required by the lease agreement
- Increased expenditures for agency indirect charges of \$51,000 per year

**LFD  
COMMENT**

In the 2003 legislative session, the micro-business council was dismantled and the Economic Development Advisory Council was created. The per diem supports four legislators who sit on the Economic Development Advisory Council and receive \$76.80 per day for each meeting, which is held four times a year.

**LFD  
COMMENT**

For more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

**LFD  
COMMENT**

The request for overtime is consistent with expenditures in the base year. Overtime is a zero-based budget item and expenditures are removed from the adjusted base figures each biennium. Any expenditure in the coming biennium must be requested through a decision package as a present law adjustment in order to be restored.

DP 5126 - BRD Statewide FTE Reduction HB0002 - A reduction of \$14,000 general fund per year is requested to permanently eliminate 0.34 FTE from the Business Resources Division. The elimination of this 0.34 FTE is to comply with the executive's proposed statewide FTE reduction to make permanent personal services reductions made by the 2003 legislature.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	476,286	293,100	0	769,386	273,714	0	750,000	1,519,386
<b>Total Costs</b>	<b>\$476,286</b>	<b>\$293,100</b>	<b>\$0</b>	<b>\$769,386</b>	<b>\$273,714</b>	<b>\$0</b>	<b>\$750,000</b>	<b>\$1,519,386</b>
State/Other Special	476,286	293,100	0	769,386	273,714	0	750,000	1,519,386
<b>Total Funds</b>	<b>\$476,286</b>	<b>\$293,100</b>	<b>\$0</b>	<b>\$769,386</b>	<b>\$273,714</b>	<b>\$0</b>	<b>\$750,000</b>	<b>\$1,519,386</b>

**Program Description**

The Montana Promotion Division strives to increase visitor travel, visitor expenditures, and film production in the state. The division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants and oversees expenditures of six regional non-profit corporations and the ten qualified convention and visitor’s bureaus.

**Program Highlights**

<b>Montana Promotion Division Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>• Most of the division budget is funded by statutory appropriation and is not appropriated by the legislature in HB 2</li> <li>• An increase in national advertising of \$292,000 per year of state special revenue is proposed</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 Table Montana Promotion Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02116 Accommodation Tax Account	\$ 18,341	3.9%	\$ 19,386	2.5%	\$ -	-
02154 Mt Promotion-Private	457,945	96.1%	750,000	97.5%	750,000	100.0%
Grand Total	<u>\$ 476,286</u>	<u>100.0%</u>	<u>\$ 769,386</u>	<u>100.0%</u>	<u>\$ 750,000</u>	<u>100.0%</u>

The Montana Promotion Division is funded primarily by state special revenues, derived from 67.5 percent of the 4 percent Montana Lodging Facility Use Tax “remaining after statutory deductions”. The portion of the bed tax appropriated in HB 2 and shown in the table above funds numerous private organizations throughout Montana that produce and distribute cooperative advertising and joint promotional activities. This public/private partnership is funded cooperatively with the state and typically receives funding from private partners to develop and distribute targeted

marketing efforts. Legislative audit costs are also funded in HB 2. Remaining collections are statutorily appropriated and do not appear in the table.

### *History*

Montana currently has a 7 percent tax on lodging facilities in the state, commonly referred to as the “bed tax”. The total tax is divided into two parts:

A 4 percent Lodging Facility Use Tax has been in place since 1987. This tax equals 4 percent of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.

A 3 percent Lodging Sales & Use Tax was enacted by the 2003 legislature. This tax, imposed for the “privilege of using property or services within this state”, is equal to three percent of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the 4 percent bed tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana Heritage Preservation and Development Account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. Additionally, state funds are reimbursed for any bed tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on estimated costs of collecting and disbursing the proceeds from the tax (currently 2.3 percent of collections). The remaining proceeds are statutorily allocated as follows:

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

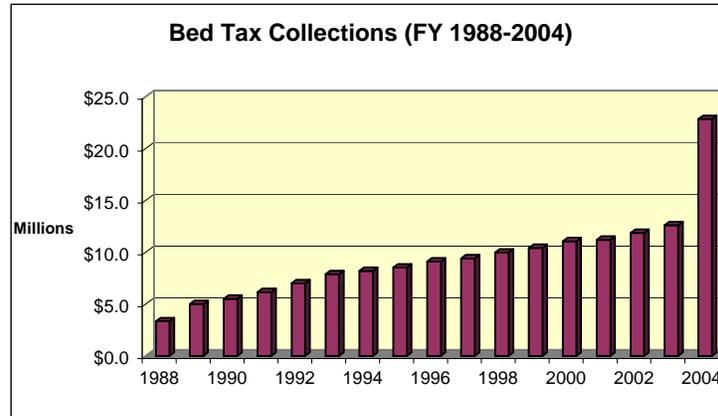
Of those amounts, the largest share is the 67.5 percent to the Department of Commerce to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue funded in HB 2 to promote the tourism industry in Montana. The January 2005 annual Report on the Montana Tourism Industry breaks Montana Promotion Division spending into the following categories:

- Consumer Marketing - 37.4 percent
- Tourism Development and Superhost – 8.3 percent
- Telemarketing and Fulfillment - 11.0 percent
- Group Conventions and Overseas Marketing - 7.8 percent
- Publications - 7.6 percent
- Electronic Services - 7.6 percent
- General Administration and Industry Services – 8.2 percent
- Film Industry Promotion - 4.7 percent
- Publicity - 4.7 percent
- Visitor Information Centers - 2.7 percent

Collection and Distribution

Figure 1 below shows bed tax collections since the inception of the Lodging Facility Use Tax in fiscal 1988. Additionally, Figure 2 shows the allocation of the bed tax for the previous five years.

Figure 1



For several biennia the legislature has included language in HB 2 directing the Department of Commerce to use a portion of the department's allocation of bed tax funding for programs in agencies such as the Montana Historical Society, and the Montana Arts Council. The executive recommends similar language for the 2007 biennium.

Figure 2

Accommodations Tax Distribution  
Fiscal 2000 - Fiscal 2004

Distribution Basis	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Gross Accommodations Tax Receipts	\$11,038,724	\$11,283,684	\$11,720,557	12,616,644	\$22,851,830
Department of Revenue (Reimburse travel/cover costs)	\$253,891	\$259,525	\$269,573	260,996	\$137,254
General Fund	\$0	\$0	\$0	571,237	\$9,278,658
MT Heritage Preservation & Development Fixed	400,000	400,000	400,000	400,000	\$400,000
Net Facility Use Tax for Distribution	\$10,384,833	\$10,624,159	\$11,050,984	\$11,384,411	\$13,035,918
Historical Society 1% of net	\$103,848	\$106,242	\$110,510	\$113,844	130,359
Higher Education 2.5% of net	259,621	265,604	276,275	284,610	325,898
Fish, Wildlife, & Parks 6.5% of net	675,014	690,570	718,314	739,987	847,335
Department of Commerce For Department Use 67.5% of net	7,009,762	7,171,307	7,459,414	7,684,477	8,799,245
For Distribution to Regions and Cities 22.5% of net	2,336,587	2,390,436	2,486,471	2,561,492	2,933,082

**Present Law Adjustments**

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

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Fixed Costs					1,045					(18,341)
<b>Total Statewide Present Law Adjustments</b>					\$1,045					(\$18,341)
DP 5212 - MPD Private Funds & Audit Adjustments HB0002	0.00	0	292,055	0	292,055	0.00	0	292,055	0	292,055
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$292,055</b>	<b>\$0</b>	<b>\$292,055</b>	<b>0.00</b>	<b>\$0</b>	<b>\$292,055</b>	<b>\$0</b>	<b>\$292,055</b>
Grand Total All Present Law Adjustments					\$293,100					\$273,714

DP 5212 - MPD Private Funds & Audit Adjustments HB0002 - The executive requests an increase in state special revenue authority to increase national advertising by \$292,000 per year, for a total of \$750,000 each year.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	625,775	30,057	0	655,832	30,600	0	656,375	1,312,207
Operating Expenses	409,881	126,169	0	536,050	118,554	0	528,435	1,064,485
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	6,587,183	2,807,729	0	9,394,912	1,240,652	0	7,827,835	17,222,747
<b>Total Costs</b>	<b>\$7,622,839</b>	<b>\$2,963,955</b>	<b>\$0</b>	<b>\$10,586,794</b>	<b>\$1,389,806</b>	<b>\$0</b>	<b>\$9,012,645</b>	<b>\$19,599,439</b>
General Fund	201,366	18,634	0	220,000	18,634	0	220,000	440,000
State/Other Special	964,332	1,467,491	0	2,431,823	(101,553)	0	862,779	3,294,602
Federal Special	6,457,141	1,477,830	0	7,934,971	1,472,725	0	7,929,866	15,864,837
<b>Total Funds</b>	<b>\$7,622,839</b>	<b>\$2,963,955</b>	<b>\$0</b>	<b>\$10,586,794</b>	<b>\$1,389,806</b>	<b>\$0</b>	<b>\$9,012,645</b>	<b>\$19,599,439</b>

**Program Description**

The Community Development Division works with federal, state, and local governments, private non-profit organizations, and private citizens, in regard to community needs identification, public facilities planning and financing, housing development for low and moderate income families, neighborhood revitalization, and coal and hard rock mining mitigation, as well as management of projects funded through division programs.

There are two major programs directly administered by the division: The Community Development Block Grant Program (CDBG), and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board are also attached to the Community Development Division for administrative purposes. The division provides office facilities, staff, and administrative support for the boards.

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

**Program Highlights**

<b>Community Development Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Total funds increase of \$4.3 million or about 28 percent for the biennium</li> <li>• Increases in state special revenues of \$1.3 million over the biennium are primarily due to:                             <ul style="list-style-type: none"> <li>• Increases in the Coal Board Grants from the Coal Severance Tax shared account of \$927,093</li> </ul> </li> <li>• Community development administrative cost adjustments of \$246,000</li> <li>• Increases in federal special revenues of \$3.0 million over the biennium are due to:                             <ul style="list-style-type: none"> <li>• Increases in Community Development Block Grants of \$3.0 million</li> </ul> </li> </ul>

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 201,366	2.6%	\$ 220,000	2.1%	\$ 220,000	2.4%
02049 Hard Rock Mining	95,617	1.3%	273,588	2.6%	273,259	3.0%
02270 Treasure State Endowment	474,573	6.2%	502,319	4.7%	501,271	5.6%
02340 Coal Sev. Tax Shared Ssr	394,142	5.2%	1,655,916	15.6%	88,249	1.0%
03059 Community Development Block	<u>6,457,141</u>	<u>84.7%</u>	<u>7,934,971</u>	<u>75.0%</u>	<u>7,929,866</u>	<u>88.0%</u>
Grand Total	<u>\$ 7,622,839</u>	<u>100.0%</u>	<u>\$ 10,586,794</u>	<u>100.0%</u>	<u>\$ 9,012,645</u>	<u>100.0%</u>

The four programs within the Community Development Division are funded as follows:

- Interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund, fund the Treasure State Endowment Program.
- The Coal Board is funded exclusively from a share of the 7.75 percent Coal Severance Tax shared account. The shared account funds the Coal Board Local Impact Grants, pass-through funding for conservation districts, a portion of the Growth Through Agriculture program, and state library services through the State Library Commission.
- The CDBG program is primarily funded with federal block grant funds, allocated through the U.S. Department of Housing and Urban Development (HUD). The general fund provides a required match for a portion of the administrative costs of the program equal to two percent of the annual CDBG allocation.
- The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax (MMLT).

**Present Law Adjustments**

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

	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					54,778					55,346
Vacancy Savings					(27,221)					(27,246)
Inflation/Deflation					(2,215)					(2,198)
Fixed Costs					(13,255)					(21,891)
<b>Total Statewide Present Law Adjustments</b>					<b>\$12,087</b>					<b>\$4,011</b>
DP 6003 - CD Grants Adjustment HB0002	0.00	0	1,247,085	1,500,000	2,747,085	0.00	0	(319,992)	1,500,000	1,180,008
DP 6013 - CD Administrative Costs Adjustments HB0002	0.00	0	123,606	20,533	144,139	0.00	0	124,130	21,013	145,143
DP 6060 - CD Grants Hard Rock Adjustments HB0002	0.00	0	60,644	0	60,644	0.00	0	60,644	0	60,644
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$1,431,335</b>	<b>\$1,520,533</b>	<b>\$2,951,868</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$135,218)</b>	<b>\$1,521,013</b>	<b>\$1,385,795</b>
Grand Total All Present Law Adjustments					\$2,963,955					\$1,389,806

DP 6003 - CD Grants Adjustment HB0002 - The executive requests additional federal special revenue authority from the Community Development Block Grants of \$1.5 million each year for new construction grants. Additionally, the executive is proposing a biennial appropriation for the Coal Board for grants to local coal communities of \$927,093. Funding for the Coal Board grants comes from the Coal Severance Tax shared account.

**LFD COMMENT**

As discussed in the funding section, the coal board shares 7.75 percent of the proceeds of the coal severance tax with several other functions of state government. The following shows anticipated revenues to the fund, and the executive’s proposed expenditures.

**Figure 3**  
Coal Tax Shared Revenue Account  
2007 Biennium

Component**	FY 2006	FY 2007	Biennium
<u>Revenues</u>			
7.75 Percent of Coal Tax Revenues	\$2,449,155	\$2,500,770	\$4,949,925
<u>Expenditures</u>			
Commerce - Coal Board*/County Planning	\$1,655,916	\$88,249	\$1,744,165
Montana State Library - Statewide Library Resources	403,741	403,742	807,483
DNRC - Conservation Districts/Centralized Services	727,563	632,132	1,359,695
Agriculture - Growth Through Ag	477,405	477,252	954,657
Total	\$3,264,625	\$1,601,375	\$4,866,000
Biennial Difference - Transferred to the General Fund			\$83,925

\*Coal Board grants are biennial  
\*\*Revenues are as estimated by the Revenue and Transportation Interim Committee  
Expenditures are as requested in the executive budget

DP 6013 - CD Administrative Costs Adjustments HB0002 - An increase in state special - and federal special revenue authority - is proposed for administrative costs increases for the following items:

- Restoration of per diem of \$2,500 per year
- Increase consultants and professional services of \$5,000 per year to retain professional architects and engineers. These professional provide technical review of the public facility grant applications and annual updates outlining the state’s community development needs, and the annual plan to expend federal grant funds as required by HUD to access CDBG funding
- Increased travel of \$5,250 for attendance in HUD training for CDBG staff in Washington D.C. and HUD’s regional headquarters in Denver, Colorado
- Increased rent of \$2,451 in FY 2006 and \$3,709 in FY 2007. An increase of 2 percent a year required by the lease agreement
- Increased expenditures for agency indirect charges of \$100,000 per year

**LFD COMMENT**

The amount requested for per diem is consistent with base year expenditures. Since per diem is a zero based budget item, this is not automatically funded in the adjusted base and must be requested in full each biennium.

**LFD COMMENT**

For a more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative for the Director’s Office/Management Services Division.

DP 6060 - CD Grants Hard Rock Adjustments HB0002 - The executive requests state special revenue authority to transfer all money segregated by the county in the hard rock mining impact trust account in excess of \$100,000 to the county for which the funds have been held in deposit, as required in 90-6-331, MCA.

**Program Description**

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The Authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

*Mission*

To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, which will promote affordable access to and availability of services for the consumer.

*Goals and Objectives:*

To maintain and improve current financing programs while developing new funding options.

To develop and implement effective financing plans for under served borrowers by pursuing financing options for Critical Access Hospitals and "bank eligibility."

To promote a greater understanding and utilization of the Authority financing programs by participating in, sponsoring and speaking at conferences and disseminating information to clients and new administrators.

To fiscally and physically maintain an office structure that can respond to the borrowers and bond investor's needs.

To provide resources for the advancement of tax-exempt financing on a national level by serving on committees of national organizations and meeting with congressional representatives.

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

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds.

There has not been any significant program, service, or customer base change since the last legislative session.

**Proprietary Revenues and Expenses****Revenue Description:**

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2007 biennium.

**Expense Description:**

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment.

Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and board member per diem.

**Proprietary Rate Explanation**

The Facilities Finance Authority is funded by an enterprise fund and as such the legislature does not set the rates for its operations. Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

2007 Biennium Report on Internal Service and Enterprise Funds 2007								
Fund	Fund Name	Agency #	Agency Name	Program Name				
6012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority				
6015	Facilities Finance Authority							
			Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>								
Fee revenue								
	Administrative Fees		256,489	283,557	311,840	267,500	301,000	301,000
	Investment Earnings		69,080	48,292	40,092	71,650	50,000	50,000
	Securities Lending Income		824	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		-	-	-	-	-	-
	<b>Total Operating Revenue</b>		<b>326,393</b>	<b>331,849</b>	<b>351,932</b>	<b>339,150</b>	<b>351,000</b>	<b>351,000</b>
<b>Operating Expenses:</b>								
	Personal Services		122,677	116,335	153,557	122,667	131,974	131,617
	Other Operating Expenses		107,977	111,622	118,538	133,247	159,353	149,810
	<b>Total Operating Expenses</b>		<b>230,654</b>	<b>227,957</b>	<b>272,095</b>	<b>255,914</b>	<b>291,327</b>	<b>281,427</b>
	Operating Income (Loss)		<b>95,739</b>	<b>103,892</b>	<b>79,837</b>	<b>83,236</b>	<b>59,673</b>	<b>69,573</b>
<b>Nonoperating Revenues (Expenses):</b>								
	Gain (Loss) Sale of Fixed Assets		(200)	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	<b>Net Nonoperating Revenues (Expenses)</b>		<b>(200)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	Income (Loss) Before Operating Transfers		95,539	103,892	79,837	83,236	59,673	69,573
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	<b>Change in net assets</b>		<b>95,539</b>	<b>103,892</b>	<b>79,837</b>	<b>83,236</b>	<b>59,673</b>	<b>69,573</b>
	Total Net Assets- July 1 - As Restated		2,138,827	2,234,366	2,338,258	2,418,095	2,501,331	2,561,004
	Prior Period Adjustments		-	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		2,138,827	2,234,366	2,338,258	2,418,095	2,501,331	2,561,004
	<b>Net Assets- June 30</b>		<b>2,234,366</b>	<b>2,338,258</b>	<b>2,418,095</b>	<b>2,501,331</b>	<b>2,561,004</b>	<b>2,630,577</b>
	60 days of expenses (Total Operating Expenses divided by 6)		38,442	37,993	45,349	42,652	48,555	46,905

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	5.50	0.00	0.00	5.50	0.00	0.00	5.50	5.50
Personal Services	254,825	(107)	0	254,718	(668)	0	254,157	508,875
Operating Expenses	156,973	33,399	0	190,372	26,476	0	183,449	373,821
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,686,775	(245,911)	0	5,440,864	5,765	0	5,692,540	11,133,404
<b>Total Costs</b>	<b>\$6,098,573</b>	<b>(\$212,619)</b>	<b>\$0</b>	<b>\$5,885,954</b>	<b>\$31,573</b>	<b>\$0</b>	<b>\$6,130,146</b>	<b>\$12,016,100</b>
Federal Special	6,098,573	(212,619)	0	5,885,954	31,573	0	6,130,146	12,016,100
<b>Total Funds</b>	<b>\$6,098,573</b>	<b>(\$212,619)</b>	<b>\$0</b>	<b>\$5,885,954</b>	<b>\$31,573</b>	<b>\$0</b>	<b>\$6,130,146</b>	<b>\$12,016,100</b>

**Program Description**

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

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

**Program Highlights**

Housing Division Major Budget Highlights	
•	Decreases in the budget are due to decreased funding of federal special revenue of \$181,046 over the biennium

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Housing Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
03300 Home Grants	\$ 6,098,573	100.0%	\$ 5,885,954	100.0%	\$ 6,130,146	100.0%
Grand Total	\$ 6,098,573	100.0%	\$ 5,885,954	100.0%	\$ 6,130,146	100.0%

Most expenses of this division are funded through non-budgeted enterprise accounts, including: the Board of Housing Financial Program, Housing Trust Fund, Affordable Housing Revolving Loan, Revolving Loan Fund.

HB 2 appropriations support the HOME program by an annual categorical federal grant from HUD. Grant funds are distributed using a competitive process to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program.

<b>LFD COMMENT</b>	For additional information on these funds, refer to the discussion on proprietary rates at the end of this section.
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**Present Law Adjustments**

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

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					9,913					9,327
Vacancy Savings					(10,590)					(10,565)
Inflation/Deflation					(169)					(162)
Fixed Costs					(1,133)					(1,403)
<b>Total Statewide Present Law Adjustments</b>					(\$1,979)					(\$2,803)
DP 7405 - HD HOME Federal Grants Adjustment HB0002	0.00	0	0	(245,911)	(245,911)	0.00	0	0	5,765	5,765
DP 7414 - HD Administrative Costs Adjustments HB0002	0.00	0	0	35,271	35,271	0.00	0	0	28,611	28,611
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$210,640)</b>	<b>(\$210,640)</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$34,376</b>	<b>\$34,376</b>
<b>Grand Total All Present Law Adjustments</b>					<b>(\$212,619)</b>					<b>\$31,573</b>

DP 7405 - HD HOME Federal Grants Adjustment HB0002 - The executive proposes an adjustment in home grants to correct an expenditure coding error in the base-year and adjust for expected HUD grants. The effect of this correction in FY 2006 is a decrease in grants to local agencies of \$71,179, construction grants of \$142,284, and project administration grants of \$32,448. In FY 2007 the net result of this adjustment is a decrease in grants to local agencies of \$71,179, an increase in construction grants of \$109,392, and a decrease in project administration grants of \$32,448.

HUD recently notified the Housing Division that all administration grants and local communities grants must be recorded as construction grants. Therefore, the Housing Division has reclassified all grant expenditures into account 66222 (Construction Grants) and made an adjustment for the anticipated amount of Home Grant funding.

DP 7414 - HD Administrative Costs Adjustments HB0002 - The executive requests additional federal special revenue authority from the Home Grants for the following adjustments:

- Restore base year expenditures for overtime of \$570 a year
- Increase minor equipment computer hardware by \$8,800 in FY 2006 to adjust to a 4-year equipment replacement schedule
- Increase travel costs for attendance in the Application Oriented Design (AOD) software conference of \$1,996 per year
- Increase rent by 2 percent a year due to annual contract obligations of \$920 in FY 2006 and \$1,394 in FY 2007
- Increase agency indirect charges of \$7,000 a year to support the services provided by the Director's Office/Management Services Division

- Maintenance contracts and yearly licenses of \$18,700 in FY 2006 and \$20,570 in FY 2007 for new AOD software purchased in FY 2004
- Remove moving expenses from the base budget of \$3,000 a year

**LFD  
COMMENT**

For more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

**LFD  
COMMENT**

The Department of Commerce purchased AOD software at the end of FY 2004 for the Housing division to enable loan tracking and debt service collection for the division.

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

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. Under the Housing Act the board does not receive appropriations from the state's general fund and is completely self-supporting. Substantially all of the funds for the board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the board are vested in a seven-member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates board-housing programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds (accounting entities 06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed. As such, the legislature does not approve rates for this program. There are no direct appropriations provided in HB 2.

There has not been any significant program, service, or customer base change since the last session.

**Proprietary Revenues and Expenses****Revenue Description**

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

The Multifamily program can earn a 1.5 percent spread between the mortgage yield and the bond yield. Under the Multifamily program, the board can also charge a reservation fee on new loans of up to 1.0 percent of the principal balance.

The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges \$25.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program.

The board charges an interest rate from 2.0 to 6.0 percent on Housing Revolving Loan Account loans.

The Reverse Annuity Mortgage program allows elderly homeowners to receive monthly payments for 10 years to assist them with their living expenses. The loans accrue interest at 5.0 percent.

## Expense Description

Operations for the next biennium are anticipated to be approximately \$5.6 million for FY 2006 and \$6 million for FY 2007. The operations of the Board include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. During fiscal year 2004, the Board purchased \$153,813,245 in mortgages and received \$180 million in mortgage repayments, prepayments and interest. The Board paid interest and principal on bonds of \$193,454,965 and issued new bond proceeds in the amount of \$161,800,000. This was done with a staff of 20 FTE.

## Working Capital Discussion

Each month the board receives funds from the financial institutions that service the board's single family and multifamily loans. The funds include the amount of principal, interest, less servicing fees (0.375 percent, 0.125 percent and 0.10 percent of the principal balance) that are due on the board's loans. The board's trustees collect the money. Twice monthly, the board purchases loans from new bond proceeds, prepayments or other revenues.

The board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

## Proprietary Rate Explanation

### Board of Housing Rate Explanation:

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

### Section 8 Housing Rate Explanation

Both funds revenues are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The federal government has proposed reductions in the levels of funding for the Housing Choice Vouchers tenant based program. At this time the Department has appealed the proposed reductions. Should the reductions be upheld, Housing Assistance Payments for tenants must be reduced, either by reducing the benefit provided each tenant family, or by removing currently assisted families from the Housing Choice Vouchers Program. Administrative requirements and workload remain unchanged. The U.S. Department of Housing and Urban Development pays the Housing Assistance Bureau on a performance based contract, where administration is paid at the rate of \$45.79 per unit under lease at the beginning of each month, and will provide \$334.88 per unit to cover rent costs for participating tenants. The \$334.88 figure has been appealed, due to declining income of tenant families, reductions in TANF (counted as income on this program), excessive utility rate increases, and increases in the new HUD fair marker rents, which control minimum and maximum subsidy levels for the program. This shorts rents by about \$21 per month per tenant, around \$920,000 per year.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. We are entering the fifth year, and expect HUD to extend our contract in future years, as we have obtained an outstanding review scoring in most years we have administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2%, with a provision for another 1% awarded for superior performance, or 1% removed for failure to perform. The amounts received are based in 17 different Incentive Based Performance Standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.50 FTE; for a total 19.50 FTE.

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Fund	Fund Name	Agency #	Agency Name	Program Name		
6030	BOH Financial Program Fund					
6031	Housing Trust Fund					
6078	Affordable House Revolving Ln	65010	Dept. of Commerce	Housing Division - Board of Housing		
6079	Revolving Loan Fund - TANF					

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Administrative Fees	234,504	229,895	214,712	220,000	225,000	225,000
Investment Earnings	10,800,479	11,948,115	6,189,314	9,227,000	10,685,000	10,685,000
Securities Lending Income	1,189	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	41,583,731	40,852,635	36,419,897	37,321,725	37,739,000	39,099,000
Total Operating Revenue	52,619,903	53,030,645	42,823,923	46,768,725	48,649,000	50,009,000
<b>Operating Expenses:</b>						
Personal Services	689,153	765,653	828,467	929,293	918,696	919,212
Other Operating Expenses	45,706,317	44,593,030	40,256,642	43,339,144	45,916,560	47,655,353
Total Operating Expenses	46,395,470	45,358,683	41,085,109	44,268,437	46,835,256	48,574,565
Operating Income (Loss)	<b>6,224,433</b>	<b>7,671,962</b>	<b>1,738,814</b>	<b>2,500,288</b>	<b>1,813,744</b>	<b>1,434,435</b>
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	12,943	-	9,800	-
Other Nonoperating Revenues (Expenses)	240,140	239,355	238,508	250,000	250,000	250,000
Net Nonoperating Revenues (Expenses)	240,140	239,355	251,451	250,000	259,800	250,000
Income (Loss) Before Operating Transfers	6,464,573	7,911,317	1,990,265	2,750,288	2,073,544	1,684,435
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	6,464,573	7,911,317	1,990,265	2,750,288	2,073,544	1,684,435
Total Net Assets- July 1 - As Restated	113,050,503	119,515,076	127,426,393	131,554,024	134,304,312	136,377,856
Prior Period Adjustments	-	-	2,137,366	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	113,050,503	119,515,076	129,563,759	131,554,024	134,304,312	136,377,856
Net Assets- June 30	<b>119,515,076</b>	<b>127,426,393</b>	<b>131,554,024</b>	<b>134,304,312</b>	<b>136,377,856</b>	<b>138,062,291</b>
60 days of expenses (Total Operating Expenses divided by 6)	7,732,578	7,559,781	6,847,518	7,378,073	7,805,876	8,095,761

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Fund	Fund Name	Agency #	Agency Name	Program Name
6075	HUD Section 8 Housing Program	65010	Dept. of Commerce	Housing Division - TB Section 8

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	-	-	35,246	125,000	43,000	43,000
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	18,354,340	22,891,343	22,011,492	22,419,469
Total Operating Revenue	-	-	18,389,586	23,016,343	22,054,492	22,462,469
<b>Operating Expenses:</b>						
Personal Services	-	-	528,932	510,783	417,185	413,582
Other Operating Expenses	-	-	18,870,921	21,987,248	21,721,759	22,836,676
Total Operating Expenses	-	-	19,399,853	22,498,031	22,138,944	23,250,258
Operating Income (Loss)	-	-	(1,010,267)	518,312	(84,452)	(787,789)
<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	-	-	(1,010,267)	518,312	(84,452)	(787,789)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	-	-	(1,010,267)	518,312	(84,452)	(787,789)
Total Net Assets- July 1 - As Restated	-	-	-	1,814,181	2,332,493	2,248,041
Prior Period Adjustments	-	-	2,824,448	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	2,824,448	1,814,181	2,332,493	2,248,041
Net Assets- June 30	-	-	<b>1,814,181</b>	<b>2,332,493</b>	<b>2,248,041</b>	<b>1,460,252</b>
60 days of expenses (Total Operating Expenses divided by 6)	-	-	3,233,309	3,749,672	3,689,824	3,875,043

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Fund	Fund Name	Agency #	Agency Name	Program Name
6074	SEC 8 Project Based	65010	Dept. of Commerce	Housing Division - PB Section 8

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	-	-	8,678	6,500	10,500	10,500
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	16,020,550	19,439,969	18,295,213	19,986,185
Total Operating Revenue	-	-	16,029,228	19,446,469	18,305,713	19,996,685
<b>Operating Expenses:</b>						
Personal Services	-	-	311,745	278,645	410,922	414,253
Other Operating Expenses	-	-	15,374,536	18,969,208	17,988,590	19,304,873
Total Operating Expenses	-	-	15,686,281	19,247,853	18,399,512	19,719,126
Operating Income (Loss)	-	-	342,947	198,616	(93,799)	277,559
<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	-	-	342,947	198,616	(93,799)	277,559
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	-	-	342,947	198,616	(93,799)	277,559
Total Net Assets- July 1 - As Restated	-	-	-	980,042	1,178,658	1,084,859
Prior Period Adjustments	-	-	637,095	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	637,095	980,042	1,178,658	1,084,859
Net Assets- June 30	-	-	980,042	1,178,658	1,084,859	1,362,418
60 days of expenses (Total Operating Expenses divided by 6)	-	-	2,614,380	3,207,976	3,066,585	3,286,521

**Program Description**

The Board of Investments invest all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool. The six investment pools listed below and several individual portfolios are managed.

- 1) Retirement Funds Bond Pool
- 2) Trust Funds Bond Pool
- 3) Short Term Investment Pool
- 4) Montana Domestic Stock Pool
- 5) Montana International Equity Pool
- 6) Montana Private Equity Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages and commercial loans. The Board also issues bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to our investment responsibilities, one of the main goals of the Board is to provide creative solutions to financial issues facing new and expanding businesses in the state of Montana. To accomplish this goal, the Board administers a number of different loan programs that can be specifically tailored to meet an individual business's or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are mandated primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

**Unified Investment Program:**

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the Board sole authority to invest state funds. The Board also invests local government funds at their discretion. The Board currently manages an investment portfolio with a market value of \$9.4 billion. The Board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the Board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the Board annually. The Board consists of nine members appointed by the Governor.

**In-State Investments:**

Section 17-6-305, MCA authorizes the Board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. The "In-State Investment Program" makes business loans from the Trust in participation with financial institutions. The Board lends Trust Fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The Board also lends low-interest monies funded from the Trust to value-added type businesses creating jobs. The 2003 Legislative Session created an Intermediary Relending Program also funded from the Trust, for the purpose of lending monies to local economic development organizations with revolving loan programs. Throughout Fiscal Year 2004, the Board also purchased Montana mortgages with pension funds as part of the In-State Investment Program.

**INTERCAP Program:**

The Board sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

**Mission**

To prudently invest all individual funds in the best interest of each fund by diversifying holdings, maximizing return, and minimizing risk.

To prudently invest 25 percent of the Permanent Coal Tax Trust in Montana businesses by participating in loans with financial institutions under the In-State Investment Program.

To make low cost financing available to eligible governmental units by issuing tax-exempt bonds and lending the proceeds to governments under the INTERCAP Program.

**Goals and Objectives**

Meet or exceed all investment benchmarks established by the Board for each asset class.

Increase Permanent Coal Tax Trust investments in Montana business to at least 25 percent of the total Trust as authorized by law.

Increase Infrastructure Loans from the Coal Tax Trust to the maximum \$50.0 million authorized by law.

Increase Value-Added Loans from the Coal Tax Trust to the maximum \$50.0 million authorized by law.

Increase Intermediary Relending Program loans from the Coal Tax Trust to the maximum \$5.0 million authorized by law.

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

The Board of Investments invests all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool. The six investment pools are Retirement Funds Bond Pool, Trust Funds Bond Pool, Short Term Investment Pool, Montana Domestic Stock Pool, Montana International Equity Pool, and Montana Private Equity Pool.

**Funding**

The Board of Investments is funded with both enterprise and internal service type proprietary funds.

**Proprietary Revenues and Expenses****Revenue Description:**

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270-day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the boards contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60-day working capital reserve.

**Expense Description:**

The major cost drivers within the Board of Investments are personal services, operating expenses, and expenditures related to the periodic replacement of computer equipment. Additionally, over \$2.5 million was disbursed from accounting entity 06014 in FY 2004 via a statutory appropriation for debt service requirements related to the state's bonding activity.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (31.00 funded from accounting entity 06527, and 3.00 funded from accounting entity 06014) and personal services expenditures include board member per diem.

**Working Capital Discussion:**

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270-day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the board must maintain a nominal working capital reserve to meet ongoing operational expenses.

**Fund Equity and Reserved Fund Balance:**

At the proposed rates, the department projects a fiscal year end 2007 ending unreserved fund balance of approximately \$338,691.

**Proprietary Rate Explanation**

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level.

**Proprietary Significant Present Law**

The only present law adjustment for accounting entity 06527 is for administrative costs for overtime, fixed costs, and rent.

**LFD  
COMMENT**

For more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative for the Director's Office/Management Services Division.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6527	Investment Division	65010	Dept. of Commerce	Board of Investments

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Administrative Fees	2,901,292	2,846,424	2,958,910	2,963,000	3,203,219	3,128,734
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	2,901,292	2,846,424	2,958,910	2,963,000	3,203,219	3,128,734
<b>Operating Expenses:</b>						
Personal Services	1,842,922	1,909,934	2,024,742	2,134,889	2,109,190	2,016,096
Other Operating Expenses	840,639	736,510	822,509	1,263,127	1,094,029	1,112,638
Total Operating Expenses	2,683,561	2,646,444	2,847,251	3,398,016	3,203,219	3,128,734
Operating Income (Loss)	217,731	199,980	111,659	(435,016)	-	-
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	(355)	(4,777)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(355)	(4,777)	-	-	-	-
Income (Loss) Before Operating Transfers	217,376	195,203	111,659	(435,016)	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	297,266	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	217,376	492,469	111,659	(435,016)	-	-
Total Net Assets- July 1 - As Restated	(66,095)	169,579	662,048	773,707	338,691	338,691
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	18,298	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(47,797)	169,579	662,048	773,707	338,691	338,691
Net Assets- June 30	169,579	662,048	773,707	338,691	338,691	338,691
60 days of expenses (Total Operating Expenses divided by 6)	447,260	441,074	474,542	566,336	533,870	521,456

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Fund	Fund Name	Agency #	Agency Name	Program Name
6014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Fee Revenues	12,992	20,403	7,939	13,000	13,000	13,000
Investment Earnings	575,823	339,106	82,642	575,000	468,000	457,000
Securities Lending Income	135	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	2,892,571	2,595,717	2,161,416	2,656,403	3,496,120	3,575,495
Total Operating Revenue	<u>3,481,521</u>	<u>2,955,226</u>	<u>2,251,997</u>	<u>3,244,403</u>	<u>3,977,120</u>	<u>4,045,495</u>
<b>Operating Expenses:</b>						
Personal Services	172,187	198,973	186,075	133,457	251,135	242,859
Other Operating Expenses	3,079,292	2,227,383	2,010,490	3,123,946	3,825,988	3,796,131
Total Operating Expenses	<u>3,251,479</u>	<u>2,426,356</u>	<u>2,196,565</u>	<u>3,257,403</u>	<u>4,077,123</u>	<u>4,038,990</u>
Operating Income (Loss)	<b>230,042</b>	<b>528,870</b>	<b>55,432</b>	<b>(13,000)</b>	<b>(100,003)</b>	<b>6,505</b>
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Operating Transfers	230,042	528,870	55,432	(13,000)	(100,003)	6,505
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(297,266)	-	-	-	-
Change in net assets	<u>230,042</u>	<u>231,604</u>	<u>55,432</u>	<u>(13,000)</u>	<u>(100,003)</u>	<u>6,505</u>
Total Net Assets- July 1 - As Restated	4,489,997	4,743,517	4,975,121	5,030,553	5,017,553	4,917,550
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	23,478	-	-	-	-	-
Total Net Assets - July 1 - As Restated	<u>4,513,475</u>	<u>4,743,517</u>	<u>4,975,121</u>	<u>5,030,553</u>	<u>5,017,553</u>	<u>4,917,550</u>
Net Assets- June 30	<u><b>4,743,517</b></u>	<u><b>4,975,121</b></u>	<u><b>5,030,553</b></u>	<u><b>5,017,553</b></u>	<u><b>4,917,550</b></u>	<u><b>4,924,055</b></u>
60 days of expenses (Total Operating Expenses divided by 6)	541,913	404,393	366,094	542,901	679,521	673,165

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	2.00	(2.00)	0.00	0.00	(2.00)	0.00	0.00	0.00
Personal Services	84,702	(84,702)	0	0	(84,702)	0	0	0
Operating Expenses	94,935	(94,935)	0	0	(94,935)	0	0	0
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	210,496	264,504	0	475,000	264,504	0	475,000	950,000
<b>Total Costs</b>	<b>\$390,133</b>	<b>\$84,867</b>	<b>\$0</b>	<b>\$475,000</b>	<b>\$84,867</b>	<b>\$0</b>	<b>\$475,000</b>	<b>\$950,000</b>
Federal Special	390,133	84,867	0	475,000	84,867	0	475,000	950,000
<b>Total Funds</b>	<b>\$390,133</b>	<b>\$84,867</b>	<b>\$0</b>	<b>\$475,000</b>	<b>\$84,867</b>	<b>\$0</b>	<b>\$475,000</b>	<b>\$950,000</b>

**Program Description**

The Director’s Office/Management Services Division consists of three programs:

- The Director’s Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor’s office in the effort to improve and stabilize the economic climate in Montana
- The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training
- The Montana Council on Developmental Disabilities is to provide planning that assist Montanans with disabilities to live, work and participate in their communities

**Program Highlights**

<b>Director/Management Services Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Budget increases are primarily due to the following:                             <ul style="list-style-type: none"> <li>• The Developmental Disabilities Planning and Advisory Council reorganization</li> </ul> </li> <li>• An increase in statewide personal services</li> </ul>

**Program Narrative**

The 2003 legislative session transferred the Developmental Disabilities Planning and Advisory Council (DDPAC) from the Department of Public Health and Human Services to the Department of Commerce, through HB 734. The legislature added 2.0 FTE and \$830,000 of federal special revenue authority over the 2005 biennium for implementation of HB 734 with the condition the department would be able to contract with a nonprofit corporation for the intended purposes of carrying out the tasks delegated to the DDPAC.

In FY 2005 the department entered into a contract with the Montana Council on Developmental Disabilities (MCDD) as a nonprofit corporation to carry out the responsibilities of DDPAC. DDPAC still remains administratively attached to the Department of Commerce, with the department acting as a go-between for disbursing (pass through) federal funds to the newly created nonprofit under the terms and conditions of the contract.

The DDPAC is the only program within the Director's/Management Services Division funded in HB 2. All program costs associated with this function are shown above in the table proposed by the Governor. The remainder of the division is funded with a non-budgeted proprietary account described in the next section.

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Director/Management Services						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
03441 Ddpac - Dev Disabled Council	\$ 390,133	100.0%	\$ 475,000	100.0%	\$ 475,000	100.0%
Grand Total	\$ 390,133	100.0%	\$ 475,000	100.0%	\$ 475,000	100.0%

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

**LFD  
COMMENT**

For a more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative at the end of this program.

**Present Law Adjustments**

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

Present Law Adjustments	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					21,896					21,599
Vacancy Savings					(4,264)					(4,252)
<b>Total Statewide Present Law Adjustments</b>					\$17,632					\$17,347
DP 8115 - MSD Administrative Costs/DDPAC Realignment HB0002	(2.00)	0	0	67,235	67,235	(2.00)	0	0	67,520	67,520
<b>Total Other Present Law Adjustments</b>	<b>(2.00)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$67,235</b>	<b>\$67,235</b>	<b>(2.00)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$67,520</b>	<b>\$67,520</b>
Grand Total All Present Law Adjustments					\$84,867					\$84,867

DP 8115 - MSD Administrative Costs/DDPAC Realignment HB0002 - The executive proposes to reorganize and realign the operating plans for DDPAC and requests additional federal special revenue authority for the following adjustments:

- Eliminate 2.0 FTE from the DDPAC program of \$102,000 a year and reclassify these personal services costs into a grants expenditure account
- Reclassify all operating costs of \$94,935 into a grants expenditure account
- Increase benefits and claims of \$67,000 a year

**LFD  
COMMENT**

For additional information on the realignment for DDPAC refer to the program narrative at the beginning of this section.

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

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

**Proprietary Revenues and Expenses****Revenue Description**

The Director's Office/Management Services Division are funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based upon federally and legislatively approved indirect cost rates applied to actual personal services expenditures.

The revenue objective of the Director's Office/Management Services Division is to maintain the lowest possible indirect charge to supported divisions, bureaus, and programs, while maintaining a nominal working capital reserve. The department has historically used this methodology in calculating indirect rates because the federal government requires the same methodology to be used when charging indirect costs to federally funded programs.

**Expense Description**

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses, and expenditures related to the periodic replacement of the agencies computer equipment.

Non-typical and one-time-only expenses are subtracted out of the divisions future cost projections before calculating the indirect rate. The proposed indirect cost rate will fund 16.50 FTE in the 2007 biennium the same number as the 2005 biennium.

Factors that contribute to uncertainty in forecasting expenses involve potential legislative actions, since the cost of providing centralized support services is directly related to the number and complexity of the agencies divisions, bureaus, and programs; and the number of agency staff served. As agency services and programs increase, or decrease management needs to remain aware of divisions staffing requirements and indirect cost rates and make the necessary adjustments when needed.

**Working Capital Discussion**

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs via a federally approved indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. Since indirect cost collections lag by at least one month the division needs to maintain a nominal 60-day working capital reserve to meet operating costs.

**Fund Equity and Reserved Fund Balance**

At the proposed rates, the department projects a fiscal year end 2007 ending unreserved fund balance of \$194,276, or approximately a 60 day working capital reserve.

**Proprietary Rate Explanation**

The division negotiates an annual rate with HUD. The approved rate is a fixed rate for federally funded programs. This rate is then applied against actual personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The rate negotiated with HUD requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally negotiated to what actually occurred. The difference is then carried forward into the following year's rate.

The division's indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to negotiate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the rate actually negotiated with HUD. The rate approved by the legislature is considered a cap; therefore, the division cannot negotiate for a rate higher than what has been approved by the legislature. However, the rate negotiated with HUD may be slightly lower.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6542	Commerce Centralized Services	65010	Dept. of Commerce	Director/Management Services

	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Administrative Fees	807,531	866,051	896,437	1,009,455	1,142,933	1,138,337
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	57,278	25,000	25,000	25,000
Total Operating Revenue	807,531	866,051	953,715	1,034,455	1,167,933	1,163,337
<b>Operating Expenses:</b>						
Personal Services	773,305	830,518	859,583	936,005	968,802	970,067
Other Operating Expenses	201,972	164,399	206,479	207,475	195,266	193,433
Total Operating Expenses	975,277	994,917	1,066,062	1,143,480	1,164,068	1,163,500
Operating Income (Loss)	<b>(167,746)</b>	<b>(128,866)</b>	<b>(112,347)</b>	<b>(109,025)</b>	<b>3,865</b>	<b>(163)</b>
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	(3,350)	(4,768)	-	-	-	-
Federal Indirect Cost Recoveries	236,799	265,457	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	233,449	260,689	-	-	-	-
Income (Loss) Before Operating Transfers	65,703	131,823	(112,347)	(109,025)	3,865	(163)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(18,363)	-	-	-	-	-
Change in net assets	47,340	131,823	(112,347)	(109,025)	3,865	(163)
Total Net Assets- July 1 - As Restated	215,665	280,123	412,246	299,599	190,574	194,439
Prior Period Adjustments	(48,453)	300	(300)	-	-	-
Cumulative effect of account change	65,571	-	-	-	-	-
Total Net Assets - July 1 - As Restated	232,783	280,423	411,946	299,599	190,574	194,439
Net Assets- June 30	<b>280,123</b>	<b>412,246</b>	<b>299,599</b>	<b>190,574</b>	<b>194,439</b>	<b>194,276</b>
60 days of expenses (Total Operating Expenses divided by 6)	162,546	165,820	177,677	190,580	194,011	193,917