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 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	149.72	4.00	7.90	161.62	4.00	8.90	162.62	162.62
Personal Services	7,551,646	1,484,077	369,976	9,405,699	1,614,162	415,649	9,581,457	18,987,156
Operating Expenses	7,799,929	2,510,055	1,625,761	11,935,745	2,201,546	809,192	10,810,667	22,746,412
Equipment	42,256	0	215,000	257,256	0	15,000	57,256	314,512
Local Assistance	22,944	0	0	22,944	0	0	22,944	45,888
Grants	0	860,530	0	860,530	860,530	0	860,530	1,721,060
Transfers	500,000	(500,000)	8,534,000	8,534,000	(500,000)	7,150,000	7,150,000	15,684,000
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100
Total Costs	**$15,948,825**	**$4,354,662**	**$10,744,737**	**$31,048,224**	**$4,176,238**	**$8,389,841**	**$28,514,904**	**$59,563,128**
General Fund	3,645,471	2,900,784	9,178,147	15,724,402	2,738,027	7,586,185	13,969,683	29,694,085
State/Other Special	4,210,892	1,820,999	766,590	6,798,481	1,896,376	803,656	6,910,924	13,709,405
Federal Special	147,422	(60,129)	800,000	887,293	(60,089)	0	87,333	974,626
Capital Projects	500,000	(500,000)	0	0	(500,000)	0	0	0
Proprietary	7,445,040	193,008	0	7,638,048	101,924	0	7,546,964	15,185,012
Total Funds	**$15,948,825**	**$4,354,662**	**$10,744,737**	**$31,048,224**	**$4,176,238**	**$8,389,841**	**$28,514,904**	**$59,563,128**

Agency Description

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

- Accounting and financial reporting
- Warrant writing
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- State bonded indebtedness administration
- State treasury services
- Capitol complex building maintenance and security
- Duplicating, mail and messenger services
- Procurement and surplus property administration
- Information systems development, telecommunications, data processing, and strategic planning
- Personnel management and labor relations
- State financial institution oversight and regulation
- Insurance coverage and Tort Claims Act administration
- Administration of the Long Range Building Program
- Administration of state employee group benefits

The Board of Examiners, the State Tax Appeal Board, Office of the Public Defender, the Public Employees' Retirement Board, the Teachers' Retirement Board, the Montana Lottery, and the Montana Consensus Council are attached to the department for administrative purposes only.

Agency Highlights

Department of Administration Major Budget Highlights
♦ For the biennium and compared to the base, total funds increase $27.7 million, or 86.7 percent, and general fund increases $22.4 million, or 300.0 percent ♦ The general fund increase is primarily due to: • A transfer of general fund to the Long-range Building Program to fund deferred maintenance of state-owned buildings ($14.3 million) • Statewide present law adjustments ($5.2 million) • A one time transfer to the Public Employees' Retirement System to repay the loan taken out for startup costs of the defined contribution plan ($1.4 million) • An initiative to centralize management of workers' compensation costs ($767,000) • One time funding to evaluate future options for providing SABHRS functionality ($270,000) • Retrofit of the state computer data center for earthquake protection ($200,000) ♦ Staffing in HB 2 would grow by 12.90 FTE ♦ $270,000 general fund and $30,000 proprietary funds added to assess long-term options for providing SABHRS functions
Major LFD Issues
♦ Information not provided to determine impacts causing rate changes for proprietary funds ♦ The executive not taking seriously the legislative approval of fees and charges to fund internal service funds ♦ Salary for State Tax Appeal Board presiding officer above statutory level ♦ Policy changes and funding increase for Facilities Management included in a statewide present law adjustment and not justified in narrative or a decision package

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Indirect Administrative Costs

The executive includes adjustments in all programs to provide funding for indirect administrative cost payments from service user programs to service provider programs that are funded with proprietary funds and provide centralized services to other programs of the agency. The following figure illustrates the funding and distribution of the adjustments across the agency. The figure shows that direct appropriations of general fund would be increased by about $37,500.

The figure also shows that proprietary funds would be increased by about $183,900 and would provide 76 percent of the increased funding. However, the legislature should be aware that proprietary programs of the department, from which these funds would be provided, get their revenue from assessments on the funding sources of all agencies that use the services, including general fund. Therefore, an increase in proprietary assessment can have a direct impact on the general fund expenditures of other agencies.

Indirect Administrative Costs
2009 Biennium
DP 311

Program of the department	General Fund	State Special Revenue	Budgeted Proprietary	Non-budgeted Proprietary	Total Funds	HB 2 Base	FY 2006 Proprietary
03 Admin Financial Serv Division	$15,902	$0	$0	$162,589	$178,491	$18,424	$36,516
04 Architecture & Engineering Pgm	0	9,186	0	0	9,186	38,697	0
06 General Services Program	6,242	0	0	18,159	24,401	7,913	155,337
07 Information Tech Serv Division	-3,493	16,223	0	-3,894	8,836	10,183	317,733
14 Banking And Financial Division	0	-5,410	0	0	-5,410	49,992	0
15 Montana State Lottery	0	0	-6,448	0	-6,448	53,942	0
21 Health Care & Benefits Division	0	0	0	3,219	3,219	0	47,875
23 State Personnel Division	15,055	0	0	13,026	28,081	5,915	8,974
24 Risk Management & Tort Defense	0	0	0	-2,752	-2,752	0	53,714
37 State Tax Appeal Board	3,783	0	0	0	3,783	4,594	0
	$37,489	$19,999	-$6,448	$190,347	$241,387	$189,660	$620,149

Proprietary Funds

Legislative Action

The agency includes a number of programs that are funded with funds budgeted in both HB 2 and proprietary funds. Except for the Montana State Lottery and certain direct appropriations of Board of Investment proprietary funds in the Administrative Financial Services Division, proprietary funds are not included in the HB 2 tables. Proprietary programs are grouped into two categories: 1) internal service funds; and 2) enterprise funds. For the general appropriations act, Montana law specifies different legislative action for each category.

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

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

Proprietary Rates

Several programs of the agency are funded with proprietary funds. The legislature does not appropriate proprietary funds, except for proprietary funds that are part of the funding for a HB 2 program and proprietary funds whose net revenues are deposited in the general fund. For internal services type proprietary funds that do not meet the above exceptions, state law directs that the legislature approve the maximum level of fees and charges the program can charge customers for services rendered. The fees and charges generate the revenue for program operations. The fees and charges actually assessed to the customers can be lower during the biennium than those approved by the legislature, but they can not exceed the legislatively approved levels.

LFD ISSUE

Concerns with the Current Proprietary Fund Approval Processes

Reason for Rate Change Not Provided

As stated, the action of the legislature for internal service type proprietary funds is to approve the maximum level for fees and charges used by the program to bill customers for services and generate operating revenue to provide the services. According to the executive budget instructions, agencies were directed to "uniquely quantify the impact to the base rate as part of the decision package justification" for any issue that changes the legislatively-adopted rate. For nearly all programs of this agency, uniquely quantifiable impacts were not provided for any rate change. When information was not provided, the LFD noted the deficiency in either an LFD issue or LFD comment. When the LFD specifically requested the rate change information as part of the analysis, the quantifiable impact information was not provided. Instead, only information about which rate was impacted was provided. In many instances the response was that the funding change had little or no impact on the rate, yet the rate change was significant in terms of percentage change from the base rate.

Out-of-Date Information Provided

Key information provided by the executive for the legislature to make rate decisions is the biennium report on internal service and enterprise funds (fund report). In several cases the reports were not accurately completed, only partially completed, or did not reflect the final executive budget. In at least two cases, the Facilities and Maintenance Program in the department and the State Motor Pool, the executive budget includes contributed capital from the general fund to support the operation of program, but the rates and the fund report were not updated to reflect the contributed capital. In other instances, such as for the Information Technology Services Division of the department, the rates that appeared in the executive budget were different than the rates include in the requested rates section of the fund report. In this instance the fund report wasn't even included in the executive budget, but was published on the Governor's budget network directory and included in the LFD analysis as published and confirmed to be the official versions of the fund reports.

The current process and the information requirements and formats for the executive to provide information for proprietary fund rate approval by the legislature was developed thorough work and recommendations of the Legislative Finance Committee. The current process and information submitted by the executive of legislative approval of funding for proprietary funded programs appears to not be being taken seriously by the executive, or at least by agencies of the executive.

Legislative Action

The legislature may want to consider again reviewing the process for establishing spending authority for programs funded with proprietary funds. The legislature could include request a bill for an interim study of the process that could include:

- A review of the legislative authority and powers for approving proprietary funding
- A review of the current statutory directions for developing and presenting budgets for proprietary funds
- A review of current information provided by the executive for requesting legislative approval of proprietary funding
- A review of the LFD process for presenting the information provided by the executive in the budget analysis
- Recommendations for revising the information requirements, the process, and state law

LFD ISSUE CONT.

The following changes could be made via legislation in the 2007 Legislature to provide clarity in statute regarding fees and charges approved by the legislature and provision of rate change information:

- Specify that the maximum fees and charges approved by the legislature is the same fee and charge schedule actually billed to the customers of the program
- Specify that the report on fees and charges in the internal service fund type must include specific and quantifiable justifications for changes of fees and charges as compared to the base year fees and charges approved by the previous legislature

For the current budget, the legislature may want to direct the executive to provide quantifiable information that fully explains the factors for rates changing from the FY 2006 levels approved by the legislature.

LFD ISSUE

Approving Working Capital as a Rate

A few of the programs for this agency request legislative approval of proprietary rates that are based on limiting the level of working capital of the program instead of the legislature approving the actual fees and charges billed to customers. Federal and state rules currently exist to limit proprietary funded programs from maintaining more than a 60-day working capital balance. A rate based on collecting no more than a certain level of working capital provides no budgetary limits on the operations of the program. Working capital is no more than an accounting term used to describe the balance remaining after short-term liabilities are deducted from short-term assets. The term roughly equates to the cash balance of a fund after deducting for liabilities that are due within one year. Operating parameters can easily be manipulated to control this balance by increasing expenses to compensate for high revenue collections or increasing revenues to compensate for high expenses. For further discussion, see the narrative for the individual proprietary funds.

Since the legislature is charged with approving the maximum level of fees and charges for a proprietary funded program, it can be assumed to imply a legislative concern to indirectly control expenditures through the process of setting the level of fees and charges. As stated, approving a working capital based rate does nothing to control the level of expenditure. Instead, it grants full control of program expenditures to the executive. Programs that use the services of a proprietary funded program pay the fees with all type of funding sources including general fund and state special revenue.

The legislature may want to consider the potential impacts that approving working capital rates would have on customers funded with other sources, given that approval of a working capital rate grants the program the flexibility to adjust the actual fees and charges billed to customers. For a further discussion, see the individual proprietary account narratives in the sections that follow.

Funding

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

Total Agency Funding
2009 Biennium Executive Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
02 Governor Elect Program	$ 50,000	$ -	$ -	$ -	$ 50,000	0.08%
03 Admin Financial Serv Division	4,882,568	3,174	174,626	99,289	5,159,657	8.66%
04 Architecture & Engineering Pgm	14,300,000	3,415,744	-	-	17,715,744	29.74%
06 General Services Program	5,020,610	533,630	-	-	5,554,240	9.32%
07 Information Tech Serv Division	1,485,798	2,763,001	800,000	-	5,048,799	8.48%
14 Banking And Financial Division	-	6,909,392	-	-	6,909,392	11.60%
15 Montana State Lottery	-	-	-	15,085,723	15,085,723	25.33%
21 Health Care & Benefits Division	767,369	84,464	-	-	851,833	1.43%
23 State Personnel Division	2,398,515	-	-	-	2,398,515	4.03%
37 State Tax Appeal Board	789,225	-	-	-	789,225	1.33%
Grand Total	$ 29,694,085	$ 13,709,405	$ 974,626	$ 15,185,012	$ 59,563,128	100.00%

The agency is primarily funded with general fund, but state special revenue, federal special revenue, and budgeted proprietary funds support operations of several programs. In addition to budgeted proprietary funds, several programs are supported by non-budgeted proprietary funds that rely on legislatively approved fees and charges for generating revenues to support operations. The functions with the highest funding of state special revenue are the Architectural and Engineering Division's construction support function, the Banking and Financial Institution Division's bank examination and licensing functions, and the geographic information system coordination functions of the Information Technology Services Division.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	153.72	7.90	161.62	153.72	8.90	162.62	149.72	162.62
Personal Services	9,035,723	369,976	9,405,699	9,165,808	415,649	9,581,457	16,205,086	18,987,156
Operating Expenses	10,309,984	1,625,761	11,935,745	10,001,475	809,192	10,810,667	16,004,176	22,746,412
Equipment	42,256	215,000	257,256	42,256	15,000	57,256	287,435	314,512
Local Assistance	22,944	0	22,944	22,944	0	22,944	51,581	45,888
Grants	860,530	0	860,530	860,530	0	860,530	810,000	1,721,060
Transfers	0	8,534,000	8,534,000	0	7,150,000	7,150,000	1,000,000	15,684,000
Debt Service	32,050	0	32,050	32,050	0	32,050	64,100	64,100
Total Costs	$20,303,487	$10,744,737	$31,048,224	$20,125,063	$8,389,841	$28,514,904	$34,422,378	$59,563,128
General Fund	6,546,255	9,178,147	15,724,402	6,383,498	7,586,185	13,969,683	7,715,423	29,694,085
State/Other Special	6,031,891	766,590	6,798,481	6,107,268	803,656	6,910,924	9,627,366	13,709,405
Federal Special	87,293	800,000	887,293	87,333	0	87,333	996,893	974,626
Capital Projects	0	0	0	0	0	0	1,000,000	0
Proprietary	7,638,048	0	7,638,048	7,546,964	0	7,546,964	15,082,696	15,185,012
Total Funds	$20,303,487	$10,744,737	$31,048,224	$20,125,063	$8,389,841	$28,514,904	$34,422,378	$59,563,128

Reorganizations

During the 2007 biennium interim, the department reorganized several functions. In FY 2006, the Employee Benefits Bureau was moved from the State Personnel Division to a new program, the Health Care and Benefits Division. The new program manages the state employee group benefits and associated funds for paying group benefit claims for state employees. The program also manages flexible spending accounts for state employees, the non-budgeted Voluntary Employee Benefit Association program, and the state employees' daycare program. The Labor Relations Bureau was also moved from the State Personnel Division to the Administrative Financial Services Division and renamed the Office of Labor Relations. The movement of the functions from the State Personnel Division was done to allow the division to focus its efforts toward helping state agencies with day-to-day human resource issues such as workforce planning, employee training, compensation planning, classification issues, employment policies, and payroll. The labor relations function was moved to provide more visibility for the office and provide more autonomy to its role as the Governor's designee on collective bargaining matters. For the 2009 biennium budget request, the functions are presented in their new programs including base expenditures.

In FY 2007, the SABHRS Support Bureau was moved from the Information Technology Services Division to the Administrative Financial Services Division. The move was made to align more closely the operation of the state accounting system with the organization responsible for statewide accounting standards and administration. For the 2009 biennium budget request, the program and its base expenditures are in the Information Technology Services Division and budget requests are included to move the function and funding to the Administrative Financial Services Division.

New Proposals

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

New Proposals	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301 - PERS Defined Contribution Transfer OTO										
03	0.00	1,384,000	0	0	1,384,000	0.00	0	0	0	0
DP 312 - Contracted Services Expanded Long Range Building										
04	0.00	0	340,000	0	340,000	0.00	0	340,000	0	340,000
DP 413 - Deferred Maintenance Funding										
04	0.00	7,150,000	0	0	7,150,000	0.00	7,150,000	0	0	7,150,000
DP 602 - Funding Switch for 0.10 FTE in the Procard Program										
06	0.10	0	16,079	0	16,079	0.10	0	16,091	0	16,091
DP 604 - Funding Switch for 0.20 FTE in the Procurement Bur										
06	0.20	8,634	0	0	8,634	0.20	8,642	0	0	8,642
DP 606 - Funding Switch for 0.60 FTE in the Fueling Program										
06	0.60	0	50,715	0	50,715	0.60	0	50,834	0	50,834
DP 610 - Litigation Program/Restricted (Requires Legislation)										
06	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 614 - Computer Surplus Disposal Program (Requires Legislation)										
06	1.00	0	149,854	0	149,854	1.00	0	150,057	0	150,057
DP 710 - Geographic Coordinate Database (Bien)										
07	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 737 - Earthquake Protection Enterprise Data Center-OTO										
07	0.00	200,000	0	0	200,000	0.00	0	0	0	0
DP 1403 - License Mortgage Lenders (Requires Legislation)										
14	2.00	0	159,942	0	159,942	3.00	0	196,674	0	196,674
DP 2111 - Centralize Workers' Compensation Cost Containment										
21	3.00	387,690	0	0	387,690	3.00	379,679	0	0	379,679
DP 3701 - STAB 1.0 FTE										
37	1.00	47,823	0	0	47,823	1.00	47,864	0	0	47,864
Total	**7.90**	**$9,178,147**	**$766,590**	**$800,000**	**$10,744,737**	**8.90**	**$7,586,185**	**$803,656**	**$0**	**$8,389,841**

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	0	0	0	0	0	0	0	0
Operating Expenses	0	0	0	0	50,000	0	50,000	50,000
Total Costs	**$0**	**$0**	**$0**	**$0**	**$50,000**	**$0**	**$50,000**	**$50,000**
General Fund	0	0	0	0	50,000	0	50,000	50,000
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	**$0**	**$0**	**$0**	**$0**	**$50,000**	**$0**	**$50,000**	**$50,000**

Program Description

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

Program Highlights

Department of Administration
Governor-Elect Program
Major Budget Highlights

- $50,000 general fund only in FY 2009

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Governor Elect Program

Program Funding		Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ 50,000	100.0%
	01100 General Fund	50,000	100.0%
Grand	Total	$ 50,000	100.0%

The Governor Elect Program is fully funded with general fund.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
DP 201 - Governor-elect appropriation	0.00	0	0	0	0	0.00	50,000	0	0	50,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$0**	**0.00**	**$50,000**	**$0**	**$0**	**$50,000**
Grand Total All Present Law Adjustments					$0					$50,000

DP 201 - Governor-elect appropriation - The executive recommends $50,000 general fund in FY 2009 for startup costs of a Governor-elect and staff from the general election to inauguration in the event a new Governor is elected in the 2008 general election.

LFD ISSUE

Restricted

If the incumbent Governor were to be reelected in the 2008 general elections, there would be no need for the funding. The legislature could prevent the executive from using the funds for other purposes by restricting the appropriation only for the intended purpose if a new Governor is elected.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	23.84	0.25	0.00	24.09	0.25	0.00	24.09	24.09
Personal Services	1,177,233	279,596	0	1,456,829	282,520	0	1,459,753	2,916,582
Operating Expenses	330,751	134,503	0	465,254	18,804	0	349,555	814,809
Local Assistance	22,133	0	0	22,133	0	0	22,133	44,266
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	1,384,000	1,384,000	0	0	0	1,384,000
Total Costs	**$1,530,117**	**$414,099**	**$1,384,000**	**$3,328,216**	**$301,324**	**$0**	**$1,831,441**	**$5,159,657**
General Fund	1,442,270	363,446	1,384,000	3,189,716	250,582	0	1,692,852	4,882,568
State/Other Special	793	794	0	1,587	794	0	1,587	3,174
Federal Special	42,058	45,235	0	87,293	45,275	0	87,333	174,626
Proprietary	44,996	4,624	0	49,620	4,673	0	49,669	99,289
Total Funds	**$1,530,117**	**$414,099**	**$1,384,000**	**$3,328,216**	**$301,324**	**$0**	**$1,831,441**	**$5,159,657**

Program Description

The Administrative Financial Services Division consists of several units. The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Legal Unit provides legal services to agency and administratively attached programs. The Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, processes warrants for all state agencies, and prepares the state Comprehensive Annual Financial Report (CAFR). The Management Support Bureau and personnel function provide financial, budgeting, accounting, personnel, and payroll functions for the department. The Labor Relations Office assists agencies in collective bargaining and labor relations. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel and defines, reviews, and enforces auditing requirements for Montana's local governments. The SABHRS Services Bureau provides the programming and support for the financial, human resource and budgeting system for the State.

Program Highlights

Department of Administration
Administrative Financial Services Division
Major Budget Highlights

- Total fund and general fund budgets double in FY 2008 over the base, due to a request for one time funding to pay off the startup loan for the defined contribution retirement plan ($1.4 million)
- SABHRS Support Bureau is moved from Information Technology Services Division
- One time funding for SABHRS readiness assessment adds $70,000 general fund

Major LFD Issues

- Loan to start up the defined contribution retirement plan anticipated and members informed
- Information not provided to determine impacts causing rate changes for proprietary funds
- Working capital rate requested for Management Services proprietary fund but other options available

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Admin Financial Serv Div

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ 1,442,270	94.3%	$ 3,189,716	95.8%	$ 1,692,852	92.4%
	01100 General Fund	1,442,270	94.3%	3,189,716	95.8%	1,692,852	92.4%
02000	Total State Special Funds	793	0.1%	1,587	0.0%	1,587	0.1%
	02317 Financial Advisor Fees	793	0.1%	1,587	0.0%	1,587	0.1%
03000	Total Federal Special Funds	42,058	2.7%	87,293	2.6%	87,333	4.8%
	03320 Cmia Funds	18,996	1.2%	63,302	1.9%	63,342	3.5%
	03369 Flood Control Payments	22,133	1.4%	22,133	0.7%	22,133	1.2%
	03978 Federal Portion Of State Divid	929	0.1%	1,858	0.1%	1,858	0.1%
06000	Total Proprietary Funds	44,996	2.9%	49,620	1.5%	49,669	2.7%
	06527 Investment Division	44,996	2.9%	49,620	1.5%	49,669	2.7%
Grand	Total	$ 1,530,117	100.0%	$ 3,328,216	100.0%	$ 1,831,441	100.0%

The Administrative Financial Services Division is funded with general fund, state and federal special revenues, and proprietary funds. General fund provides funding for the statewide accounting standards, treasury, labor relations, and accounting assistance for local government, and for agency management in support of other programs of the agency funded with general fund. State special revenue provides funding from financial advisor fees. Federal special revenue provides funding for activities associated with the federal Cash Management Improvement Act funds, flood control payments, and the federal portion of State Fund dividends. The division is also funded with a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board.

Most operations of the division are funded with non-budgeted proprietary funds, which are discussed in the "Proprietary Rates" section of the narrative.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					317,994					321,019
Vacancy Savings					(59,809)					(59,931)
Inflation/Deflation					2,179					2,511
Fixed Costs					54,288					16,935
Total Statewide Present Law Adjustments					**$314,652**					**$280,534**
DP 302 - Burial Board	0.00	12,000	0	0	12,000	0.00	12,000	0	0	12,000
DP 303 - Labor Relations 0.25 FTE attorney and rent	0.25	(4,343)	0	0	(4,343)	0.25	(4,322)	0	0	(4,322)
DP 305 - Presidential Electors Travel	0.00	0	0	0	0	0.00	1,000	0	0	1,000
DP 307 - Laptop Computer Replacement	0.00	10,000	0	0	10,000	0.00	0	0	0	0
DP 308 - SABHRS Readiness Assessment (Biennial/OTO)	0.00	70,000	0	0	70,000	0.00	0	0	0	0
DP 309 - Local Government Services Travel	0.00	4,000	0	0	4,000	0.00	4,000	0	0	4,000
DP 311 - Allocate department indirect/administrative costs	0.00	7,790	0	0	7,790	0.00	8,112	0	0	8,112
Total Other Present Law Adjustments	**0.25**	**$99,447**	**$0**	**$0**	**$99,447**	**0.25**	**$20,790**	**$0**	**$0**	**$20,790**
Grand Total All Present Law Adjustments					**$414,099**					**$301,324**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 27 percent increase over the personal services base. About $64,900 of the $318,000 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $253,100 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total about $59,000. Of these salary increases, the majority were for market adjustments. The program experienced a vacancy rate in authorized FTE hours of 14.6 percent during the base year. This level of vacancy equates to about 3.50 FTE. Had no vacancies existed, base expenditures would have been roughly $101,800 higher.

DP 302 - Burial Board - An increase of $24,000 general fund for the biennium is requested to fund two meetings per year for the burial board to carry out the functions of the Human Skeletal Remains and Burial Site Protection Act and the Repatriation of Human Remains and Funerary Objects Act.

DP 303 - Labor Relations 0.25 FTE attorney and rent - A reduction of nearly $8,700 general fund for the biennium is requested to move 0.25 FTE attorney from the Personnel Division to the Office of Labor Relations in the Director's Office and to adjust rent in anticipation of lower rent costs than in the base. The lower rent costs would result from moving the Office of Labor Relations from public-sector lease space to state-owned space in the Mitchell Building.

DP 305 - Presidential Electors Travel - An increase of $1,000 general fund in FY 2009 is requested to pay presidential electors and reimburse their travel costs to Helena for a meeting required in state law to vote for a president and vice president of the United States in December 2008.

DP 307 - Laptop Computer Replacement - An increase of $10,000 general fund for the biennium is requested to fund the replacement of five laptop computers used during accounting and financial reporting assistance at local governments.

LFD ISSUE

Cost Not Annually Recurring

With a four year replacement cycle for computers, these costs will not recur for four years. If the legislature does not want the funding for these computer replacements in the base for the 2011 biennium, it may want to designate the funding as one time only.

DP 308 - SABHRS Readiness Assessment (Biennial/OTO) - An increase of $70,000 general fund for the biennium is requested to study and evaluate different options available to the state for providing the accounting, budgeting, and human resource functionality currently provided by SABHRS. Of the funding, $40,000 would be for training and $30,000 for travel. The executive recommends that the funding be designate as biennial and one time only.

LFD COMMENT

The Personnel Division of this agency includes a request for an additional $200,000 for this purpose.

LFD COMMENT

A Little Background on SABHRS

The Statewide Accounting, Budgeting, and Human Resources System (SABHRS) has been in operation since before 2000. At the start of the 2009 biennium, SABHRS will be operating on version 8.9 of the application. Based on information from the vendor, version 8.9 will be supported and upgraded only until December 2010, at which time Oracle/PeopleSoft expects a new product (Fusion) to be available. Investigations by the state indicate that converting to Fusion will require substantial resources (human, financial, and information technology) to install and maintain. The funding in this request would be to look at options available for satisfying the future needs for administering statewide human resources.

DP 309 - Local Government Services Travel - An increase of $8,000 general fund for the biennium is requested to fund increased demand for travel to assist local governments with accounting and financial reporting.

DP 311 - Allocate department indirect/administrative costs - An increase of about $15,900 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals										
	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 301 - PERS Defined Contribution Transfer OTO										
03	0.00	1,384,000	0	0	1,384,000	0.00	0	0	0	0
Total	0.00	$1,384,000	$0	$0	$1,384,000	0.00	$0	$0	$0	$0

DP 301 - PERS Defined Contribution Transfer OTO - An increase of nearly $1.4 million general fund in FY 2008 is requested to make a one time transfer to the Public Employees' Retirement Systems to repay the loan taken out to establish the defined contribution retirement plan (DCRP) when it was established July 1, 2002.

LFD ISSUE

Loan Anticipated

The executive stated in its justification for the adjustment that the requirement of the plan members to repay the loan is creating an undue hardship on the members of the plan, particularly since only four percent of eligible members have chosen the DCRP. It further states that the cost to establish the new retirement plan should be the responsibility of the plan sponsor -- the State of Montana.

The DCRP was established in HB 79 of the 1999 Legislature. HB 79 anticipated the need for startup costs and included a section authorizing a long-term loan from the Department of Administration to finance these costs. Montana law allows the Public Employees' Retirement Board to assess a fee on plan members to pay reasonable administrative costs of the plan. Debt service on the loan is an operating cost for the plan. Montana law specifies that all fees assessed must be fully disclosed to plan members and treated as public information. Awareness of the fees to fund administrative costs are disclosed to new employees when they select which plan to participate in and were disclosed to existing defined benefit plan members when the 12 month conversion period was offered to voluntarily elect an irrevocable conversion to the defined contribution plan.

When considering this funding request, the legislature may want to consider that participation in the defined contribution plan was an irrevocable choice for existing plan members and is an irrevocable choice of new employees. Approving the funding is not fulfilling any commitment of the state, but is rather a goodwill gesture.

Proprietary Rates

Proprietary Program Description

Statewide Accounting, Budgeting and Human Resources Program (Fund 06511)

The Statewide Accounting, Budgeting and Human Resource (SABHRS) Services Bureau is responsible for operational support and maintenance for the statewide finance, human resource, and budget development information systems. The system is used to administer all state financial and accounting functions and is the repository for all state accounting transactions and operating budgets. The system is also used to administer state human resources transactions and is the repository for state agency position and employee data including benefits, performance, training administration, time entry, and payroll. The bureau also administers the Montana Budget, Analysis, and Reporting System (MBARS) that is used to develop the state budget.

The figure for fund 06511 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06511	SABHRS	6101	Administration	Administrative Financial Services

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
SABHRS Services	-	-	-	6,335,169	6,774,746	6,616,145
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	-	-	-	6,335,169	6,774,746	6,616,145
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	-	-	-	6,335,169	6,774,746	6,616,145
Operating Expenses:						
Personal Services	-	-	-	2,096,611	2,308,002	2,316,248
Other Operating Expenses	-	-	-	4,476,229	4,079,556	4,053,563
Total Operating Expenses	-	-	-	6,572,840	6,387,558	6,369,811
Operating Income (Loss)	**-**	**-**	**-**	**(237,671)**	**387,188**	**246,334**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	(54,480)	(54,480)
Net Nonoperating Revenues (Expenses)	-	-	-	-	(54,480)	(54,480)
Income (Loss) Before Operating Transfers	-	-	-	(237,671)	332,708	191,854
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	-	-	-	(237,671)	332,708	191,854
Total Net Assets- July 1 - As Restated	-	-	-	-	(237,671)	95,037
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	-	-	-	-
Net Assets- June 30	**-**	**-**	**-**	**(237,671)**	**95,037**	**286,891**
60 days of expenses (Total Operating Expenses divided by 6)	-	-	-	1,095,473	1,064,593	1,061,635

Requested Rates for Internal Service Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
SABHRS Services Fee	-	-	-	6,335,169	6,774,746	6,616,145

Note: Prior to FY 2007, SABHRS revenues and expenditures were included in ITSD's fund 06522.

Proprietary Revenues and Expenses

In FY 2006, the bureau was still a part of the Information Technology Services Division but revenues for its support were roughly $6.2 million from SABHRS administrative fees paid by state agencies. State agencies budget for payment of these fees as a fixed cost within statewide present law adjustments.

LFD COMMENT

These revenues were received from the following funding sources in the percentages and approximate amounts listed:
- General fund (27.0 percent), $1.7 million
- State special revenue (21.5 percent), $1.3 million
- Federal special revenue (29.2 percent), $1.8 million
- Proprietary funds (15.7 percent), $1.0 million
- All other funds (6.5 percent), $0.4 million

Revenues finance expenses that include personal services of $2.3 million for 35.00 FTE, or 37 percent of total costs, and operating expenses of $4.1 million, or 63 percent of costs. Mid-tier processing fees paid to use of the state information technology network are the single biggest expense and would account for $2.6 million or 39.7 percent of total costs in the 2009 biennium.

Proprietary Rate Explanation

The rate for SABHRS costs is based on predicted expenditures. The predicted costs are allocated to agencies based on the following weighted usage of the system and are included in agency budgets as part of the fixed cost statewide present law adjustment:
- FTE count - 42.25 percent
- Journal lines - 45.43 percent
- Number of agency budget decision packages and Executive Planning Process requests - 12.32 percent

For the 2009 biennium, the executive requests the legislature approve rates that are the total costs to be allocated to and collected from agencies. The rate for SABHRS administrative costs for FY 2006 and the rates the executive requests the legislature approve for the 2009 biennium are:
- FY 2006 (base) - $6,335,169
- FY 2008 - $6,774,746
- FY 2009 - $6,616,145

LFD COMMENT

Reasons for Increase

The agency did not provide the reason for the $439,577 or 6.9 percent rate increase for FY 2008 as compared to the FY 2006 rate, except to state that due to an increase in costs associated with Information Technology Services Division mid-tier rates, SABHRS budget for FY 2007 is anticipated to have a negative working capital balance of $225,113 at the end of FY 2007 and a rate adequate to recover the 2007 revenue shortfall is included in the FY 2008 budget request. Likewise no reason was provided for the rate increase of $280,976 increase or 4.4 percent for the FY 2009 rate.

A comparison of causes for the rate increase is made somewhat confusing because, except for one adjustment for indirect costs of the division, one adjustment was made to eliminate funding in ITSD and add the funding to this division. Both sides of the adjustment do not equal since the adjustment made to add the program in this division includes other present law increases not directly associated with the program transfer or justified by the executive. Base expenses when the program was in ITSD were $5.6 million. The fund report shows expenses of $6.4 million in FY 2008 and FY 2009, or annual increases of about $0.9 million.

LFD COMMENT The differences between the base in ITSD and the 2009 biennium expenses for SABHRS in this division are summarized below to attempt to explain the growth in expenses that are driving the rate increase.

- About $330,000 in FY 2008 and $272,000 in FY 2009 of the expense increase is due to statewide present law adjustments for personal services, inflation, and fixed costs
- $84,000 in each year is due to increases in indirect costs to pay for centralized services provided by other proprietary funded portions of the division
- IT consultant and professional services increase by $250,000 per year for unspecified reasons
- Mid-tier processing costs paid to ITSD increase by $200,000 per year (an impact of ITSD rate increases, see the proprietary rate section of ITSD for a discussion of ITSD rates)
- Funding for software programs increase by $62,300 per year for unspecified reasons

In addition to expense increases, revenues for FY 2008 are $160,000 higher than for FY 2009 with comparable expenses in both years (assumed to be due to an effort to increase working capital, as stated by the executive)

Proprietary Program Description

Management Services Unit (Fund 06534)

The Management Services Unit consists of the Director's Office, the Management Support Unit, the Human Resource Unit, and the Legal Unit with a total of 11.83 FTE. The Management Services Unit coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning (OBPP) and presentation to the Legislature, processes budget change documents on approved budgets through the OBPP, monitors approved budgets for compliance with state law and legislative intent, provides accounting assistance to divisions within the department, processes payroll and provides new employee orientation for all divisions within the department, including attached-to agencies, assists with recruitment and selection, classifies positions and develops personnel policies and procedures. The legal unit advises all divisions within the department on legal matters. The legal unit receives the majority of its funding through the management services unit internal service fund by charging the non-general fund divisions for services provided.

The figure for fund 06534 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6534	Management Services	61010	Administration	Administrative Financial Services

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Management Services	507,137	507,046	867,274	867,274	987,261	996,441
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	507,137	507,046	867,274	867,274	987,261	996,441
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	240	25	19	-	-	-
Total Operating Revenue	507,377	507,071	867,293	867,274	987,261	996,441
Operating Expenses:						
Personal Services	479,201	369,369	663,657	768,401	814,426	819,222
Other Operating Expenses	68,952	72,280	127,224	114,704	135,184	137,483
Total Operating Expenses	548,153	441,649	790,881	883,105	949,610	956,705
Operating Income (Loss)	**(40,776)**	**65,422**	**76,412**	**(15,831)**	**37,651**	**39,736**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(40,776)	65,422	76,412	(15,831)	37,651	39,736
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	(68,533)	-	-	-
Change in net assets	(40,776)	65,422	7,879	(15,831)	37,651	39,736
Total Net Assets- July 1 - As Restated	14,754	(26,022)	39,400	47,513	31,682	69,333
Prior Period Adjustments	-	-	234	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	-	-	-	-
Net Assets- June 30	**(26,022)**	**39,400**	**47,513**	**31,682**	**69,333**	**109,069**
60 days of expenses (Total Operating Expenses divided by 6)	91,359	73,608	131,814	147,184	158,268	159,451

Requested Rates for Internal Service Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Management Services	507,137	507,046	867,274	867,274	45-Day Working Capital Reserve	45-Day Working Capital Reserve

Note: In FY 06 the HR Unit and the Legal Unit were merged into the Management Services Unit.

Management Services requests that the Legislature approve a 45-day working capital rate for the 2009 biennium. These indirect administrative costs are allocated and charged to the programs within the agency and attached-to agencies served by Management Services to provide revenue to support centralized functions.

Proprietary Revenues and Expenses

In FY 2006, the unit had revenues of roughly $867,000 from fees paid by divisions served.

LFD COMMENT

These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (5.7 percent), $49,500
- State special revenue (10.7 percent), $93,100
- Proprietary funds (77.4 percent), $671,7000
- Trust funds (6.1 percent), $52,800

Expenses consist of personal services and operating expenses. In FY 2006 personal services of $663,700 accounted for 84 percent of total expenses and funded 11.83 FTE. The Management Services Unit bills users monthly, which requires the program to operate with around 45 days of working capital. Working capital is factored into the rate after expenditures are calculated. If working capital is too high, the rates that generate the revenue are reduced. No fund balance is required to be reserved for this program.

Proprietary Rate Explanation - Management Services

For the 2009 biennium, the executive requests the legislature not approve specific rates that would be charged to the customer programs and attached agencies, but an operating parameter that limits the program from charging rates that collect more that 45 days of working capital.

LFD ISSUE

Alternative Rates for Management Services

The legislature may want to ask the executive to justify why legislative approval of the actual rate charged to the users of the program imposes an unreasonable burden on the program. For further discussion of working capital rates, refer to the proprietary rates section in the agency narrative.

The 2005 Legislature approved a per FTE charge for the human resources portion of the program, and separate fixed annual allocations of costs as rates for the Legal Unit and the Management Services Unit. The requested working capital rate could lead to a different charge at any point in time. Therefore, the legislature may want to approve rates similar in structure to those approved by the 2005 Legislature.

The executive stated that a rate per FTE of $417 in FY 2008 and $429 in FY 2009 would finance the operations of the Human Resources Unit. These rates would account for $203,694 in FY 2008 and $204,911 in FY 2009 of the expenses shown on the fund report for fund 06534. The remaining portion of Management Services could be funded with fixed allocation rates of $745,916 in FY 2008 and $751,794 in FY 2009.

LFD COMMENT

The agency did not provide the reason for the rate changes. Since the executive recommends switching to a 45-day working capital rate instead of the fixed allocations and per employee rates, the main comparison is in the level of revenues the program would receive. As proposed, the revenues would increase from the FY 2006 revenues by nearly $120,000 in FY 2008 and by $129,000 in FY 2009.

LFD COMMENT CONT.

Based on an evaluation by LFD, the following are the major factors for the growth in the program rates:

- Statewide present law adjustments of $102,000 in FY 2008 and $109,000 in FY 2009
- Planned operating income to build working capital of $38,000 in FY 2008 and $40,000 in FY 2009

Proprietary Program Description

Warrant Writer Program (Fund 06564)

The department provides the services of the Warrant Writer Program to state agencies for check writing and automatic-deposit capabilities for financial transactions. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing. Because the service is mandated in statute, no alternative exists for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system.

The figure for fund 06564 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06564	Warrant Writer	61010	Administration	Adminstrative Financial Services

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Warrant Writing Fees	845,913	812,563	801,502	801,502	983,000	985,000
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	845,913	812,563	801,502	801,502	983,000	985,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	107	197	69	-	-	-
Total Operating Revenue	846,020	812,760	801,571	801,502	983,000	985,000
Operating Expenses:						
Personal Services	181,893	206,057	206,680	206,828	227,526	228,168
Other Operating Expenses	709,874	596,053	666,731	688,990	725,633	699,336
Total Operating Expenses	891,767	802,110	873,411	895,818	953,159	927,504
Operating Income (Loss)	**(45,747)**	**10,650**	**(71,840)**	**(94,316)**	**29,841**	**57,496**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(45,747)	10,650	(71,840)	(94,316)	29,841	57,496
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(45,747)	10,650	(71,840)	(94,316)	29,841	57,496
Total Net Assets- July 1 - As Restated	179,706	133,959	144,641	72,599	(21,717)	8,124
Prior Period Adjustments	-	32	(202)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	179,706	133,991	144,439	72,599	(21,717)	8,124
Net Assets- June 30	**133,959**	**144,641**	**72,599**	**(21,717)**	**8,124**	**65,620**
60 days of expenses (Total Operating Expenses divided by 6)	148,628	133,685	145,569	149,303	158,860	154,584

Requested Rates for Internal Service Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A	-	-	-	-	-	-
Mailer	0.58625	0.58017	0.58331	0.58089	0.68860	0.69200
Mailer - PRD and TRS					0.27860	0.28200
Non-Mailer	0.17803	0.17195	0.18159	0.17917	0.25840	0.26180
Emergency	4.26759	4.26588	4.70228	4.70170	4.78180	4.78090
Duplicates	5.63949	5.63768	6.03998	6.03939	5.59350	5.59260
Externals	0.15523	0.14915	0.15575	0.15333		
Externals - Payroll					0.23050	0.23390
Externals - Universities					0.19660	0.20000
Direct Deposit	0.15599					
Direct Deposit - Mailer		0.52390	0.54578	0.54510	0.64680	0.64450
Direct Deposit - Non Mailer		0.15390	0.15578	0.15510	0.23870	0.22690

Proprietary Revenues and Expenses

In FY 2006, the Warrant Writer Program had revenues of roughly $801,400 from fees paid by agencies statewide.

LFD COMMENT

These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (27.1 percent), $217,000
- State special revenue (15.9 percent), $127,800
- Federal special revenue (20.1 percent), $161,100
- Proprietary funds (17.3 percent), $138,300
- All other funds (19.6 percent), $157,200

Billing for warrants is done monthly and is based on actual warrants issued. Turnaround time for payment is around 45 days. Working capital is factored into the rate after expenditures are calculated. If working capital is too high, the rates charged to agencies are reduced in order to reduce revenues.

In FY 2006, revenues funded personal services for 6.33 FTE and operating costs. Personal services of roughly $206,700 accounted for about 24 percent of expenses, with operating costs making up the majority of costs at roughly $666,700 or nearly 76 percent of unit expenses. Major operating costs are for postage and mailing ($451,300 or 47 percent of program costs), and warrant printing and bank service fees (combined are $115,000 or 12 percent of costs).

The fund report for fund 06564 anticipates operating revenues from rates and other charges would be less than the anticipated operating expenses through the 2007 biennium, resulting in operating losses totaling $166,200 for the 2007 biennium. These losses would deplete fund balance to negative $21,700 at the end of FY 2007.

Demand for each warrant category is made by comparing two biennia of actual activity to project usage for the upcoming biennium. Mailer warrants factor in warrant stock cost, postage, and printing. Non-mailer warrants factor in warrant stock cost and printing. Both type of warrants pay for the required reconciliation between SABHRS accounts payable module and the state bank account. Direct deposits pay a $0.05 charge for bank processing. Duplicate and emergency warrants pay for personnel time to process each individual request. All categories share in general operating expenses of the program.

Proprietary Rate Explanation

The fund report shows the FY 2006 rates and rates submitted for legislative approval for the Warrant Writer Program for the 2009 biennium.

LFD COMMENT

Why Are Different Customers Charged Different Rates?

The above figure shows that different rates are charged to different customer groups for the same type of warrant. The following explains the reason for the different rates:

- The mailer warrant rate is lower for the Public Employees' Retirement System (PRD) and the Teachers' Retirement System (TRS) because these customers pay their own postage so they do not pay the full rate of a normal mailer warrant
- Payroll provides their own stock so they are not charged for warrant stock
- The university system prints and provides postage for their own external warrants and the fee charged is for the Warrant Writer Program to reconciliation, monitor for stale-date warrants, and cancel warrants as needed. They only are charged for fixed capital and personal services costs.

LFD COMMENT The agency stated that the primary reason for the increase in rates is increased cost for postage. While higher postage costs account for nearly half of the increase in expenses for the biennium, postage should not factor into the increase rates for non-mailer type warrants.

Based on an evaluation of expenses by LFD, the following are the major factors for the growth in the program rates:

- Statewide present law adjustments account for all the cost increases with the following the major adjustments driving up these costs:
  - Postage and mailing increasing $36,000 per year
  - Audit fees increasing $25,400 in FY 2008
  - Rent for state-owned buildings increasing by $3,100 in FY 2008 and by $4,000 in FY 2009
- Planned operating income to build working capital of $30,000 in FY 2008 and $57,000 in FY 2009

Proprietary Program Description

Single Audit Review Program (Fund 06042)

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act (MSAA), which specifies the audit requirements for all Montana local government entities (2-7-5, MCA). The program performs the following services:

- Mails out to and receives annual financial reports from approximately 900 local governments
- Enters selected financial data from the reports into a database
- Obtains and enters into the database information regarding school district revenues
- Determines which local government entities are subject to audit under the act and notifies them of the audit requirements
- Accepts applications from and maintains a roster of independent auditors authorized to conduct local government audits
- Prepares and keeps current a legal compliance supplement for use by independent auditors in conducting local government audits
- Receives and approves audit contracts for local government audits
- Verifies that all local governments required to have audits do so
- Receives and reviews local government audit reports to determine whether the audits have been conducted in accordance with required standards
- Notifies state agencies of audit findings related to financial assistance programs that they administer
- Receives and reviews each local government's response to the audit report findings and determines whether the entity has developed a satisfactory plan to correct deficiencies noted in the audit report
- Maintains copies of all local government entity audit reports and the local governments responses to audit findings, and makes those reports and responses available upon request to state and federal agencies and the public
- Provides technical advice on accounting, auditing, and legal compliance matters to local governments and certified public accountants conducting local government audits
- Investigates or refers to auditors for follow-up action complaints or allegations received from the public, either directly or through the Legislative Auditor's hotline
- Provides information regarding local government audits, audit findings, entity responses to findings, and legal compliance and accounting requirements to the public
- Requests for special audits and arranges for such audits if determined to be necessary

The figure for fund 06042 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06042	Single Audit Review - HB328	61010	Administration	Administrative Financial Services

	Actual FY04	Actual FY05	Actual FY06	Budget FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Fee A	-	-	-	-	-	-
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	269,850	274,975	273,675	259,025	315,000	315,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	70	-	2	-	-	-
Total Operating Revenue	269,920	274,975	273,677	259,025	315,000	315,000
Operating Expenses:						
Personal Services	199,558	202,953	215,338	208,919	236,742	234,549
Other Operating Expenses	96,982	81,722	82,154	97,586	81,887	82,144
Total Operating Expenses	296,540	284,675	297,492	306,505	318,629	316,693
Operating Income (Loss)	**(26,620)**	**(9,700)**	**(23,815)**	**(47,480)**	**(3,629)**	**(1,693)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(26,620)	(9,700)	(23,815)	(47,480)	(3,629)	(1,693)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(26,620)	(9,700)	(23,815)	(47,480)	(3,629)	(1,693)
Total Net Assets- July 1 - As Restated	215,335	188,715	179,015	155,800	108,320	104,691
Prior Period Adjustments	-	-	600	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	215,335	188,715	179,615	155,800	-	-
Net Assets- June 30	**188,715**	**179,015**	**155,800**	**108,320**	**104,691**	**102,998**
60 days of expenses (Total Operating Expenses divided by 6)	49,423	47,446	49,582	51,084	53,105	52,782

Requested Rates for Enterprise Funds
Fee/Rate Information

	Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
	Variable fee, as follows:	Variable fee, as follows:	Variable fee, as follows:	Variable fee, as follows:	Variable fee, as follows:	Variable fee, as follows:
Major Fee: Local Government Report Filing Fee:						
Annual revenues less than $200,000	$0	$0	$0	$0	$0	$0
Annual revenues equal to or greater than $200,000, but less than $500,000	$175	$175	$175	$175	$200	$200
Annual revenues equal to or greater than $500,000, but less than $1,000,000	$375	$375	$375	$375	$425	$425
Annual revenues equal to or greater than $1,000,000, but less than $1,500,000	$525	$525	$525	$525	$600	$600
Annual revenues equal to or greater than $1,500,000, but less than $2,500,000	$600	$600	$600	$600	$700	$700
Annual revenues equal to or greater than $2,500,000, but less than $5,000,000	$675	$675	$675	$675	$775	$775
Annual revenues equal to or greater than $5,000,000, but less than $10,000,000	$725	$725	$725	$725	$825	$825
Annual revenues are equal to or greater than $10,000,000, but less than $50,000,000	$775	$775	$775	$775	$900	$900
Annual revenues are equal to or greater than $50,000,000	$775	$775	$775	$775	$975	$975
Minor Fee: Auditor Roster Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:	Annual Fee:
Annual Fee	$50	$50	$50	$50	$100	$100

Proprietary Revenues and Expenses

The Audit Review Program receives revenues from two fees:

- The report filing fee, required by 2-7-514, MCA, is based upon costs incurred by the department for administering the Audit Review Program. All local government entities that are required to submit audits pay the filing fee.
- A roster fee is collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana.

The program incurs operating expenses for personal services and operating costs. In FY 2006 personal services were about $215,000 or 72.4 percent of total operating costs. Operating expenses of about $82,000 made up the remaining 28.6 percent of total expenses. The fee revenues support a staff of 4.00 FTE.

Proprietary Rate Explanation

The Audit Review Program is funded with two fees: 1) audit report filing fee; and 2) annual auditor roster fee. The program also received reimbursement from audited entities for costs to contract for special audits as requested. It is the intent of the program to maintain fees sufficient to pay program costs at current level staffing. Because the Single Audit Review Program is funded with an enterprise type proprietary fund, the legislature does not approve the fees for the program. Instead, fees are established in administrative rule. The Single Audit Review program does not receive any direct appropriations. Funding is derived entirely from the fees described below, except for occasional fee reimbursements for special audits or reviews.

Audit Report Filing Fee

The audit report filing fee is required by 2-7-514, MCA. The fee schedule has been adopted as ARM 2.4.402 and shown on the fund report. The program anticipates initiating administrative rule changes to increase the fees for the 2009 biennium, as shown on the fund report.

Annual Auditor Roster Fee

The annual auditor roster fee is provided for by 2-7-506, MCA. The annual auditor roster fee has been adopted as ARM 2.4.406. The current fee in the rule is $50 per year. The program anticipates initiating administrative rule changes to increase the fee to $100 for the 2009 biennium.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	17.00	0.00	0.00	17.00	0.00	0.00	17.00	17.00
Personal Services	915,948	117,241	0	1,033,189	122,253	0	1,038,201	2,071,390
Operating Expenses	267,022	63,409	340,000	670,431	66,901	340,000	673,923	1,344,354
Transfers	0	0	7,150,000	7,150,000	0	7,150,000	7,150,000	14,300,000
Total Costs	**$1,182,970**	**$180,650**	**$7,490,000**	**$8,853,620**	**$189,154**	**$7,490,000**	**$8,862,124**	**$17,715,744**
General Fund	0	0	7,150,000	7,150,000	0	7,150,000	7,150,000	14,300,000
State/Other Special	1,182,970	180,650	340,000	1,703,620	189,154	340,000	1,712,124	3,415,744
Total Funds	**$1,182,970**	**$180,650**	**$7,490,000**	**$8,853,620**	**$189,154**	**$7,490,000**	**$8,862,124**	**$17,715,744**

Program Description

The Architecture & Engineering Program manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration each session. In addition, the division is developing and implementing a condition and needs assessment of K-12 public school facilities.

Program Highlights

Department of Administration
Architecture & Engineering Program
Major Budget Highlights

- $7.2 million general fund per year was added for deferred maintenance of state-owned buildings
- Growth of Long-range Building Program is driving an increase of $680,000 state special revenue for contracted services to manage projects

Major LFD Issues

- An invalid appropriation request was included to transfer general fund to the LRBP for deferred maintenance

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Architecture & Engineeri

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ -	-	$ 7,150,000	80.8%	$ 7,150,000	80.7%
	01100 General Fund	-	-	7,150,000	80.8%	7,150,000	80.7%
02000	Total State Special Funds	1,182,970	100.0%	1,703,620	19.2%	1,712,124	19.3%
	02030 Arch & Engin Construction	1,182,970	100.0%	1,703,620	19.2%	1,712,124	19.3%
Grand	Total	$ 1,182,970	100.0%	$ 8,853,620	100.0%	$ 8,862,124	100.0%

The Architecture & Engineering Program is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses. For the 2009 biennium $14.3 million general fund has been added to fund deferred maintenance of state-owned buildings.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					160,290					165,513
Vacancy Savings					(43,049)					(43,260)
Inflation/Deflation					4,968					5,359
Fixed Costs					53,975					56,822
Total Statewide Present Law Adjustments					**$176,184**					**$184,434**
DP 311 - Allocate department indirect/administrative costs	0.00	0	4,466	0	4,466	0.00	0	4,720	0	4,720
Total Other Present Law Adjustments	**0.00**	**$0**	**$4,466**	**$0**	**$4,466**	**0.00**	**$0**	**$4,720**	**$0**	**$4,720**
Grand Total All Present Law Adjustments					**$180,650**					**$189,154**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 17.5 percent increase over the personal services base. About $59,000 of the $160,300 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $101,300 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total $10,100. The program experienced a vacancy rate in authorized FTE hours of 11.1 percent during the base year. This level of vacancy equates to about 1.90 FTE. Had no vacancies existed, base expenditures would have been roughly $84,700 higher.

<u>DP 311 - Allocate department indirect/administrative costs -</u> An increase of about $9,200 state special revenue for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 312 - Contracted Services Expanded Long Range Building										
04	0.00	0	340,000	0	340,000	0.00	0	340,000	0	340,000
DP 413 - Deferred Maintenance Funding										
04	0.00	7,150,000	0	0	7,150,000	0.00	7,150,000	0	0	7,150,000
Total	0.00	$7,150,000	$340,000	$0	$7,490,000	0.00	$7,150,000	$340,000	$0	$7,490,000

DP 312 - Contracted Services Expanded Long Range Building - An increase of $680,000 state special revenue for the biennium is requested to fund contracted services for project management in the areas of planning, design, and construction. The increase would address workload issues in the Long-range Building Program (LRBP) caused by growth since the 2005 biennium. The request assumes the estimated program for the 2009 biennium is approved by the legislature. If the assumption holds true, the LRBP bonded program would grow from under $80 million to over $261 million and the cash program would grow from $3 million to over $112 million.

DP 413 - Deferred Maintenance Funding - An increase of $14.3 million general fund for the biennium is requested to fund deferred maintenance of state-owned buildings.

LFD COMMENT

Estimated Backlog of Deferred Maintenance

The Long-range Building Program (LRBP) is the primary source of funding for major repairs and maintenance for two thirds of state-owned buildings, with a combined replacement value exceeding $1.15 billion. Ongoing funding for the LRBP program has diminished over time and the backlog of deferred maintenance has grown to an estimated $205 million. The 2005 Legislature authorized an appropriation of $8,000 for a LRBP funding study. The intent of the study was to produce a quantification of current deferred maintenance, an analysis of the problem, a recommendation for adequate LRBP cash program funding, and a proposal for the elimination of the backlog. The Legislative Finance Committee (LFC) included this project in the staff work plan for the interim after the 2005 Legislature adjourned. The study estimated that the current backlog of deferred maintenance is $240 million and the current funding in the LRBP is approximately 20 percent of the industry recommendation for major maintenance. The LFC recommended and has requested legislation (LC 184) to eliminate allocations of cigarette tax and coal severance tax that fund the LRBP and establish an internal service type proprietary fund with fees charged to tenant programs of state-owned buildings to fund building deferred maintenance.

The executive recommends, in aggregate, $11 million per year for major maintenance of state-owned buildings, which is approximately one percent of current replacement value of buildings based on a recent inventory of state-owned buildings with replacement values greater than $50,000. The funding in this request is a part of the funding package that combines with the current statutory allocations from the cigarette and coal severance taxes.

LFD ISSUE

Not a Valid Appropriation

In addition to attempting to establish an appropriation for the 2009 biennium, this request is intended to establish a base level for funding deferred maintenance in future biennia. The request is for general fund intended to be transferred to the LRBP to fund deferred maintenance. However, the intended objectives for this request may not be realized. When transferring funds from one account in the state treasury to another account, funds never leave the state treasury. According to the code commissioner. a legislative appropriation is not needed for the transfer because no funds leave the state treasury as a result of the transfer. The actual expenditure would be made when the LRBP expends funds to accomplish the major maintenance activities. The deferred maintenance of LRBP is funded in HB 5 and not HB 2. Again according to the code commissioner, an attempt to make an appropriation in HB 2 would not be a valid appropriation and since HB 2 can only contain valid appropriations, would not be legal.

If the legislature concurred in establishing a base level of general fund to fund major maintenance for state-owned buildings, a more appropriate way would be to establish in statute a transfer of general fund to the LRBP that is specified for major maintenance of state-owned buildings or consider the method proposed in LC 184 that was mentioned above. The legislature is advised not to approve the funding of this request.

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	10.35	0.00	1.90	12.25	0.00	1.90	12.25	12.25
Personal Services	493,727	45,358	96,909	635,994	48,825	97,151	639,703	1,275,697
Operating Expenses	104,180	1,778,742	163,373	2,046,295	1,870,495	163,473	2,138,148	4,184,443
Equipment	0	0	15,000	15,000	0	15,000	15,000	30,000
Transfers	500,000	(500,000)	0	0	(500,000)	0	0	0
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100
Total Costs	**$1,129,957**	**$1,324,100**	**$275,282**	**$2,729,339**	**$1,419,320**	**$275,624**	**$2,824,901**	**$5,554,240**
General Fund	629,957	1,824,100	8,634	2,462,691	1,919,320	8,642	2,557,919	5,020,610
State/Other Special	0	0	266,648	266,648	0	266,982	266,982	533,630
Federal Special	0	0	0	0	0	0	0	0
Capital Projects	500,000	(500,000)	0	0	(500,000)	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$1,129,957**	**$1,324,100**	**$275,282**	**$2,729,339**	**$1,419,320**	**$275,624**	**$2,824,901**	**$5,554,240**

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

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

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act. The bureau also manages the state's vehicle fueling, energy procurement, and procurement card programs.

The Print and Mail Services Bureau provides print and mail services to state agencies at a central facility. Services include internal printing including three quick copy centers, external (contracted) printing, photocopy pool, mail preparation, central mail operations, inter-agency (deadhead) mail, and the United States post office in the Capitol Building.

The Property and Supply Bureau manages the central stores program and the state and federal surplus property programs.

Program Highlights

Department of Administration
General Services Division
Major Budget Highlights

- Capital projects funds are eliminated ($0.5 million base funding)
- $3.6 million general fund is added to replace eliminated capital projects funds and subsidize rent
- Passage and approval of legislation would allow rebates from purchases made with state procurement cards and would fund two new programs and eliminate two proprietary funds

- Litigation program adds $100,000 to fund procurement protest costs
- Computer disposal program adds $300,000 to address disposal of hazardous electronic components
- 0.70 FTE moved from proprietary to HB 2 funding

Major LFD Issues

- ♦ Policy changes and funding increase for Facilities Management included in a statewide present law adjustment and not justified in narrative or a decision package
- ♦ Information not provided to determine impacts causing rate changes for proprietary funds
- ♦ Conflicting rate requests for proprietary funds
- ♦ Working capital rates requested but other options available

Program Narrative

Change in Policy for Maintaining State-owned Buildings

Intermixed among a portion of the HB 2 and proprietary funded portions of the division is a policy change that raises a number of issues for the legislature. The current funding policy for the operations and maintenance of state-owned buildings is:

- o Capital projects funds from the Capitol Land Grant Trust fund major projects for all state-owned buildings throughout the Capitol Complex that are managed by the Department of Administration
- o Agencies pay rent based on an allocation of square footage to total, non-common, square footage occupied in state-owned buildings managed by the Department of Administration
- o Agency rent payments subsidize the maintenance of common areas that are not allocated to a specific agency (Old and existing Governor's Mansions, office space in the Capitol Building used by the Senate and House of Representatives, and public display areas in the Historical Society Museum)

The funding policy for the operations and maintenance of state-owned buildings that is represented in the 2009 biennium budget request is:

- o Capital projects funds are eliminated through approval of DP 620 in the HB 2 portion of the division budget
- o Fixed costs for the HB 2 portion of the program are increased $3.6 million to fund payments to the proprietary fund portion of the program for increased costs not supported by an explanation or a decision package. Based on conversations with the executive the policy change accomplishes the following:
    - Rental rates for non-common areas of state-owned buildings that do not subsidize common areas
    - General fund to support the operations and maintenance of common areas
    - Increased funding for deferred maintenance

<u>Elimination of Capital Projects Funds</u>

DP 620 eliminates $0.5 million of base expenditures made with capital projects funds that were used to fund major projects in state-owned buildings managed by the department. According to the executive, the funds are recommended to be eliminated because they are difficult to project and posed problems for the division to plan and carry out projects. The proposal is included as a present law adjustment and would have been more appropriately included as a new proposal, but was otherwise appropriately included as a distinct decision package for legislative consideration.

<u>Common Area Funding</u>

The rental rates developed for the 2009 biennium would charge agencies based on the percentage of the square footage of office or warehouse space the agency occupies to the total square footage of all non-common area space. This is a change from the policy for the 2007 biennium because the 2007 biennium rates included total square footage of all state-owned buildings and included common area space in the allocation of costs to agencies. The practice for the 2007 biennium resulted in all rent payers subsidizing the operations and maintenance of common spaces. For the 2009 biennium, only the operations and maintenance of non-common area space would be funded with rent revenues charged to agencies occupying the non-common space. Instead, the general fund would fund the operations and maintenance of common areas.

The approach taken by the executive to request the policy change and funding was to increase the total fixed costs for Capitol Complex rent and include the associated common space fixed costs in the HB 2 portion of the division budget. There were no decision packages or specific justifications for this policy change as required. Instead, the funding increase was lumped in with all other fixed cost items.

Increased Funding for Deferred Maintenance

According to a conversation with the executive after the executive budget was submitted, a portion of the increased fixed cost increase that was placed in the HB 2 portion of the division's budget is to fund deferred maintenance of state-owned buildings. The executive included nearly $3.2 million in deferred maintenance projects in the determination of rates for the 2009 biennium. The costs for the proprietary program that are shown on the 2009 Biennium Report on Internal Service and Enterprise Funds 2009 for fund 06528 and included in the Proprietary Rate section of the division's budget include costs for the deferred maintenance. The program funding tables on the Montana Budgeting and Reporting System (MBARS) do not include an increase for deferred maintenance, no decision package is provided, and no discussion is included in the associated proprietary fund narratives provided by the executive. Instead of providing authorization for the projects in HB 2, the funding is included in HB 5 for the following projects with funding specified to come from General Services Division internal service funds:

- Code/Deferred Maintenance Projects, Capitol Complex ($0.55 million)
- Fire Protection Measures, Capitol Complex ($0.5 million)
- Mechanical System Improvements, Capitol Complex ($1.9 million)
- Campus Master Planning, Statewide ($0.25 million)

As submitted, the above projects and the authorization to spend the funding are initially reviewed and recommended for funding by the Long-range Planning Subcommittee and the rates and the funding policies to fund the revenue are recommended for approval by the General Government and Transportations Joint Appropriations Subcommittee.

For more discussion of the funding and associated issues, see the LFD issue following the Statewide Present Law Adjustments and the discussion in the Facilities and Maintenance Bureau of the Proprietary Rates section for this division.

Common Adjustments Related to Procurement Card Rebates and Legislation

Several of the decision packages of this program rely upon passage and approval of legislature (LC 642) to establish a state special revenue account into which revenues from a volume rebate on purchases made with state procurement cards would be deposited and the funds used for various statewide procurement related activities that are authorized in LC 642. LC 642 specifies that the deposits into the state special revenue account may only be used for administering the state procurement card program and administering procurement related activities, including procurement-related litigation, recycling of electronics, and surplus property management. The following new proposal decision packages include funding from the new state special revenue account:

- DP 602 – Funding Switch for 0.10 FTE in the Procard Program
- DP 606 – Funding Switch for 0.60 FTE in the Fueling Program
- DP 610 – Litigation Program/Restricted
- DP 614 – Computer Surplus Disposal Program

Two of the decision packages, DP 602 and DP 606, have corresponding implications in proprietary funds discussed in their associated proprietary rate discussions. If LC 642 is not passed and approved or if the decision packages are not approved, the legislative rates to allow charging customers for services provided under the program would need to be considered for approval so the associated proprietary program would be able to generate revenue to continue to fund operations.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
General Services Program

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ 629,957	55.8%	$ 2,462,691	90.2%	$ 2,557,919	90.5%
	01100 General Fund	629,957	55.8%	2,462,691	90.2%	2,557,919	90.5%
02000	Total State Special Funds	-	-	266,648	9.8%	266,982	9.5%
	02211 Procurement Special Revenue	-	-	116,794	4.3%	116,925	4.1%
	02568 Computer Surplus Disposal Program	-	-	149,854	5.5%	150,057	5.3%
05000	Total	500,000	44.2%	-	-	-	-
	05008 Capitol Building Sr	500,000	44.2%	-	-	-	-
Grand	Total	$ 1,129,957	100.0%	$ 2,729,339	100.0%	$ 2,824,901	100.0%

Base year funding for the General Services Division includes general fund, capitol land grant trust fund, and proprietary funds. General fund provides funding for the procurement bureau and about $32,000 for facilities maintenance. Capitol land grant trust funded facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. For the 2009 biennium, general fund replaces capitol land grant trust funds and funds maintenance of common areas (see the issue following the present law table).

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

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

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					67,821					71,431
Vacancy Savings					(22,463)					(22,606)
Inflation/Deflation					231					259
Fixed Costs					1,775,464					1,867,041
Total Statewide Present Law Adjustments					**$1,821,053**					**$1,916,125**
DP 311 - Allocate department indirect/administrative costs	0.00	3,047	0	0	3,047	0.00	3,195	0	0	3,195
DP 620 - Eliminate Capital Land Grant Funding	0.00	0	0	0	(500,000)*	0.00	0	0	0	(500,000)*
Total Other Present Law Adjustments	**0.00**	**$3,047**	**$0**	**$0**	**($496,953)***	**0.00**	**$3,195**	**$0**	**$0**	**($496,805)***
Grand Total All Present Law Adjustments					**$1,324,100 ***					**$1,419,320 ***

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 13.7 percent increase over the personal services base. About $30,300 of the $67,800 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $37,500 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total $26,000. Of these salary increases, nearly all were given for market adjustments or strategic pay. The program experienced a vacancy rate in authorized FTE hours of 2.3 percent during the base year. This level of vacancy equates to about 0.24 FTE. Had no vacancies existed, base expenditures would have been roughly $8,400 higher.

LFD ISSUE

Inappropriate Funding for Policy Change and Funding Increase

The executive injected $3.6 million general fund in the program to implement a policy change that funds common area operations and maintenance with general fund and increases funding for deferred maintenance of Capitol Complex buildings. The general fund was inappropriately included as a fixed cost and funded with general fund as a statewide present law adjustment without using a decision package for specific legislative consideration and action. For a further discussion of the issue, see the LFD discussion in the Program Narrative section for this division.

LFD ISSUE CONT.

Legislative Options

Prior to taking executive action on the budget of the program, the legislature may want to direct staff to separate the funding associated with the policy change to fund the common areas with general fund and the increase for deferred maintenance into separate decision packages that would stand on their own merit. In doing so, the legislature may want to direct the executive to provide justifications for each action.

The legislature may also want to direct the executive to detail the rental rate impacts for each of the above general fund increases for determining the rental rates to approve in the proprietary rate section.

DP 311 – Allocate Department indirect/administrative costs - An increase of about $6,200 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 620 - Eliminate Capital Land Grant Funding - A reduction of $1.0 million capital projects funds for the biennium is requested to eliminate funding from the Capitol Land Grant account for major maintenance projects of the Facilities Maintenance Bureau. These funds will instead by used by the Long-Range Building program for major maintenance projects. The funds are difficult to project and posed problems for facilities management, within such a small program, to plan and carry out projects. Rental rates were determined without this revenue.

New Proposals

New Proposals										
	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 602 - Funding Switch for 0.10 FTE in the Procard Program										
06	0.10	0	16,079	0	16,079	0.10	0	16,091	0	16,091
DP 604 - Funding Switch for 0.20 FTE in the Procurement Bur										
06	0.20	8,634	0	0	8,634	0.20	8,642	0	0	8,642
DP 606 - Funding Switch for 0.60 FTE in the Fueling Program										
06	0.60	0	50,715	0	50,715	0.60	0	50,834	0	50,834
DP 610 - Litigation Program/Restricted (Requires Legislation)										
06	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 614 - Computer Surplus Disposal Program (Requires Legislation)										
06	1.00	0	149,854	0	149,854	1.00	0	150,057	0	150,057
Total	1.90	$8,634	$266,648	$0	$275,282	1.90	$8,642	$266,982	$0	$275,624

DP 602 - Funding Switch for 0.10 FTE in the Procard Program - An increase of $32,200 state special revenue for the biennium is requested to move 0.10 FTE existing staff from the proprietary funded State Procurement Card Program to funding in HB 2. The funding switch is due to provisions under a new contract awarded for state procurement card purchases in which a fee will no longer be assessed but a volume rebate will be paid to the state for purchase made by the procurement card program. The volume rebate will be deposited into a state special revenue account to fund the FTE to administer the program for the state. If approved, this decision package would eliminate all funding in the proprietary fund program used in the 2007 biennium to administer the State Procurement Card Program.

DP 604 - Funding Switch for 0.20 FTE in the Procurement Bur - An increase of $17,300 general fund for the biennium is requested to implement a funding switch for 0.20 FTE of an existing position following a reorganization that change the positions duties from a deputy administrator of the division to a contracts officer. Under the revised duties, the position fully supports state procurement activities and no longer supports other proprietary funded programs of the division.

DP 606 - Funding Switch for 0.60 FTE in the Fueling Program - An increase of $101,500 state special revenue for the biennium is requested to move 0.60 FTE existing staff from the proprietary funded State Fueling Program to funding in HB 2. The funding switch is due to provisions under a new contract awarded for state procurement card purchases of fuel for state-owned vehicles in which a fee will no longer be assessed but a volume rebate will be paid to the state for purchase made by the procurement card program. The volume rebate will be deposited into a state special revenue account to fund the FTE to administer the program for the state. If approved, this decision package would eliminate all funding in the proprietary fund program used in the 2007 biennium to administer the Statewide Vehicle Fueling Program. See DP 602 for a similar request under the new contract.

DP 610 - Litigation Program/Restricted (Requires Legislation) - An increase of $100,000 state special revenue for the biennium is requested to fund contracted services to pay the costs associated with procurement protests filed under Section 18-4-242, MCA. The executive recommends the legislature designate an appropriation for this purpose as one time only and restricted.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: In 1997, the legislature amended Section 18-4-242, MCA to permit the filing of protests involving the procurement process for supplies and services under the Montana Procurement Act. To date, over 70 protests have been filed. DOA has not had the budget or resources to cover the costs of procurement protests since the law was enacted. As a result, our policy has been to have agencies bear the costs of protests involving products or services obtained for the agency, even if DOA decisions are the source of the protest. This has created ill-will amongst the agencies. To date, the state has spent approximately $101,400 in legal and court costs defending the state since 1997.

This proposal would use a portion of the volume rebate from the state procurement card program to pay for the costs associated with procurement protests: obtaining the services of a hearing officer for contested case hearings, discovery costs, court costs, and if necessary, outside legal counsel. These costs are currently not budgeted for in any agency budget. As a result, the potential cost of a single case could create a budgetary hardship for an agency.

The DOA Legal Unit would administer the fund and manage all procurement protests.

Goal: To provide a funding source for litigation costs involving the procurement process for supplies and services for all agencies.

Performance Criteria: DOA will monitor the activity associated with this activity on a quarterly basis and report to the legislature at the end of the biennium. This litigation fund will only be used to pay the costs associated with procurement protests filed under Section 18-4-242, MCA. It will not be used for the cost of in-house counsel.

Milestones: The litigation fund will be capped at $100,000 and will be replenished as necessary by future legislatures.

Obstacles: No obstacles have been identified to successfully implement the litigation fund.

Risk: Without the litigation fund, agencies will continue to struggle with how to pay for unfunded litigation costs associated with the procurement process.

LFD ISSUE Inconsistency in Justification

No Litigation Fund Established

The justification and request of DP 610 are for budget authority to pay for litigation expenses. However, sprinkled throughout the supporting documentation is a statement that a litigation fund would be developed and capped at $100,000. LC 642, discussed below, establishes a state special revenue account with a dedicated revenue source from the volume rebate received on purchases made through use of the state procurement card and specifies that, among other uses, the account may be used to fund litigation expenses of state procurement protests. The fund established by LC 642 has no cap specified and DP 610 funds litigation expenses, not transfers to a litigation fund.

<u>DP 614 - Computer Surplus Disposal Program (Requires Legislation) -</u> An increase of $299,900 state special revenue for the biennium is requested to fund the addition of 1.00 FTE and associated personal services and operating costs to establish a program for disposing of electronic surplus property.

LFD ISSUE FTE Not Supported by Workload and Costs Duplicated in Existing Programs

FTE Level Not Supported by Workload

When asked, the executive responded that the workload needed to deal with each electronic device would be about 1.5 hours. The executive also stated that about 1,000 electronic devices are disposed of each year to the landfill. Given this workload data, only 0.75 FTE, with room for growth, would be needed to address the expected demand for this service.

Costs Duplicated in Other Programs

The state currently has a program for collecting surplus property of government agencies and transporting the property to a common warehouse for either resale, transfers to other government entities, or disposal. Besides contracting and contract administration for disposal by an e-waste contractor, the primary functions this new program would provide are to segregate the electronic equipment from the other property items once it is received in the central warehouse and make the property item or the hazardous components ready for collection by the e-waste contractor. Some of the cost items making up the request, such as $30,000 to purchase a vehicle, may not be needed.

The legislature may want to ask the executive if the additional vehicle is truly needed, what resources could be shared with the surplus program, and how the program would be impacted if the FTE level were reduced to 0.75 FTE.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The proposal would pay for the cost of creating and maintaining an electronics recycling program. Surplus electronics such as computers, printers, monitors, servers, projectors, and computer peripherals contain hazardous materials such as lead and mercury and, as a result, many land fills are no longer accepting these items. Electronics should be properly recycled according to EPA guidelines to divert these items from landfills and to reuse the toxic material in new products.

Many of the state's computers are donated to schools; however, approximately 1,000 units per year are not useable and currently end up in the landfill because we can not sell or give them away. In order to properly recycle the unusable electronic items, we need to pay for this service. Neither this program nor the agencies are funded for this service.

Goal: To provide a program and funding source for recycling e-waste to divert these items from landfills and to properly recycle the hazardous materials.

Performance Criteria: The DOA will monitor the activity associated with this activity on a quarterly basis. The Surplus Property Program will provide a single point of contact and will provide all logistics and disposal services, including collecting the e-waste from agencies, properly palletizing for shipping, providing storage until shipment to the e-waste contractor, and arranging freight.

Milestones:
- August 2007 – Hire FTE
- September 2007 – Contract with an e-waste provider
- October 2007 – Start recycling e-waste for state agencies
- Provide quarterly reports on success of the program to the DOA Director

Obstacles: An obstacle to successful implementation is the tendency for agencies to store surplus property rather than send it to the Surplus Property Program in a timely manner. Our challenge will be to successfully promote and market the program to ensure agencies surplus all e-waste in a timely manner.

Risk: Without the electronics recycling program, we will continue to place the e-waste with its hazardous material into the landfill until no longer permitted by the City of Helena. When we are not longer permitted to dump e-waste in the landfill, agencies will place e-waste in storage since they are not funded to pay for the disposal costs.

LFD ISSUE

Performance Criteria not Measurable

The intent of the additional information for this new program is to establish performance criteria and milestones that the legislature can use to monitor the effectiveness of the program by establishing measurable and time-based criteria to evaluate actual outcomes against. Stating that the program will monitor the program and report activities provides no measurable criteria for the legislature to determine if the funding accomplished what it was intended. Elimination of e-waste with hazardous components going to landfills is the primary motivator for this funding request. Measuring a reduction of e-waste or hazardous components from e-waste going to landfills is therefore a logical basis for a performance measure for determining if the initiative accomplished its intended outcome. Whatever criteria are developed should be measurable and have time-based milestones for monitoring progress.

The legislature may want to direct the executive to provide measurable criteria and milestones for interim monitoring and reporting of the computer surplus disposal expenditures.

Proprietary Rates

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

- Facilities Management
- Print and Mail Services
- Central Stores
- Statewide Fueling Network
- Procurement Card
- Surplus Property

Proprietary Program Description

Facilities Management Bureau (Fund 06528)

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

The following figure for fund 06528 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds 2009

Fund	Fund Name	Agency #	Program Name
6528	Rent & Maintenace	6101	General Services Division

	Actual FY04	Actual FY05	Actuals FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	5,373,776	5,727,215	6,119,733	6,423,608	9,192,452	9,647,708
Revenue from Warehouse Rental Rate	224,573	212,373	340,502	373,336	356,203	384,808
Revenue from Recycling Revenue	18,694	25,842	14,366	20,000	15,000	15,000
Revenue from Handyman Charges	95,331	108,811	78,954	50,000	65,000	65,000
Revenue from Project Work	193,405	145,866	193,602	70,000	80,000	80,000
Revenue from Grounds Maintenance	-		356,384	356,384	454,424	465,426
Net Fee Revenue	5,905,695	6,220,107	7,103,541	7,293,328	10,163,079	10,657,942
Investment Earnings	-	-	-	-		
Securities Lending Income	-	-	-	-		
Premiums	-	-	-	-		
Other Operating Revenues	420	526	1,412	-		
Total Operating Revenue	5,906,115	6,220,633	7,104,953	7,293,328	10,163,079	10,657,942
Operating Expenses:						
Personal Services	949,052	1,016,722	1,262,128	1,405,288	1,502,867	1,509,204
Other Operating Expenses	5,211,154	5,927,067	6,573,033	6,506,061	8,730,038	8,712,152
Total Operating Expenses	6,160,206	6,943,789	7,835,161	7,911,349	10,232,905	10,221,356
Operating Income (Loss)	**(254,091)**	**(723,156)**	**(730,208)**	**(618,021)**	**(69,826)**	**436,586**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(254,091)	(723,156)	(730,208)	(618,021)	(69,826)	436,586
Contributed Capital	-	-	-	-		
Operating Transfers In (Note 13)	500,000	836,875	500,000	500,000	-	-
Operating Transfers Out (Note 13)	-	(51,245)	(157,889)	-		
Change in net assets	245,909	62,474	(388,097)	(118,021)	(69,826)	436,586
Total Net Assets- July 1 - As Restated	467,480	716,607	764,152	764,135		
Prior Period Adjustments	1,471	-	-	-		
Cumulative effect of account change	-	-	-	-		
Total Net Assets - July 1 - As Restated	468,951	716,607	764,152	764,135	-	-
Net Assets- June 30	**714,860**	**779,081**	**376,055**	**646,114**	**(69,826)**	**436,586**
60 days of expenses						
(Total Operating Expenses divided by 6)	1,026,701	1,157,298	1,305,860	1,318,558	1,705,484	1,703,559

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

Agency Number : 61010	Actual	Budgeted	Budgeted	Budgeted	Budgeted	Budgeted
Fund Number: 06528	FYE 04	FY 05	FY 06	FY 07	FY 08	FY 09
Office Rent (per sq. ft.)	5.988	6.228	6.613	6.681	8.179	8.592
Warehouse Rent (per sq. ft.)	2.27	2.29	3.901	3.969	4.209	4.547
Grounds Maintenance (per sq. ft.)			0.3896	0.3896	0.496	0.508
Project Mgmt (In-house)	15%	15%	15%	15%	15%	15%
Project Mgmt (Contracted)	5%	5%	5%	5%	5%	5%

Proprietary Revenues and Expenses

In FY 2006, the Facilities Management Bureau had revenues of roughly $6.9 million from rent, grounds maintenance, and handyman charges payments paid by tenant agencies. These payments made up 90.8 percent of revenues for the bureau. Revenue collected from Capitol Land Grant transfer added 6.6 percent, construction cost recovery adds about 2.5 percent to revenues, and recycling revenue provides the remaining 0.1 percent.

LFD COMMENT

These rent, grounds maintenance, and handyman charges were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (41.3 percent), $2.8 million
- State special revenue (17.9 percent), $1.2 million
- Federal special revenue (17.4 percent), $1.2 million
- Proprietary funds (22.5 percent), $1.5 million
- All other funds (0.9 percent), $59,000

In FY 2006, revenues funded personal services for 30.16 FTE (24.1 FTE for facilities and 6.06 FTE for grounds) and operating costs. Personal services of roughly $1.0 million were 14 percent of expenses. The lion's share of costs was for operating expenses amounting to $6.2 million or 85 percent of program expenses. Operating expenses are comprised of utilities, insurance, repair and maintenance, and contracted services. The program contracts for these functions: janitorial, mechanical, elevator, pest control, and security services. All contracted costs are expected to increase in the 2009 biennium (19 percent in FY 2008 and 22 percent in FY 2009) due to additional service requirements, equipment, gasoline, and petroleum product cost increases and higher prevailing wage rates. Prevailing wage rates have increased 19.2 percent for janitorial, 18 percent for mechanical maintenance, and 28 percent for security workers.

Significant increases above the FY 2006 expense level that are included in the rates for the 2009 biennium are the following:

- Statewide adjustments for personal services increases base expenditures by $171,300 or 13.6 percent each year
- Caretaker services increase $430,600 for the biennium or 20.2 percent per year over the base of $1.1 million
- Security protection increases $319,100 for the biennium or about 56 percent per year over the base of $284,700
- Electricity increases $150,000 for the biennium or 6.4 percent per year over the base of $1.2 million
- Natural gas increases $398,600 for the biennium or 31.0 percent per year over the base of $643,000
- Statewide indirect costs increase $60,200 for the biennium or 90.1 percent per year over the base of $33,400

Proprietary Rate Explanation

The bottom portion of the fund report shows the FY 2006 rates and rates submitted for legislative approval for facilities and grounds maintenance for the 2009 biennium.

LFD ISSUE

Increases and Policy Changes Not Supported with Decision Packages

As stated following the present law table in the HB 2 portion of this division, a statewide present law adjustment was made to add $3.6 million general fund to the program. The funding in the statewide present law adjustment accomplishes two policy changes:

- Fund common areas with general fund
- Provide general fund for $3.2 million in deferred maintenance projects included in HB 5

In the 2007 biennium state agencies that occupy office space in state-owned buildings managed by the division pay rent via rates that were developed to recover costs to maintain all square footage of state-owned buildings through the collection of rental fees paid only by agencies occupying non-common space or 0.9 million square feet out of 1.1 million total square feet. The rental rates paid by the non-common space occupying agencies subsidized the maintenance of 0.2 million square feet of common space. The executive budget for the 2009 biennium removes this subsidy and funds common areas with general fund. As stated in the LFD discussion in the Program Narrative section, this policy change was not specifically justified or presented in a decision package for legislative consideration.

LFD ISSUE CONT.

The operating expenses shown on the fund report include increases that would also fund $3.2 million in deferred maintenance costs that are included in HB 5 for legislative approval. Except for justifications that will accompany HB 5, these increases are not justified in decision packages in either the HB 2 or the Proprietary Rate sections of this division budget request, but the rates that fund the projects are included here for legislative approval.

No justification was provided to identify the rate impacts of either the common space maintenance funding or the deferred maintenance increase as part of the rate discussion for the division. The agency did not provide the reason for the changes to the office space, warehouse space, and capital grounds rates requested for the 2009 biennium and shown on the above figure.

The following figure shows the rates along with the growth in amount and percentage for the rates compared to the FY 2006 legislative rates.

The legislature may want to direct the executive to explain all aspects of funding for the division and justify all rate changes.

Facilities Management Rate Growth

	Actual	Budget	Requested	
	FYE 2006	FY 2007	FY 2008	FY 2009
Office Rent (per sq. ft.)	6.613	6.68	8.179	8.592
Growth over FY 2006 (percent)			23.7%	29.9%
Growth over FY 2006 (amount)			1.566	1.979
Storage Rent (per sq. ft.)	3.9014	3.969	4.209	4.547
Growth over FY 2006 (percent)			7.9%	16.5%
Growth over FY 2006 (amount)			0.3076	0.6456
Grounds Maintenance (per sq. ft.)	0.3896	0.3896	0.496	0.508
Growth over FY 2006 (percent)			27.3%	30.4%
Growth over FY 2006 (amount)			0.1064	0.1184

Significant Adjustments for the 2009 Biennium

The executive included present law adjustments and new proposals for the Facilities Management Bureau totaling about $2.0 million for the 2009 biennium.

LFD COMMENT

The following adjustments included in MBARS increase costs:

- An increase of $954,800 for statewide present law adjustments, driven significantly by utility cost increases totaling $549,000
- An increase of $18,000 to allocate department indirect/administrative costs that fund other proprietary funded centralized services functions of the agency
- An increase of $677,400 to address contract cost increases for janitorial , mechanical and elevator maintenance, pest control, and security protection contracts due to workload, prevailing wage, petroleum-based products, and insurance increases that are increasing contractor costs
- An increase of $181,800 to contract with the Helena Police Department to provide one armed police officer on the capitol complex to enhance complex security
- An increase of $169,400 to add 2.04 FTE to convert existing part-time positions for grounds maintenance into full-time positions to address increased demand for services as the result of increased number of facility locations

The following adjustment included in MBARS decreases costs:

- A decrease of $17,300 to move 0.20 FTE for an existing position to funding in HB 2 due to changed position duties

Another adjustment not included in the Proprietary Rate section narrative or decision packages are $3.2 million for four projects included in HB 5.

Proprietary Program Description

Print and Mail Services Bureau (Fund 6530)

The Print and Mail Services Bureau provides printing, mail services, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The bureau has seven basic components: 1) internal printing; 2) external (contracted) printing; 3) photocopy pool; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead mail); and 7) postal contract station with locked mail boxes in the Capitol. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 74 percent of printing expenditures are procured through commercial vendors. The Postal Contract Station provides mail services to the public.

Proprietary Revenues and Expenses

The Print and Mail Services Bureau provides all services as presented in the program description. Seven basic service categories provide revenues for the operations of the program in the following percentages:

- Internal printing charges user agencies for graphic design and layout, desktop publishing, reprographics, duplicating, bindery, and quick copy – 13.5 percent of revenue
- External printing procures printing through commercial vendors – 36.1 percent of revenue
- Photocopy pool provides state agencies with photocopiers – 8.5 percent of revenue
- Mail preparation prepares documents for mailing and includes tabbing, labeling, inkjet addressing, inserting, and bar coding – 5.1 percent of revenues
- Central mail operations, which include mail pick-up and delivery in agency offices, metering of out-going U.S. Mail, United Parcel Services (UPS), and express mail services – 34.5 percent of revenue
- Inter-agency (deadhead) mail provides sorting and delivery of incoming mail and pickup and delivery of deadhead mail – 1.8 percent of revenue
- Postal contract station located at the Capitol provides postal services to the public – 0.5 percent of revenue

In FY 2006, Print and Mail Services Bureau had revenues of roughly $9.5 million from fees paid by agencies statewide. The payments for these revenues were accounted in agency expenditures to several different expenditure accounts. Because expenditure accounts used to account for payments to the bureau are used to account for activities that are not associated with the bureau funding of customers are not readily available.

In FY 2006, revenues funded personal services for 41.70 FTE, operating costs, and equipment. Personal services of $1.2 million were roughly 11.7 percent of expenses, with operating costs of $8.3 million or 84.2 percent, and equipment of $394,200 or 4.1 percent accounting for the remaining expenses of the bureau.

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

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

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

Overhead costs for administration, accounting, and supplies are allocated to six of Print and Mail Services Bureau service categories based on FTE. The Capitol Post Office contract does not allow reimbursement for overhead costs.

The figure for fund 06530 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6530	Print & Mail Services	6101	Department of Administration	General Services

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Internal Printing	1,177,102	1,418,472	1,190,716	1,399,165	1,190,716	1,399,165
External Printing	2,967,083	3,093,063	3,441,492	3,441,492	3,441,492	3,441,492
Photocopy Pool	775,990	856,494	894,808	924,808	894,808	924,808
Mail Preparation	292,058	444,807	483,620	523,620	563,620	603,620
Mail Operations	3,214,786	3,080,658	3,284,393	3,675,304	3,538,104	3,675,304
Inter-agency (Deadhead Mail)	127,631	125,648	167,859	171,635	213,206	213,206
Postal Contract Station	38,976	38,976	38,976	38,976	38,976	38,976
Net Fee Revenue	8,593,626	9,058,118	9,501,864	10,175,000	9,880,922	10,296,571
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	730	16	31	-	-	-
Total Operating Revenue	8,594,356	9,058,134	9,501,895	10,175,000	9,880,922	10,296,571
Operating Expenses:						
Personal Services	1,140,013	1,117,862	1,157,725	1,621,626	1,527,496	1,623,068
Other Operating Expenses	7,459,614	7,666,321	8,364,348	8,503,259	8,816,852	9,066,888
Total Operating Expenses	8,599,627	8,784,183	9,522,073	10,124,885	10,344,348	10,689,956
Operating Income (Loss)	**(5,271)**	**273,951**	**(20,178)**	**50,115**	**(463,426)**	**(393,385)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(1,947)	(16,750)	(115,582)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(1,947)	(16,750)	(115,582)	-	-	-
Income (Loss) Before Operating Transfers	(7,218)	257,201	(135,760)	50,115	(463,426)	(393,385)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(7,218)	257,201	(135,760)	50,115	(463,426)	(393,385)
Total Net Assets- July 1 - As Restated	1,747,429	1,669,079	2,090,674	1,954,914	2,005,029	1,541,603
Prior Period Adjustments	(71,132)	164,394	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,676,297	1,833,473	2,090,674	1,954,914	2,005,029	1,541,603
Net Assets- June 30	**1,669,079**	**2,090,674**	**1,954,914**	**2,005,029**	**1,541,603**	**1,148,218**
60 days of expenses (Total Operating Expenses divided by 6)	1,433,271	1,464,031	1,587,012	1,687,481	1,724,058	1,781,659

Requested Rates for Internal Service Funds

Print and Mail Services requests that the Legislature approve a total charge of $213,206 to user agencies for FY 2008 and FY 2009 for the Inter-agency (Deadhead Mail) per the fixed cost allocations. Print and Mail Services requests that the Legislature approve a 60-day working capital rate for the remainder of the program for the 2009 biennium.

Proprietary Rate Explanation

According to page P-45 of the Executive Budget for the 2009 Biennium, the executive requests the legislature not approve specific rates for the operations of the Print and Mail Services Bureau, but a 60-day working capital rate for the 2009 biennium.

LFD ISSUE

Conflicting Requests

The rates requested in the Proprietary Rate section of the executive budget include the above request for only a 60-day working capital rate for the entire operation. However, the requested rate section of the fund report conflicts with this single rate and requests the following rates:

- Allocation of operating costs to agencies totaling $213,206 in each of FY 2008 and FY 2009 for the inter-agency (deadhead) mail portion of the program
- The ability to adjust fees and charges to customer agencies to maintain no more that 60 days of working capital for the remainder of Print and Mail Services Bureau operations excluding inter-agency mail.

The 2005 Legislature approved rates similar to those requested on the fund report with inter-agency mail capped at the allocation made to agencies and a 45-day working capital rate for the remaining portion of the program. The executive stated that the 45-day working capital rate caused cash flow problems for the program, so they are now requesting 60 days of working capital in the 2009 biennium.

Given the conflicting requests and the actions of the 2005 Legislature to unbundled the inter-agency-mail from the remaining portions of the program, the legislature may want to approve rates with the inter-agency mail unbundled as requested on the fund report. This action would tie the inter-agency mail funding to the budgeted amounts allocated to agencies according to the fixed cost tables published by the executive.

Additionally, the amount on the latest released fixed cost table is $208,938 per year, not the amount specified in the request on the fund report. When approving rates for inter-agency mail, the legislature may want to specify the $208,938 amount, since this is the amount agencies would have budgeted if fixed costs are approved as included in agency statewide present law adjustments.

LFD COMMENT

As stated for other proprietary funds, state law directs that the legislature approve the maximum level of fees and charges for internal service type proprietary funds and the Governor's budget instructions specify that agencies must include the reason internal service fund fees and charges change in comparison to the fees and charges of the base year. The agency did not provide the reason for the rate changes.

The legislature may want to direct the agency to quantify how much the significant adjustments for the 2009 biennium and listed below would impact the rates for the 2009 biennium as compared to the FY 2006 rates.

Based on an evaluation of expenses by LFD, the following are the major factors for the growth in the program rates:

- Personal services increase by an average of $399,400 per year on a base of $1.2 million or 33.3 percent
- Postage and mailing increase $253,700 in FY 2008 and $376,900 in FY 2009 on a base of $3.0 million or 8.6 percent and 12.8 percent, respectively
- Statewide indirect and administrative costs increase to seven times the base of $3,700 to $26,000 per year
- Agency indirect and administrative costs paid for centralized services of the agency increase by an average of $11,800 per year on a base of 55,200 or 21.4 percent
- Rent for state-owned buildings increase by an average of $43,100 per year on a base of $164,500 or 26.2 percent

Significant Adjustments for the 2009 Biennium

The executive included present law adjustments and new proposals for the Facilities Management Bureau totaling about $2.0 million for the 2009 biennium.

LFD COMMENT The following adjustments increase costs:

- An increase of $1.4 million for statewide present law adjustments
- An increase of $23,600 to allocate department indirect/administrative costs that fund other proprietary funded centralized services functions of the agency
- An increase of $298,700 to address workload impacts of the 2009 Legislature that are not in the base due to legislative sessions falling in a non-base year

The following adjustment decreases costs:

- A decrease of $389,700 to remove funding for expenses incurred in FY 2006 for the purchase of equipment to address postal security mandates

The Print and Mail Services Bureau anticipate charging fee shown on the following figures.

Historical and Budgeted Rates
Internal Printing

Fee Group	FY 2006	FY 2007	FY 2008	FY 2009
1-20	$0.059	$0.059	$0.059	$0.059
21-100	0.026	0.026	0.026	0.026
101-1000	0.015	0.015	0.015	0.015
1001-5000	0.006	0.006	0.006	0.006
5000 +	0.003	0.003	0.003	0.003
Collating Machine	0.006	0.006	0.006	0.006
Collating Hand	0.5	0.5	0.5	0.5
Stapling Hand	0.015	0.015	0.015	0.015
Stapling In-line	.01/set	.01/set	.01/set	.01/set
Saddle Stitch	.03/set	.03/set	.03/set	.03/set
Folding	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding Right Angl	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding In-line	.03/set	.03/set	.03/set	.03/set
Punching St 3 hole	.001/sht	.001/sht	.001/sht	.001/sht
Punching Non St	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht
Cutting	.55/min	.55/min	.55/min	.55/min
Padding	.002/sheet	.002/sheet	.002/sheet	.002/sheet
Scoring, perf, num	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate
Perfect Binding	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min
Tape Binding	.50/each	.50/each	.50/each	.50/each
Tabs	.50/set	.50/set	.50/set	.50/set
Transparencies	.50/each	.50/each	.50/each	.50/each
Shrink Wrapping	.25/each	.25/each	.25/each	.25/each
Hand Bindery	.50/min	.50/min	.50/min	.50/min
Graphic Arts	36.00/hr	36.00/hr	36.00/hr	36.00/hr
Negatives Stripped				
10x12	11.30	11.30	11.30	11.30
12x20	19.15	19.15	19.15	19.15
20x24	34.85	34.85	34.85	34.85

Historical and Budgeted Rates
Internal Printing (continued)

Fee Group	FY 2006	FY 2007	FY 2008	FY 2009
Negatives Stripped				
Halftone				
10x12	$16.05	$16.05	$16.05	$16.05
PMT's Positive				
10x12	6.65	6.65	6.65	6.65
12x20	13.35	13.35	13.35	13.35
20x24	26.70	26.70	26.70	26.70
PMT's Halftone				
10x12	10.15	10.15	10.15	10.15
Metal Plates				
8.5x11	10.00	10.00	10.00	10.00
11x17	20.00	20.00	20.00	20.00
Silver Plates				
8.5x11	8.00	8.00	8.00	8.00
11x17	9.00	9.00	9.00	9.00
CTP Plates				
8.5x11	8.00	8.00	8.00	8.00
11x17	9.00	9.00	9.00	9.00

Historical and Budgeted Rates
External Printing and Photocopy Pool

Fee Group	FY 2006	FY 2007	FY 2008	FY 2009
External Printing Percent of Invoice				
Mark-up	6%	6%	6%	6%
Photocopy Pool Copier Monthly Charge				
Level 1	32.80	32.80	32.80	32.80
Level 2	108.87	108.87	108.87	108.87
Level 3	198.83	198.83	198.83	198.83
Level 4	236.73	236.73	236.73	236.73
Level 5	359.75	359.75	359.75	359.75
Level 6	496.89	496.89	496.89	496.89
Level 7	580.92	580.92	580.92	580.92
Optional Features For Digital Copiers				
Level 1				
Print Cost per page	$0.0138	$0.0138	$0.0138	$0.0138
Fax Cost per page	0.0138	0.0138	0.0138	0.0138
Print Option	17.25	17.25	17.25	17.25
Fax Option	13.80	13.80	13.80	13.80
Level 2				
Print Cost per page	0.0138	0.0138	0.0138	0.0138
Print Option	13.80	13.80	13.80	13.80
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	20.70	20.70	20.70	20.70
Scan Option	13.80	13.80	13.80	13.80
Level 3				
Print Cost per Page	0.0138	0.0138	0.0138	0.0138
Print Option	27.03	27.03	27.03	27.03
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	21.85	21.85	21.85	21.85
Scan Option	23.00	23.00	23.00	23.00
Level 4				
Print Cost per Page	0.0138	0.0138	0.0138	0.0138
Print Option	27.03	27.03	27.03	27.03
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	21.85	21.85	21.85	21.85
Scan Option	23.00	23.00	23.00	23.00

Historical and Budgeted Rates
Photocopy Pool (Continued)

Fee Group	FY 2006	FY 2007	FY 2008	FY 2009
Level 5				
Print Cost per Page	$0.0138	$0.0138	$0.0138	$0.0138
Print Option	30.48	30.48	30.48	30.48
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	21.85	21.85	21.85	21.85
Scan Option	30.48	30.48	30.48	30.48
Level 6				
Print Cost per Page	0.0138	0.0138	0.0138	0.0138
Print Option	30.48	30.48	30.48	30.48
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	21.85	21.85	21.85	21.85
Scan Option	30.48	30.48	30.48	30.48
Level 7				
Print Cost per Page	0.0138	0.0138	0.0138	0.0138
Print Option	30.48	30.48	30.48	30.48
Fax Cost per Page	0.0138	0.0138	0.0138	0.0138
Fax Option	21.85	21.85	21.85	21.85
Scan Option	30.48	30.48	30.48	30.48

Historical and Budgeted Rates
Mail Preparation, Mail Operations, Inter-agency Mail, Capitol Post Office

Fee Group	FY 2006	FY 2007	FY 2008	FY 2009
Mail Preparation				
Tabbing	.01 each	.01 each	.01 each	.01 each
Labeling	.01 each	.01 each	.01 each	.01 each
Ink Jet	.03 each	.03 each	.03 each	.03 each
Inserting	.01 each	.01 each	.01 each	.01 each
Winsort	.05 each	.05 each	.05 each	.05 each
Mail Operations Service Type (each)				
Machinable	0.03	0.03	0.035	0.035
Non-Machinable	0.06	0.06	0.065	0.065
Post cards	0.04	0.04	0.04	0.04
Certified Mail	0.40	0.40	0.50	0.50
Registered Mail	0.40	0.40	0.50	0.50
International Mail	0.25	0.25	0.30	0.30
Flats	0.08	0.08	0.09	0.09
Priority	0.40	0.40	0.50	0.50
Express Mail	0.40	0.40	0.50	0.50
USPS Parcels	0.25	0.25	0.25	0.25
Insured mail	0.40	0.40	0.50	0.50
Media Mail	0.25	0.25	0.25	0.25
Standard Mail	0.10	0.10	0.15	0.15
Postage Due	0.05	0.05	0.05	0.05
Fee Due	0.05	0.05	0.05	0.05
Tapes	0.15	0.15	0.20	0.20
UPS Parcels	0.15	0.15	0.25	0.25
Inter-agency Mail				
Dollars-yearly	$165,458	$165,458	$213,206	$213,206
Postal Contract (Capitol)				
Dollars-yearly	$38,976	$38,976	$38,976	$38,976

Proprietary Program Description

Central Stores Program (Fund 06531)

The Central Stores program contracts with a large warehouse distribution center to provide on-line ordering for office supplies. The program develops standard specifications, procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program, as long as the office supply conforms in all material respects to the terms, conditions, and quality offered by the stores program. Local governments and university system employees are not mandated to use central stores.

The figure for fund 06531 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6531	Central Stores	6101	Department of Administration	General Services Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Central Stores Supplies	4,282,084	4,568,085	4,688,518	4,280,000	4,850,000	5,000,000
Net Fee Revenue	4,282,084	4,568,085	4,688,518	4,280,000	4,850,000	5,000,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	211	-	42	-	-	-
Total Operating Revenue	4,282,295	4,568,085	4,688,560	4,280,000	4,850,000	5,000,000
Operating Expenses:						
Personal Services	328,451	316,330	341,274	480,207	477,906	479,196
Other Operating Expenses	4,299,761	4,319,397	4,288,927	4,430,733	4,176,259	4,101,555
Total Operating Expenses	4,628,212	4,635,727	4,630,201	4,910,940	4,654,165	4,580,751
Operating Income (Loss)	**(345,917)**	**(67,642)**	**58,359**	**(630,940)**	**195,835**	**419,249**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(5,339)	(5,494)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(5,339)	(5,494)	-	-	-
Income (Loss) Before Operating Transfers	(345,917)	(72,981)	52,865	(630,940)	195,835	419,249
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(345,917)	(72,981)	52,865	(630,940)	195,835	419,249
Total Net Assets- July 1 - As Restated	1,136,285	790,385	718,221	771,136	140,196	336,031
Prior Period Adjustments	17	817	50	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,136,302	-	-	-	-	-
Net Assets- June 30	**790,385**	**718,221**	**771,136**	**140,196**	**336,031**	**755,280**
60 days of expenses						
(Total Operating Expenses divided by 6)	771,369	772,621	771,700	818,490	775,694	763,459

Requested Rates for Internal Service Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A	-	-	-	-	-	-
Central Stores Supplies	10%	20%	20%	25%	25%	25%

A 60 day working capital is the rate requested. A markup of not more than 25 percent is projected to maintain a no more than 60 day working capital.

Proprietary Revenues and Expenses

In FY 2006, Central Stores had revenues of $4.7 million from purchases by state agencies and local governments. Of these revenues $1.1 million are recorded on the state accounting system as agency expenditures.

LFD COMMENT

The revenues from state sources were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (56.5 percent), $606,000
- State special revenue (16.2 percent), $173,200
- Federal special revenue (6.6 percent), $71,300
- Proprietary funds (13.5 percent), $144,600
- All other funds (7.2 percent), $77,000

In FY 2006, Central Stores had expenses of $4.6 million. Of these expenses, about $4.0 million or 87.6 percent were for products purchased for resale. The remaining 12.4 percent of expenses are for costs to operate the program, including $341,300 for personal services for 10.75 FTE and $229,500 for other operating expenses.

Proprietary Rate Explanation

For the 2009 biennium, the executive requests the legislature not approve specific markup rates for central stores, but an operating parameter that limits the program from charging rates that collect more that 60 days of working capital.

LFD ISSUE

Alternative Rate

The executive has requested an accounting parameter as a rate for the program based on the statement that it would allow the program to run like a business. Another rate that would be directly billable to the customer instead of constantly fluctuating and dependant upon accounting and customer payment practices would be the percent markup rate approved by the legislature in the past and indicated on the fund report to be no more than 25 percent.

Under the working capital rate, payment practices of one agency could impact the rates paid by other agencies. For example, if agencies continually pay late for products purchased through the program, the working capital would decline and the rate may be increased to increase working capital so the program can pay the vendor for products purchased. The higher rates would impact those agencies that made prompt payments. A percent markup would not impact agencies that pay on time but would motivate the program to step up efforts to manage accounts receivable.

In FY 2006, the program expenses show that only 12.4 percent of the annual costs of the program are for operating expenses to manage the program. A 25 percent markup seems to be a little excessive given that since FY 2004, the operating cost portion of the program has never exceeded 14.2 percent of total program expenses.

The legislature may want to approve a percent markup rate instead of the requested working capital rate. If the percent markup rate is selected, the legislature may want to direct the executive to justify why a rate of 15 percent would not allow the program to operate similar to past operations.

Proprietary Program Description

Statewide Fueling Network Program (Fund 06561)

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

The figure for fund 06561 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6561	Statewide Fueling Network	6101	Department of Administration	General Services Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Statewide Fueling Network	21,083	32,222	56,666	-	-	-
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	21,083	32,222	56,666	-	-	-
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues - 0.6 percent rebate				45,506	50,715	50,834
Total Operating Revenue	21,083	32,222	56,666	45,506	50,715	50,834
Operating Expenses:						
Personal Services	28,098	31,713	35,424	36,653	33,657	33,684
Other Operating Expenses	9,902	4,218	18,259	8,853	17,058	17,150
Total Operating Expenses	38,000	35,931	53,683	45,506	50,715	50,834
Operating Income (Loss)	**(16,917)**	**(3,709)**	**2,983**	**-**	**-**	**-**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(16,917)	(3,709)	2,983	-	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(16,917)	(3,709)	2,983	-	-	-
Total Net Assets- July 1 - As Restated	22,933	6,016	2,307	5,290	5,290	5,290
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	22,933	6,016	2,307	5,290	5,290	5,290
Net Assets- June 30	**6,016**	**2,307**	**5,290**	**5,290**	**5,290**	**5,290**
60 days of expenses (Total Operating Expenses divided by 6)	6,333	5,989	8,947	7,584	8,453	8,472

Requested Rates for Internal Service Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A	-	-	-	-	-	-
Statewide Fueling (0.5% of Fuel Purchase)	0.5	0.5	0.5	-	-	-

The Statewide Fueling program requests that the 0.5% of gross fuel purchases fee be abolished for the 2009 biennium. Instead the Statewide Fueling program requests a funding switch to State Special Revenue and be funded by a 0.6% rebate on fuel purchases for the 2009 biennium.

Proprietary Revenues and Expenses

In FY 2006, the Statewide Fueling Network Program had revenues of about $56,700 from an administration fee charged on fuel purchased through the network based on statewide purchases of gasoline.

Under terms of a new contract the program will now receive a rebate of 0.6 percent of the fuel purchases made through the program. The rebate will be provided by the vendor of the state procurement card used for the purchases.

In FY 2006 the program had expenses of $53,700, which funded $35,400 in personal services for 0.60 FTE to administer the program and $18,300 in operating costs.

Proprietary Rate Explanation

Because of the new contract and the rebate revenues, the executive requests the legislature approve moving the operations of the program, including the 0.60 FTE, to funding within HB 2 and funded with state special revenue from the rebate revenue.

LFD COMMENT A discussion of this funding switch and others that are contingent upon passage and approval of legislation is included in the program narrative section for this program.

Proprietary Program Description

Statewide Procurement Card Program (Fund 06571)

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

The figure for fund 06571 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6571	Procurement Card Purchases	6101	Department of	General Services Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Procurement Card	1,875	-	3,415	-	-	-
Net Fee Revenue	1,874	-	3,415	-	-	-
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues - Volume Discount	9,112	27,581	30,945	20,000	16,079	16,091
Total Operating Revenue	10,986	27,581	34,360	20,000	16,079	16,091
Operating Expenses:						
Personal Services	9,351	16,578	19,567	5,084	4,764	4,768
Other Operating Expenses	16,672	12,092	13,937	16,244	11,315	11,323
Total Operating Expenses	26,023	28,670	33,504	21,328	16,079	16,091
Operating Income (Loss)	**(15,037)**	**(1,089)**	**856**	**(1,328)**	**-**	**-**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(15,037)	(1,089)	856	(1,328)	-	-
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(15,037)	(1,089)	856	(1,328)	-	-
Total Net Assets- July 1 - As Restated	18,500	3,463	2,374	3,230	1,902	1,902
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	18,500	3,463	2,374	3,230	1,902	1,902
Net Assets- June 30	**3,463**	**2,374**	**3,230**	**1,902**	**1,902**	**1,902**
60 days of expenses						
(Total Operating Expenses divided by 6)	4,337	4,778	5,584	3,555	2,680	2,682

Requested Rates for Internal Service Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A	-	-	-	-	-	-
Procurement Card (per unit, per month)	$1.00/per car	$1.00/per car	$1.00/per car	-	-	-

The Procurement Card program requests that the $1.00 per card monthly fee be abolished for the 2009 biennium. Instead the Procurement Card program requests a funding switch to State Special Revenue and be funded by a volume discount rebate on total Procurement Card puchases for the 2009 biennium.

Proprietary Revenues and Expenses

In FY 2006, the program had revenues of $34,400 from the combination of fees charged for use of the procurement card and a volume discount from the card vendor.

Under terms of a new contract the program will now receive a rebate of 0.6 percent of the fuel purchases made through the program. The rebate will be provided by the vendor of the state procurement card used for the purchases.

In FY 2006, the program had expenses of $33,500, which funded $19,600 in personal services for 0.10 FTE to administer the program and $13,900 in operating costs.

Proprietary Rate Explanation

Because of the new contract and the rebate revenues, the executive requests the legislature approve moving the operations of the program, including the 0.10 FTE, to funding within HB 2 and funded with state special revenue from the rebate revenue.

A discussion of this funding switch and others that are contingent upon passage and approval of legislation is included in the program narrative section for this program.

Proprietary Program Description

Surplus Property Program (Fund 06066)

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

The figure for fund 06066 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6066	Surplus Property	6101	Department of	General Services

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
State Surplus Property Handling Fee	-	-	-	-	395,000	395,000
Federal Surplus Property Handling Fee	-	-	-	-	5,000	5,000
Net Fee Revenue	301,978	267,385	297,890	295,000	400,000	400,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	101	1	5	-	-	-
Total Operating Revenue	302,079	267,386	297,895	295,000	400,000	400,000
Operating Expenses:						
Personal Services	191,286	188,459	183,737	251,112	274,752	276,400
Other Operating Expenses	417,083	284,540	377,045	86,959	363,757	284,864
Total Operating Expenses	608,369	472,999	560,782	338,071	638,509	561,264
Operating Income (Loss)	**(306,290)**	**(205,613)**	**(262,887)**	**(43,071)**	**(238,509)**	**(161,264)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(4,877)	(11,832)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(4,877)	(11,832)	-	-	-	-
Income (Loss) Before Operating Transfers	(311,167)	(217,445)	(262,887)	(43,071)	(238,509)	(161,264)
Contributed Capital	176,785	159,486	377,773		235,431	235,431
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(134,382)	(57,959)	114,886	(43,071)	(3,078)	74,167
Total Net Assets- July 1 - As Restated	223,828	89,311	19,562	130,993	87,922	84,844
Prior Period Adjustments	(135)	(11,790)	(3,455)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	-	-	-	-
Net Assets- June 30	**89,311**	**19,562**	**130,993**	**87,922**	**84,844**	**159,011**
60 days of expenses (Total Operating Expenses divided by 6)	101,395	78,833	93,464	56,345	106,418	93,544

The State Surplus handling fees are: If property is sold for less than $200, the program retains the proceeds. The program retains $200 plus unusual expenses for property sold for $200-$2,000, and 10% plus unusual expenses for property that is sold for more than $2,000.
The Federal Surplus Property program fees are an allocation of freight expense and 14% of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by teh Federal General Services Administration.

Proprietary Revenues and Expenses

The state surplus property programs receive revenues by charging a handling fee applied to the proceeds from the sale of state property. The federal surplus property program receives revenue in accordance with a federal plan of operations approved by the federal General Services Administration. In FY 2006 the program had operating revenues from federal surplus handling fees of about $18,100 and from the state handling fees of $279,800. The program also had contributions of equipment of $377,800.

In FY 2006 expenses were about $560,800, which was comprised of $183,800 for personal services for 6.40 FTE, $384,400 for operating expenses, and $11,500 for equipment. The major expenses associated with the surplus property program are personal services and costs to pick up and warehouse property.

Proprietary Rate Explanation

The state surplus property program retains a handling fee for property sold. If property is sold for less than $200, the program retains the proceeds. The program retains $200 plus unusual expenses for property sold for $200-$2,000, and 10 percent plus unusual expenses for property that is sold for more than $2,000.

The federal surplus property program fees are an allocation of freight expense and 14 percent of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by the Federal General Services Administration.

Because the program operates with funding from an enterprise type proprietary fund, the legislature dues not approve rates.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	9.00	3.00	0.00	12.00	3.00	0.00	12.00	12.00
Personal Services	611,264	160,050	0	771,314	161,371	0	772,635	1,543,949
Operating Expenses	291,186	104,027	800,000	1,195,213	97,391	0	388,577	1,583,790
Equipment	0	0	200,000	200,000	0	0	0	200,000
Grants	0	860,530	0	860,530	860,530	0	860,530	1,721,060
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$902,450**	**$1,124,607**	**$1,000,000**	**$3,027,057**	**$1,119,292**	**$0**	**$2,021,742**	**$5,048,799**
General Fund	409,018	234,459	200,000	843,477	233,303	0	642,321	1,485,798
State/Other Special	388,068	995,512	0	1,383,580	991,353	0	1,379,421	2,763,001
Federal Special	105,364	(105,364)	800,000	800,000	(105,364)	0	0	800,000
Total Funds	**$902,450**	**$1,124,607**	**$1,000,000**	**$3,027,057**	**$1,119,292**	**$0**	**$2,021,742**	**$5,048,799**

Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies throughout the state. ITSD provides local and long-distance telephone network services used by all agencies, including the university system, and manages the state's video network METNET. ITSD coordinates electronic government services for the state, and manages the states Internet presence at the Internet address mt.gov.com. ITSD also manages the Office of Cyber Protection.

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

The division also coordinates geographic information systems (GIS) development and, manages the state's 911 programs and public safety radio programs.

Program Highlights

Department of Administration
Information Technology Services Division
Major Budget Highlights

- A funding switch to move geographic information system coordination from proprietary funding to HB 2 moves 3.00 FTE existing staff and $2.2 million state special revenue into HB 2
- $800,000 federal special revenue is added to enhance the geographic coordinate database
- $200,000 general fund is added to address earthquake concerns with the statewide computer data center
- Desktop service rate would grow from $72.60 per computer per month to $85.75 per user per month in FY 2008 and to $90.50 per user per month in FY 2009

Major LFD Issues

- Inconsistent rates requested for proprietary funds
- Fund report not up-to-date and does not reflect current rate request
- Information not provided to explain proprietary fund rate changes

Program Narrative

New Initiatives of the 2005 Legislature

Montana Spatial Data Infrastructure

The 2005 Legislature approved ongoing funding of about $1.4 million federal special revenue to continue development of the Montana spatial data. The intent of the project was to complete four of ten layers of the Montana Spatial Data Infrastructure: transportation, critical infrastructure, geodetic control, and jurisdictional boundaries. The department reports the following progress has been made on the project:

- Activity was delayed until June 2006 when an assistance agreement with the Bureau of Land Management was approved
- Projects are underway in cooperation with Park, Stillwater, and Flathead Counties to contract for acquisition of updated GPS coordinate positions on monuments of the Public Land Survey System and updates to the BLM geographic coordinate database

Montana Land Information Act

The 2005 Legislature approved ongoing funding of about $2.1 million state special revenue to develop a standardized, sustainable method to collect, maintain, and distribute information in digital formats about the natural and man-made land characteristics of Montana. The department reports the following progress has been made on the project:

- April 2006 –administrative rules hearings for administering the Montana Land Information Act
- No grants awarded in FY 2006, but the cadastral, transportation, and critical infrastructure databases were maintained and efforts were initiated to coordinate state GIS information
- First formal grant cycle expected to start in January 2007

General Fund Support of Public Safety Communications

The 2005 Legislature approved a funding switch to increase general fund by $600,000 and reduce federal special revenue by $417,000 for support and staff expansion for the public safety communications program. The department reports the following progress has been made on the project:

- Added 2.00 FTE to an existing function and switched funding for all existing staff and functions in the Public Safety Services Office from federal special revenue to general fund
- Working to provide interoperability of Montana public safety radios

Northern Tier Interoperability Project

The 2005 Legislature approved one time only funding of $3.5 million general fund to provide state contribution for a portion of costs of the Northern Tier Interoperability Project. The department reports the that the project is proceeding at a slower pace than originally expected due to geographic and distance factors, but the project is going well and the following specific milestone has been made on the project:

- Developed specifications for a single master control site with equipment purchased and being installed (includes a ten-year maintenance agreement)

Initiatives for 2009 Biennium in Information Technology Cash Bill

The executive has recommended funding additional information technology (IT) projects totaling $54.5 million in an IT long-range building cash program. The executive plan is in LC 712 and each project included is in excess of $2.0 million. The following projects are included for the department:

- Northern Tier Network Expansion - $7.8 million general fund to expand the state's SummitNet network to provide expanded capacity for voice, video, and data
- Statewide E911 Network - $4.0 million general fund to support the multi-year build-out of the statewide E911 network and continue development of the system
- Public Safety Radio Consortium - $5.0 million general fund to support the multi-year build-out of the Interoperability Montana wireless public safety radio system to provide additional expansion of key public safety radio sites and limited equipment for local law enforcement, fire, and EMS to use the networked communication system
- Public Safety Radio Interoperability Montana - $3.5 million general fund one-time only funding in FY 2009 to support the deployment of a second, redundant controller and transmission system in eastern Montana for the Interoperability Montana wireless public safety radio system

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Information Tech Serv Division

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ 409,018	45.3%	$ 843,477	27.9%	$ 642,321	31.8%
	01100 General Fund	409,018	45.3%	843,477	27.9%	642,321	31.8%
02000	Total State Special Funds	388,068	43.0%	1,383,580	45.7%	1,379,421	68.2%
	02779 Montana Land Information	388,068	43.0%	1,383,580	45.7%	1,379,421	68.2%
03000	Total Federal Special Funds	105,364	11.7%	800,000	26.4%	-	-
	03454 Homeland Security Grant	44,834	5.0%	-	-	-	-
	03462 Gis-Homeland Security Grant	60,530	6.7%	800,000	26.4%	-	-
Grand	Total	$ 902,450	100.0%	$ 3,027,057	100.0%	$ 2,021,742	100.0%

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables, but is discussed in the proprietary rates section that follows the discussion of budget program activity. The HB 2 budgeted portion of the division is funded with general fund, state special revenue, and federal special revenue. The division receives general fund to administer the statewide 911 emergency telephone program and the Public Safety Services Office. Federal special revenue funds a portion of the GIS coordination work within the division and until the 2009 biennium a portion of the Public Safety Services Office. State special revenue funds the remaining portion of the GIS coordination work with funding derived from land transaction fees under the Montana Land Information Act.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					4,692					5,813
Vacancy Savings					(24,637)					(24,684)
Inflation/Deflation					1,375					1,456
Fixed Costs					52,627					49,830
Total Statewide Present Law Adjustments					**$34,057**					**$32,415**
DP 311 - Allocate department indirect/administrative costs	0.00	(1,767)	8,092	0	6,325	0.00	(1,726)	8,131	0	6,405
DP 740 - GIS Funding Switch for 3.00 FTE	3.00	0	1,084,225	0	1,084,225	3.00	0	1,080,472	0	1,080,472
Total Other Present Law Adjustments	**3.00**	**($1,767)**	**$1,092,317**	**$0**	**$1,090,550**	**3.00**	**($1,726)**	**$1,088,603**	**$0**	**$1,086,877**
Grand Total All Present Law Adjustments					**$1,124,607**					**$1,119,292**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 0.8 percent increase over the personal services base. The annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, but the following factors contributed to lower the amount of the

- A retirement and associated retirement payout in the base does not carry forward into the 2009 biennium
- The impacts of the retirement that lowered the combined hourly salary for the division in the snapshot and 2009 biennium funding as compared to the base
- Overtime in the base that does not carry forward to the 2009 biennium without being included in a decision package

Since the snapshot for developing the 2007 biennium budget, the portion of the program funded in HB 2 gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total about $14,400. The program experienced a vacancy rate in authorized FTE hours of 22 percent during the base year. This level of vacancy equates to about 2.00 FTE. Had no vacancies existed, base expenditures would have been roughly $114,000 higher.

<u>DP 311 - Allocate department indirect/administrative costs -</u> An increase of about $16,200 state special revenue offsets a reduction of $3,500 general fund for a net increase of $12,700 for the biennium to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

<u>DP 740 - GIS Funding Switch for 3.00 FTE -</u> An increase of nearly $2.2 million state special revenue for the biennium is requested to move 3.00 FTE existing staff from the proprietary portion of the program to the HB 2 portion. The positions would be funded through the Montana Land Information Act (MLIA).

LFD COMMENT

Montana Land Information Act

The Montana Land Information Act was passed by the 2005 Legislature and increased land transaction fees and designated the increased portion of the fees to a state special revenue fund for use in coordinating geographic information (GIS) and for providing grants to local government to maintain land data information. The FTE associated with this adjustment provide the coordination and maintain portions of the GIS data. After funding the FTE, it is estimated that $860,530 will be available each year for grants to the counties.

New Proposals

New Proposals	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 710 - Geographic Coordinate Database (Bien)										
07	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 737 - Earthquake Protection Enterprise Data Center-OTO										
07	0.00	200,000	0	0	200,000	0.00	0	0	0	0
Total	0.00	$200,000	$0	$800,000	$1,000,000	0.00	$0	$0	$0	$0

DP 710 - Geographic Coordinate Database (Bien) - An increase of $800,000 federal special revenue for the biennium is requested to enhance the Geographic Coordinate Database under a grant received in October 2005. The funding would be spent after local stakeholder plans are developed, which are expected to be completed in the summer of 2007. The executive recommends the funding for this adjustment be approved as a biennial appropriation.

DP 737 - Earthquake Protection Enterprise Data Center-OTO - An increase of $200,000 general fund for the biennium is requested to install seismic stabilizing equipment for all critical applications located in the data center that houses the state computer network. The executive recommends funding for this request be approved as one time only.

Proprietary Rates

Proprietary Program Description

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

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

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

In FY 2006 ITSD managed the State Accounting, Budgeting, and Human Resources System (SABHRS) operational support unit, which was transferred to the Administrative Financial Services Division at the beginning of FY 2007 under a reorganization of the agency. Revenues and expenses for the unit are included for ITSD through FY 2006, but under the Administrative Financial Services Division from FY 2007.

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

The figure for fund 06522 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6522	ISD Proprietary	6101	Department of Administration	Information Technology Services Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Desktop Services	10,412,759	10,701,177	12,171,356	11,433,793	14,118,600	14,829,000
SABHRS Services	4,651,176	4,796,865	6,336,890	-	-	-
Long Distance	2,973,515	2,861,497	2,745,999	3,105,000	3,081,500	3,081,500
Telephone Equipment	2,421,120	2,305,756	2,565,389	1,953,000	1,903,200	1,909,485
Computer Processing	8,617,436	8,967,605	10,853,613.57	8,806,031	10,521,808	10,971,205
Other Charges For Services	3,308,234	2,600,000	2,534,605	2,752,145	3,215,148	3,588,204
Net Fee Revenue	32,384,240	32,232,900	37,207,852	28,049,969	32,840,256	34,379,394
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	103,946	-	-	-	-	-
Total Operating Revenue	32,488,186	32,232,900	37,207,852	28,049,969	32,840,256	34,379,394
Operating Expenses:						
Personal Services	9,289,923	10,630,506	11,258,576	8,294,193	10,673,579	10,726,141
Other Operating Expenses	20,615,353	20,373,498	24,875,623	20,516,313	24,366,380	25,549,194
Total Operating Expenses	29,905,276	31,004,003	36,134,199	28,810,506	35,039,959	36,275,335
Operating Income (Loss)	**2,582,910**	**1,228,897**	**1,073,653**	**(760,537)**	**(2,199,703)**	**(1,895,941)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(8,438)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(8,438)	-	-	-	-	-
Income (Loss) Before Operating Transfers	2,574,472	1,228,897	1,073,653	(760,537)	(2,199,703)	(1,895,941)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	67,812	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	2,642,284	1,228,897	1,073,653	(760,537)	(2,199,703)	(1,895,941)
Total Net Assets- July 1 - As Restated	4,111,620	7,176,209	8,405,106	9,478,759	8,718,222	6,518,519
Prior Period Adjustments	422,305	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,533,925	-	-	9,478,759	-	-
Net Assets- June 30	**7,176,209**	**8,405,106**	**9,478,759**	**8,718,222**	**6,518,519**	**4,622,578**
60 days of expenses (Total Operating Expenses divided by 6)	4,984,213	5,167,334	6,022,367	4,801,751	5,839,993	6,045,889
45 days of expenses (Total Operating Expenses divided by 8)	3,738,160	3,875,500	4,516,775	3,601,313	4,379,995	4,534,417

Requested Rates for Internal Service Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Information Technology Services	-	-	-	-	-	-
Desktop Services	45-Day	45-Day	30-Day	30-Day	30-Day	30-Day
SABHRS Services	Working	Working	Working	Working	Working	Working
Long Distance	Capital	Capital	Capital	Capital	Capital	Capital
Telephone Equipment	Reserve	Reserve	Reserve	Reserve	Reserve	Reserve
Computer Processing						
Other Charges For Services	-	-	-	-	-	-

Note:

The Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 30-day working capital, except that the desktop services rate may not exceed $76.00 in FY08 and $80.00 in FY09 per statewide active directory account.

Proprietary Revenues and Expenses

In FY 2006, ITSD had revenues of about $37.2 million from fees paid by agencies statewide.

LFD COMMENT

These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (32.1 percent), $11.9 million
- State special revenue (24.6 percent), $9.1 million
- Federal special revenue (22.7 percent), $8.5 million
- Proprietary funds (9.9 percent), $3.7 million
- All other funds (10.7 percent), $4.0 million

In FY 2006, revenues funded personal services for 181.5 FTE and operating costs. With the transfer of the 35.00 FTE of the SABHRS Support Unit, personal services in FY 2007 fund 146.5. Personal services of $11.3 million were 31 percent of expenses, with operating costs making up an additional $24.9 million or 69 percent of expenses. As such, personal services are a fixed cost driver for the division operations. Other major service areas of the division have additional cost components that have large impacts on their operating costs. These significant cost drivers are listed below for the major service areas of ITSD:

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

Division management recommends a 30-day working capital balance to accommodate division billing and payment cycles. At the end of FY 2006, equipment and intangible assets accounted for roughly 46 percent of total assets of the fund.

In the 2007 biennium, state agencies were required to count network-attached devices and report that count to ITSD. This was a fairly manual process so it was difficult to do, not always accurate, and raised equity questions, such as whether printers or other devices should be charged the same as desktops. Beginning in FY 2008, billing for desktop services will be done by user rather than device, except for certain non-State users. Each user accessing resources on SummitNet (state network) is required to have an enterprise directory logon identification account, and accounts cannot be shared by multiple people. Billing will be an automated process generated from user accounts in active directory. Certain user accounts will be exempted from billing such as administrative accounts (secondary account with higher privileges used by system administrators), resource accounts (shared resources such as central mailboxes, conference rooms, etc), and service accounts (for processes or applications such as backups).

Mainframe processing is expecting an approximate 30 percent decrease over the 2009 biennium. This is based on past trends and agency input. The trend to move away from the mainframe has been developing for several biennia which has caused mainframe costs and rates going up due to losses of economies of scale.

Telephone equipment utilization is projected from base year volume. Long distance utilization is expected to remain at the 2007 biennial numbers.

Proprietary Rate Explanation

The executive is requesting the legislature approve the following rates for ITSD for the 2009 biennium:

Information Technology Services Division
Base and FY 2009 Biennium
Rates and Inflationary Factors

Internal Service Cost Ce	Account	Service Name	FY 2006	FY 2008	FY 2009
Mainframe	62172	Batch CPU	$1.901	$1.815	$1.815
	62180	CICS CPU	0.554	0.529	0.529
	62178	IDMS CPU	1.750	1.6715	1.6715
	62178	IDMS/CICS	0.584	0.558	0.558
	62178	IDMS/ADS	1.0823	1.0336	1.0336
	62177	TSO CPU	2.3195	2.2151	2.2151
	62142	Disk Storage	0.0114	0.0109	0.0109
	62168	SYSIN Read/Write	0.1168	0.1868	0.1868
	62168	Disk Read/Write	0.1168	0.1868	0.1868
	62168	Tape Read/Write	0.4406	0.7049	0.7049
Midtier *	62171	Midtier (Including Central Imaging)	4,270,594	7,150,131	6,954,426
Print	62185	Lasier	0.0339	0.0793	0.0793
LAN Administration	62175	LAN Administration	60.00	80.00	80.00
Application Developmer	62175	Application Development	0.00	84.00	84.00
Desktop	62174	Desktop Service	72.60	50.75	55.50
Access	62174	Access Fee	0.00	35.00	35.00
		Total Desktop Rate	72.60	85.75	90.50
VPN	62149	ISP/VPN	25.00	20.00	20.00
	62149	VPN	10.00	8.00	8.00
Video	62320	Video Conference / Subscriptions	35.00	35.00	35.00
Voice	62370	Equipment (Electronic Sets)	20.00	20.00	20.00
	62385	Long Distance	0.105	0.105	0.105
	62370	IVR	175.00	225.00	225.00
	62370	Voice Mail	5.00	5.00	5.00
	62385	MegaCom	0.10	0.10	0.10
AISB		Electronic Government Transaction Fee	-	-	0.012
		Web Development	-	84.00	84.00

*Midtier and Central Imaging are recovered thru Service Level Agreements (SLA's) with agencies nd will be included in their individual budgets.

The above rates were published on page IT-3 of the 2009 Biennium Executive Budget.

LFD ISSUE

Fund Report Does Not Reflect Requested Rates

Fund Report is of No Value

The rates requested for ITSD are different than the rates that appear on the fund report and the expenses shown on the fund report do not correspond to the proposed budgeted expenditures shown on page P-57 of the 2009 Biennium Executive Budget. Nor was an up-to-date fund report included for the program, as were provided for other proprietary programs. According to the budget document, the above requested rates were developed under the assumption that ITSD would operate with a 30-day working capital balance.

LFD ISSUE CONT.

Total Expenditure Level

Lacking consistent information for the program, the LFD is hampered in providing the legislature with an accurate determination of future fund performance. According to the table provided on page P-57 of the 2009 Biennium Executive Budget, total expenses for ITSD would be lower in each FY 2008 and FY 2009 than the base and give the impression that the budget was being reduced. However, the SABHRS Support Unit was moved out of ITSD midway through the 2007 biennium and the base includes expenditures for the unit that would not carry forward to the 2009 biennium. The following figure illustrates the comparison with SABHRS removed from ITSD in both the base and the 2009 biennium.

Information Technology Services Division
Expense Comparison Without SABHRS

	Base	SABHRS Base	Base Without SABHRS	FY 2008 ITSD	FY 2009 ITSD	FY 2008 Change Without SABHRS	FY 2009 Change Without SABHRS
FTE	181.50	35.00	146.50	165.50	165.50	19.00	19.00
Personal Services	$11,258,576	$2,148,347	$9,110,229	$10,623,586	$10,658,815	$1,513,357	$1,548,586
Operating Costs	22,553,695	3,347,429	19,206,266	18,407,501	18,400,144	(798,765)	(806,122)
Equipment and Intangibles	2,158,535	0	2,158,535	3,122,535	3,059,535	964,000	901,000
Debt Service	163,393	54,480	108,913	108,913	108,913	0	0
Total	$36,134,199	$5,550,256	$30,583,943	$32,262,535	$32,227,407	$1,678,592	$1,643,464

Reason for Rate Change Not Provided

The agency did not provide the reason for the desktop services rate increases of $13.15 per month per user per account (18.1 percent) for FY 2008 and $17.9 per month per user account (24.7 percent) for FY 2009 as compared to the FY 2006 rate of $72.60 per month per connected device. When specifically asked for the rate impact for each adjustment funded with the ITSD proprietary fund, only the affected rate category was provided and not the dollar amount of the increase associated with the adjustment. Without knowing how a specific initiative impacts the rates, how is the legislature to make an informed decision on approving the requested rates. It was estimated earlier that the customers that pay the fees of ITSD did so with nearly $12.0 million general fund in FY 2006 and $25.0 million of other funds.

<u>Legislative Options</u>

When determining whether to approve the requested rates for ITSD, the legislature may want to ask the executive to describe the following for each budget change summarized under Significant Adjustments for the 2009 Biennium on the following page:

- What rate is impacted by the budget adjustment and how much of the associated rate change is due to the adjustment
- Why is the adjustment needed
- How will the expenditure of funds provide improved service to the customers paying the fee

In addition to the following questions specific to each budget adjustment, the methodology for allocating desktop service fees to customers has changed from being based on connected units to user accounts. The legislature may want to ask the executive to explain and quantify the amount of rate change attributed to the methodology change.

Significant Adjustments for the 2009 Biennium

The executive included present law adjustments and new proposals for ITSD totaling about $3.6 million for the 2009 biennium, after deducting for the reorganization that moved the SABHRS Support Unit to the Administrative Financial Services Division in FY 2007.

LFD ISSUE CONT.

The following adjustments increase costs:

- An increase of $0.9 million to fund statewide adjustments impacting the proprietary funded portion of the program. The adjustment would impact all areas of the program and be a factor in all rate changes
- An increase of $92,000 to add 1.00 FTE to address demand increases in application development services to other agencies
- An increase of $234,000 to add 2.00 FTE to support Windows, Unix, and Linux based systems due to the growth in the number of servers using these systems
- An increase of $240,000 to add 2.00 FTE to work on developing one enterprise directory infrastructure
- An increase of $256,000 to add 4.00 FTE to increase staffing of the state data center whereby eliminating shifts that are currently manned by a single operator
- An increase of $1.9 million to procure and install equipment to support increased demand for electronic government services delivered 24 hours a day and 7 days a week. Equipment that would be added include servers to provide redundancy, disk storage devices to mirror between the primary data and an alternate site, an additional tape backup system to allow continuation of backup processes in the event of failure to the primary backup system, a secondary uninterruptible power (UPS) supply to provide redundancy for the primary UPS
- An increase of $101,000 to add 1.00 FTE to develop, implement, and operate the interactive video systems throughout the state network
- An increase of $223,000 to add 2.00 FTE to address workload issues associated with planning, policy, and standards development and administration of the Montana Information Technology Act
- An increase of $256,000 to add 2.00 FTE to create a pilot program to provide remote network and desktop support out of Billings
- An increase of $112,000 to add 1.00 FTE to work with agency IT managers, multiple IT support groups, building architects, and wiring vendors throughout the state to determine what the agencies needs are; develop cable plant designs to support current and future voice, video, and data applications; oversee the bid process for acquiring the services specified; certify the work was completed as requested; and approve the invoice for payment when the work has been completed and the plant certified

The following adjustments reduce costs:

- A reduction of $11.3 million to move 35.00 FTE to the Administrative Financial Services Division
- A reduction of $374,000 to switch funding for 3.00 FTE existing staff from proprietary funding to state special revenue in HB 2
- A net reduction of $322,000 to add 7.00 FTE, personal services, and operating expenses to hire existing vendor technicians of the equipment vendor for state telephone switches. The vendor restructured following its merger with another networks service provider and indicated plans to reduce the number of vendor technicians in the state

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	36.00	0.00	2.00	38.00	0.00	3.00	39.00	39.00
Personal Services	1,946,070	526,974	75,615	2,548,659	636,767	120,835	2,703,672	5,252,331
Operating Expenses	660,750	107,961	84,327	853,038	67,434	75,839	804,023	1,657,061
Total Costs	**$2,606,820**	**$634,935**	**$159,942**	**$3,401,697**	**$704,201**	**$196,674**	**$3,507,695**	**$6,909,392**
State/Other Special	2,606,820	634,935	159,942	3,401,697	704,201	196,674	3,507,695	6,909,392
Total Funds	**$2,606,820**	**$634,935**	**$159,942**	**$3,401,697**	**$704,201**	**$196,674**	**$3,507,695**	**$6,909,392**

Program Description

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

- State-chartered banks, trust companies, savings and loans, and credit unions
- Consumer loan and sales finance companies
- Title loan companies
- Escrow companies
- Foreign capital depositories in accordance with Title 32, MCA
- Deferred deposit loan companies
- Mortgage brokers and loan originators

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

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

Program Highlights

Department of Administration
Banking and Financial Division
Major Budget Highlights

- State special revenue increases $0.8 million or 32.5 percent per year over the base (no general fund)
- 3.00 FTE are added to address legislation proposed to regulate residential mortgage lenders
- $312,500 state special revenue is added to fund a professional career ladder

Program Narrative

New Initiatives of the 2005 Legislature

The 2005 Legislature approved ongoing funding of about $114,490 state special revenue to address workload impacts of SB 274 to revise licensing requirements of mortgage brokers. The department reports the following progress has been made on the project:

- Filled positions authorized with funding
- Ten additional entity/sole proprietor licenses have been issued because of SB 274
- $35,000 restitutions were collected for Montana borrowers
- $20,000 civil penalties collected and deposited into the general fund
- Two licenses have been revoked

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Banking And Financial Di

Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	$ 2,606,820	100.0%	$ 3,401,697	100.0%	$ 3,507,695	100.0%
02077 Financial Institutions Div	2,606,820	100.0%	3,241,755	95.3%	3,311,021	94.4%
02571 Mortgage Lenders Licensing	-	-	159,942	4.7%	196,674	5.6%
Grand Total	$ 2,606,820	100.0%	$ 3,401,697	100.0%	$ 3,507,695	100.0%

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

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2008 FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2009 FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					521,503					527,354
Vacancy Savings					(98,704)					(98,937)
Inflation/Deflation					13,507					14,357
Fixed Costs					20,913					20,398
Total Statewide Present Law Adjustments					**$457,219**					**$463,172**
DP 311 - Allocate department indirect/administrative costs	0.00	0	(2,974)	0	(2,974)	0.00	0	(2,436)	0	(2,436)
DP 1401 - Fund professional career ladder program	0.00	0	104,175	0	104,175	0.00	0	208,350	0	208,350
DP 1404 - Rent increase for Billings office	0.00	0	35,130	0	35,130	0.00	0	29,730	0	29,730
DP 1405 - E-Licensing	0.00	0	36,000	0	36,000	0.00	0	0	0	0
DP 1406 - Lease van from Dept of Transportation Motor Pool	0.00	0	5,385	0	5,385	0.00	0	5,385	0	5,385
Total Other Present Law Adjustments	**0.00**	**$0**	**$177,716**	**$0**	**$177,716**	**0.00**	**$0**	**$241,029**	**$0**	**$241,029**
Grand Total All Present Law Adjustments					**$634,935**					**$704,201**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 26.8 percent increase over the personal services base. About $122,600 of the $521,500 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $398,900 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total about $231,400. Of these salary increases, 38 percent ($91,000) were for market adjustments and 46 percent ($110,000) were for competency-based pay adjustments. The program experienced a vacancy rate in authorized FTE hours of 13.4 percent during the base year. This level of vacancy equates to about 4.84 FTE. Had no vacancies existed, base expenditures would have been roughly $160,300 higher.

<u>DP 311 - Allocate department indirect/administrative costs -</u> A reduction of about $5,400 state special revenue for the biennium is requested to fund indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

<u>DP 1401 - Fund professional career ladder program -</u> An increase of $312,525 state special revenue for the biennium is requested to fund the division's professional career ladder program.

LFD COMMENT

Professional Career Ladder for Bank Examiners

In FY 2002, the division implemented the broadband pay plan for its financial institution examination personnel and adopted a competency-based pay system (the career ladder) to address turnover issues for jobs in the private-sector or with the federal government with greater salary potential and fewer travel demands. High turnover was a factor in the division failing to become a nationally accredited regulatory agency. After implementing the career ladder, the turnover of examiners has been reduced from an average of 3 examiners per year to an average of 1.75 examiners per year and the division has attained national accreditation.

<u>DP 1404 - Rent increase for Billings office -</u> An increase of $64,860 state special revenue for the biennium is requested to fund movement of the Billings-based bank examiners to new office space.

LFD COMMENT

Why the Additional Office Space?

The current leased office space for the Billings field office has space designed for five examiners. The field office now has nine examiners. The lease for the Billings office expired in December 2004 and it has continued on a month-to-month basis. The adjustment plus the base would fund 2,000 square feet of office space to replace the current 1,100 square feet at a rate of about $20 per square foot.

LFD ISSUE

One Time Moving Expenses

One time moving expenses of $5,400 are included in the FY 2008 amount. If the legislature wants to exclude the one time expenses from the base for the 2011 biennium, it may want to designate $5,400 of the FY 2008 funding as one time only.

DP 1405 - E-Licensing - An increase of $36,000 state special revenue in FY 2008 is requested to fund contracted services to provide electronic licensing of consumer finance company licensees. Through the on-line system complaint reporting, initial licensing application and licensing renewal forms would be available for completion on-line at the division website or for printable download.

DP 1406 - Lease van from Dept of Transportation Motor Pool - An increase of about $10,800 state special revenue for the biennium is requested to replace one existing division-owned vehicle with one leased from the State Motor Pool.

New Proposals

New Proposals

	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1403 - License Mortgage Lenders (Requires Legislation)										
14	2.00	0	159,942	0	159,942	3.00	0	196,674	0	196,674
Total	2.00	$0	$159,942	$0	$159,942	3.00	$0	$196,674	$0	$196,674

DP 1403 - License Mortgage Lenders (Requires Legislation) - An increase of about $356,600 state special revenue for the biennium is requested to fund personal services and operating costs to add 2.00 FTE in FY 2008 and 1.00 FTE additional in FY 2009 for licensing of mortgage lenders. Funding is contingent upon passage and approval of LC 0264, a bill to license and regulate certain residential mortgage lenders. Operating costs include $119,000 for the development, implementation, and maintenance of an interactive database and electronic licensing.

LFD ISSUE

One Time Funding

One time funding of $3,600 for office and computer equipment is included in the FY 2008 amount. If the legislature wants to exclude the one time expenses from the base for the 2011 biennium, it may want to designate $3,600 of the FY 2008 funding as one time only.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	31.50	0.00	0.00	31.50	0.00	0.00	31.50	31.50
Personal Services	1,480,114	128,400	0	1,608,514	132,725	0	1,612,839	3,221,353
Operating Expenses	5,877,674	59,984	0	5,937,658	(35,474)	0	5,842,200	11,779,858
Equipment	42,256	0	0	42,256	0	0	42,256	84,512
Total Costs	**$7,400,044**	**$188,384**	**$0**	**$7,588,428**	**$97,251**	**$0**	**$7,497,295**	**$15,085,723**
Proprietary	7,400,044	188,384	0	7,588,428	97,251	0	7,497,295	15,085,723
Total Funds	**$7,400,044**	**$188,384**	**$0**	**$7,588,428**	**$97,251**	**$0**	**$7,497,295**	**$15,085,723**

Program Description

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

Program Highlights

Department of Administration
Montana State Lottery
Major Budget Highlights

- $243,000 is added for statewide present law adjustments, a 2 percent increase to the doubled base
- $28,000 is added to address increased shipping costs
- $19,000 is added to address increased rent costs

Program Narrative

Net Revenue Transfers to the General Fund

The Montana State Lottery is an enterprise type proprietary program operated to generate and transfer net revenue to the general fund after deducting operating expenses. Because the net revenues are transferred to the general fund, Montana law requires the operating budget of the lottery to be appropriated by the legislature. In FY 2006, the lottery transferred $9.1 million, its largest annual net revenues transfer, to the state general fund. The following figure shows the historical transfers from the lottery to the general fund since FY 2000. The figure shows that the transfers have increased each year except for FY 2005. The lottery attributed low net revenue in FY 2005 to frequent wins in Multi-State Lottery Association (MSLA) games and low sales due to lack of large prize amounts.

Historic Transfers Montana State Lottery to General Fund						
FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
$5,840,985	$6,137,493	$7,474,213	$7,453,281	$8,115,602	$6,222,555	$9,110,455

Games

The lottery generates revenue for the state by offering games of chance in which players purchase a chance to win a prize. There are basically two types of games offered by the lottery: 1) Lotto tickets; and 2) instant tickets. Instant ticket sales are made up of scratch tickets and Quik Tix tickets that provide instant indication if a player won a prize. In FY 2006, instant ticket sales were $11.2 million or 28 percent of ticket sales. In FY 2005, the lottery introduced 34 scratch ticket games and 33 were introduced in FY 2006. Lotto tickets included the following games:

- Powerball, which is sold in Montana and 30 other lottery jurisdictions
- Power Play is part of the Powerball game but allows the player to multiply the Powerball prize by from two to five times
- Hot Lotto is sold in Montana, Idaho, North Dakota, and South Dakota
- Montana Cash is sold only in Montana
-

In FY 2006, Lotto ticket sales were $28.7 million or 72 percent of ticket sales.

New Gaming System

On March 31, 2006, the lottery converted to a new gaming system operator. The operator provides the equipment and communications system that tracks and controls all aspects of the lottery ticket sales and validations. Under the new contract, the new operator receives 5.8 percent of net sales to operate the system and provide the stated equipment. The previous operator received 8.35 percent of net revenue.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Montana State Lottery

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
06000	Total Proprietary Funds	$ 7,400,044	100.0%	$ 7,588,428	100.0%	$ 7,497,295	100.0%
	06001 State Lottery Fund	7,400,044	100.0%	7,588,428	100.0%	7,497,295	100.0%
Grand	Total	$ 7,400,044	100.0%	$ 7,588,428	100.0%	$ 7,497,295	100.0%

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund and by law may only make expenditures against appropriations of the legislature.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					194,119					198,626
Vacancy Savings					(66,969)					(67,151)
Inflation/Deflation					3,175					3,503
Fixed Costs					38,702					(61,422)
Total Statewide Present Law Adjustments					$169,027					$73,556
DP 311 - Allocate department indirect/administrative costs	0.00	0	0	0	(3,493)*	0.00	0	0	0	(2,955)*
DP 1501 - Commission Per Diem	0.00	0	0	0	1,250 *	0.00	0	0	0	1,250 *
DP 1502 - Shipping Charges	0.00	0	0	0	14,000 *	0.00	0	0	0	14,000 *
DP 1503 - Rent	0.00	0	0	0	7,600 *	0.00	0	0	0	11,400 *
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$19,357 ***	**0.00**	**$0**	**$0**	**$0**	**$23,695 ***
Grand Total All Present Law Adjustments					$188,384 *					$97,251 *

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 13.1 percent increase over the personal services base. About $93,900 of the $194,100 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $100,200 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total $37,500. Of these salary increases, 28 percent ($10,600) was for a non competitive promotion of one individual, 23 percent ($8,600) were for market adjustments, and 45 percent ($16,700) were due to competency pay increases under the broadband pay plan. The program experienced very few vacancies with a vacancy rate in authorized FTE hours of 1.6 percent during the base year. This level of vacancy equates to about 0.50 FTE and would have increased the base by about $18,000 with no vacancies.

<u>DP 311 - Allocate department indirect/administrative costs –</u> A reduction of nearly $6,500 lottery proprietary fund for the biennium is requested to fund indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

<u>DP 1501 - Commission Per Diem -</u> An increase of $2,500 lottery proprietary fund for the biennium is requested to fund per diem for five meetings of the lottery commission per year.

<u>DP 1502 - Shipping Charges -</u> An increase of $28,000 lottery proprietary fund for the biennium is requested to fund increased shipping costs to ship lottery of scratch tickets to retail customers. Lottery security requirements specify that shipment of lottery products are shipped via a secure shipper and the United Parcel Services (UPS) provides this service. Both shipping volume and shipping costs are going up and the adjustment funds the increases for both factors.

<u>DP 1503 - Rent -</u> An increase of $19,000 lottery proprietary fund for the biennium is requested to fund rental contract specified increases for rent of the lottery building in Helena.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	3.00	3.00	0.00	3.00	3.00	3.00
Personal Services	0	0	149,629	149,629	0	149,799	149,799	299,428
Operating Expenses	32,241	9,108	238,061	279,410	10,874	229,880	272,995	552,405
Transfers	0	0	0	0	0	0	0	0
Total Costs	**$32,241**	**$9,108**	**$387,690**	**$429,039**	**$10,874**	**$379,679**	**$422,794**	**$851,833**
General Fund	0	0	387,690	387,690	0	379,679	379,679	767,369
State/Other Special	32,241	9,108	0	41,349	10,874	0	43,115	84,464
Total Funds	**$32,241**	**$9,108**	**$387,690**	**$429,039**	**$10,874**	**$379,679**	**$422,794**	**$851,833**

Program Description

The Health Care and Benefits Division provides state employees, retirees, members of the legislature, and their dependents with group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. The division administers benefits plans including health, dental, prescription drug, life, long-term care, and vision coverage, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The division administers a lease and contract to provide daycare services for Helena area state employees. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Employee benefits are governed by 2-18-701 et seq., 2-18-801 et seq., 2-18-1101 et seq., 2-18-1301 et seq., and 33-2-712, MCA. The Montana Safety Culture Act as it applies to state government is found in 39-71-1501 et seq.

Program Highlights

Department of Administration
Health Care and Benefits Division
Major Budget Highlights

- ♦ The executive request for HB 2 funding grows about $0.8 million, almost all in general fund, compared to base budget costs of $32,241 state special revenue
- ♦ New proposals add 3.00 FTE to implement centralized management of workers' compensation costs to:
  - Coordinate and provide for effective safety and loss-prevention strategies
  - Develop and coordinate effective return-to-work programs
  - Negotiate with the Montana State Fund
- ♦ Proprietary funding increases from $100.5 million in FY 2006 to $124.3 million in FY 2009
  - The executive budget includes a $33 per month increase in the employer contribution to health premiums in FY 2008 and an additional $36 per month increase in FY 2009, bringing the total employer contribution to $626 per month at the end of the 2009 biennium

Major LFD Issues

- The legislature could consider requiring centralized workers' compensation costs to be recovered through the statewide cost allocation plan
- The legislature may wish to evaluate health plan initiatives undertaken by other employers and current state plan initiatives and management practices
- General fund costs to support the proposed executive budget increase in employer share of health insurance premiums would add about $15.7 million general fund over the biennium and state special revenue costs are estimated to be $13.5 million over the biennium

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
Health Care & Benefits Division

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ -	-	$ 387,690	90.4%	$ 379,679	89.8%
	01100 General Fund	-	-	387,690	90.4%	379,679	89.8%
02000	Total State Special Funds	32,241	100.0%	41,349	9.6%	43,115	10.2%
	02518 State Daycare Program	32,241	100.0%	41,349	9.6%	43,115	10.2%
Grand	Total	$ 32,241	100.0%	$ 429,039	100.0%	$ 422,794	100.0%

The Health Care and Benefits Division (HCBD) is funded predominantly with proprietary funds, made up of the state employer contributions to health care costs, premium payments by plan participants, investment income, and assessments to manage flexible spending accounts. The proprietary funds are discussed in greater detail later in this narrative. However, in summary, proprietary funding for health care benefits in FY 2006 was about $98.5 million. About $81.0 million was paid by state funds, including the employer share and employee supplemental payments, from the following sources:

- General fund - $26.8 million
- State special revenue - $24.0 million
- Federal funds - $12.5 million
- Other funding sources such as proprietary funds - $10.4 million

Other proprietary income included:

- Retiree payments, self payments, and COBRA payments – $15.5 million
- Investment income - $1.3 million

The division budget also includes a small amount of state special revenue to pay for lease costs for a day care program for state employees in Helena. The division receives contributions from state agencies through an annual memorandum of understanding between the division administrator and the director of each state agency. The allocation of these contributions is based upon the number of Helena area employees at each agency. The division pays for a portion of the lease payments for day care facility, minor repairs necessary to operate the daycare, and a small part of the statewide allocated costs.

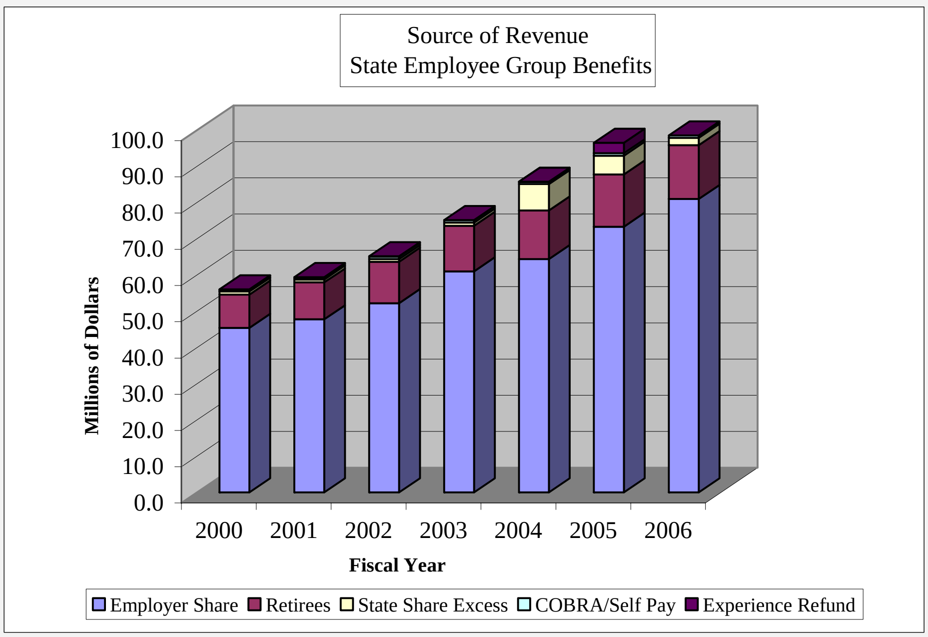
The division budget request also includes a new proposal to implement centralized oversight and management of workers' compensation costs for the State of Montana, which is funded from general fund and includes 3.00 new FTE.

LFD ISSUE

DOA is negotiating with the federal Department of Health and Human Services to include the workers' compensation function in the statewide cost allocation plan, which assesses all funding sources for a portion of statewide administrative costs. Lowering workers' compensation costs across state government is one of the goals the agency is hoping to achieve through centralized oversight of workers' compensation, which would lower federal costs of supporting certain state administered programs. It seems likely that the federal agency would approve inclusion of this function in the statewide cost allocation plan, allowing the cost to be spread among all funding sources. The legislature could consider making the funding for the workers' compensation proposal contingent on inclusion in the statewide cost allocation plan if it approves the proposal.

LFD COMMENT

The figure shows the components of total proprietary revenues for the state employee group benefit plan. Employer contributions is the largest component contributing more than double other payments sources. Retiree premium payments the next largest source. Legislative appropriations in the 2005 biennium provided funds for employer contributions in excess of what some employees could use, thereby generating a state share excess. This action helped offset a potential shortfall in the state health plan. Finally, payments from persons who can elect to pay premiums and continue as part of the state plan after leaving state employment – COBRA participants – make up a small portion of premium payments.



The following figure shows historical rates for the employer contribution for employee insurance coverage, as well as historic and projected medical and pharmacy cost trends. The executive budget request would increase the monthly employer share by $33 in FY 2008 and by another $36 in FY 2009, for a total monthly contribution of $626 in 2009.

LFD COMMENT

The medical and drug cost trends used to develop 2006 through 2009 costs are estimated and not actual. LFD staff has requested that the division provide the 2006 cost trend as soon as it is determined. The 2009 biennium executive request for the employer share of the health insurance premium cost increase is around 6 percent annually, one of the lowest annual increases in recent years.

Historic and Projected Employer Contributions for the State Employee Group Benefits Plan

Fiscal Year	Employer Contrib.	Annual Change	Cost Trends* Medical	Drugs
1996	$220		n/a	n/a
1997	225	2.3%	n/a	n/a
1998	245	8.9%	9.0%	20.8%
1999	270	10.2%	8.9%	33.2%
2000	285	5.6%	8.7%	9.2%
2001	295	3.5%	2.1%	17.9%
2002	325	10.2%	13.4%	15.9%
2003	366	12.6%	4.4%	11.6%
2004	410	12.0%	-3.3%	-2.8%
2005	460	12.2%	9.9%	13.3%
2006	506	10.0%	10.0%	13.0%
2007	557	10.1%	10.0%	13.0%
2008	590	5.9%	10.0%	13.0%
2009	626	6.1%	10.0%	13.0%

*Cost trends for FY 2007 through FY 2009 are estimated.

The figure below shows the fund source that has paid the employer contribution since FY 2001. General fund payments have ranged from a low of 38.4 percent in FY 2001 to a high of 39.7 percent in the following year. If general fund participation remains at the FY 2006 level (37.8 percent) during the 2009 biennium, estimated general fund costs to support proposed premium increases in the executive budget would be about $15.7 million. Assuming state special revenue participation is the same percentage as in FY 2006 (33.0 percent), the proposed premium increases would cost about $13.5 million in state special revenue.

Fund Source Paying State Employer Group Health Share

Fund Source	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Percent of Total
General Fund	$15,508,251	$17,322,341	$19,646,634	$22,668,923	$24,739,564	$26,686,695	37.8%
State Special Rev.	14,233,429	14,412,732	16,433,562	19,819,203	22,468,736	24,172,290	34.2%
Federal Funds	6,604,240	7,279,736	8,546,020	10,308,256	11,799,115	12,063,605	17.1%
Other Funds	4,081,839	4,601,355	5,309,467	6,122,232	7,233,365	7,759,709	11.0%
Total	$40,427,760	$43,616,165	$49,935,683	$58,918,613	$66,240,780	$70,682,298	100.0%
Percent Change		7.9%	14.5%	18.0%	12.4%	6.7%	

LFD ISSUE

The legislature has not actively reviewed the state employee group benefits plan in the last several interims. Since the plan is funded with proprietary funds, decisions about plan design and how those decisions relate to plan costs are not as transparent as in other programs that are funded from legislatively established appropriations. Additionally, there are new programs being instituted by employers to assist employees in adopting healthier lifestyles to reduce plan costs and improve workplace productivity.

The division recently added two wellness programs - Why Weight and Well on the Way – which operated as pilots during 2005 and 2006. Both programs provide funding to participants to cover part of the cost of treatment of significant health problems and for weight loss programs. Well on the Way participants are provided up to $500 to help them access care. Potential participants will be identified through the health screening program, with assistance provided to persons who have potentially life threatening or costly health issues. The program will link participants with appropriate care to prevent greater health problems and more invasive treatments, and to manage, improve, or prevent chronic health problems. Why Weight participants must weigh in excess of the maximum weight for their height and age at the start of the program, achieve a 10 percent weight loss and keep an exercise log to be reimbursed up to $75 for a weight loss program. Potential Why Weight participants also will be identified through the health screening process.

LFD ISSUE CONT.

Preliminary and early experience for the Well on the Way pilot appeared to demonstrate potential cost savings with a limited number of cases. Possible surgeries for such conditions as heart disease were prevented and better health outcomes achieved with identification of health problems and linkage to services. The benefits and costs of plan wide implementation of Well on the Way may be difficult to evaluate. It would seem that there should be an initial increase in plan costs to treat unknown or neglected health problems. However, it may be difficult to estimate what plan costs might have been without the program and when those costs would have occurred.

Obesity costs health plans more than smoking or alcohol use. Implementation of the Why Weight program could prevent more costly health treatments if persons are successful in losing weight and maintaining weight loss. However, the challenges to estimate the benefits and costs of Why Weight are much the same as those associated with evaluation of Well on the Way.

Options for Legislative Consideration

1) The State Employees Group Benefits Council (SEGBC) approved the division request to extend the programs to all employees as a part of wellness benefits. While pilot experience has shown initial promise, it is unknown whether these two programs will help slow medical cost increases. The legislature may wish to request that the division provide reports on the experience with these two wellness plans to determine cost effectiveness of the programs.

2) The legislature may request that the Legislative Finance Committee (LFC) review the state employee benefits program and health plan initiatives being instituted by other employers during the 2009 biennium and report findings or issues for consideration to the next legislature. The LFC is recommended since plan funding comes from all state agencies and plan obligations could impact overall state financial health.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Fixed Costs					(9)					(9)
Total Statewide Present Law Adjustments					**($9)**					**($9)**
DP 2108 - Daycare Program Lease	0.00	0	9,117	0	9,117	0.00	0	10,883	0	10,883
Total Other Present Law Adjustments	**0.00**	**$0**	**$9,117**	**$0**	**$9,117**	**0.00**	**$0**	**$10,883**	**$0**	**$10,883**
Grand Total All Present Law Adjustments					**$9,108**					**$10,874**

DP 2108 - Daycare Program Lease - The Health Care and Benefits Division requests state special revenue of $9,117 in FY 2008 and $10,883 in FY 2009 to cover the costs of increased rent for the state daycare.

New Proposals

New Proposals										
	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2111 - Centralize Workers' Compensation Cost Containment										
21	3.00	387,690	0	0	387,690	3.00	379,679	0	0	379,679
Total	3.00	$387,690	$0	$0	$387,690	3.00	$379,679	$0	$0	$379,679

DP 2111 - Centralize Workers' Compensation Cost Containment - This request adds $0.7 million general fund over the biennium for centralized oversight of workers' compensation cost containment efforts and to continue funding 3.00 modified FTE added FY 2007 – a program manager, an early-return-to-work manager, and a safety program coordinator. In addition to the FTE, the proposal includes $200,000 to hire a third party administrator for the early-return-to-work program, $17,000 for lease of office space, $10,000 for loss prevention outreach campaigns and education, and $8,325 for office set-ups for the new FTE. Services to limit losses and to facilitate early return-to-work programs for all of state government would be provided.

LFD COMMENT

As noted in the funding section, if the legislature approves this request it could consider appropriating general fund contingent on the function being included in the statewide cost allocation plan (SWCAP). States may assess programs for the cost of providing statewide management functions and recoup payment from all funding sources. SWCAP collections are deposited to the general fund to offset some of the statewide management costs. However, states must receive approval from the cognizant federal agency before making changes to the SWCAP. DofA is negotiating with the federal Department of Health and Human Services to include the centralized workers' compensation program, but has not received federal approval yet.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Workers' compensation premiums are one of the fastest growing costs in agency budgets. In FY 2001 the workers' compensation premiums for the state totaled $6.6 million and are estimated to be $17.4 million in FY 2007, a 164 percent increase over a five-year time period. The annual premium increases for agencies over this time period range from a low of 14.9 percent to a high of 30.1 percent. At this rate, workers' compensation premiums are doubling nearly every two biennia.

The major functions of this program will be to:

- Ensure compliance with the Montana Safety Culture Act (Title 39, Chapter 71, Part 15, MCA) for the State of Montana as an employer, working in cooperation with the Department of Labor and Industry
- Coordinate and provide for effective safety and loss-prevention strategies aimed at reducing or eliminating the incidence of work-related fatalities, illness, and injury in state employees
- Develop and coordinate effective return-to-work programs to permit injured workers to return to productive employment, reduce workers' compensation loss-time claims, and enhance productivity for state government
- Provide financial accountability and oversight for the workers' compensation expenditures for State of Montana government as an employer

Goal(s):

1. Reduce the incidence of occupational injury and illness among state employees;
2. Reduce the incidence of workers' compensation wage-loss claims for state government;
3. Reduce workers' compensation premiums for state agencies;
4. Enhance productivity within agencies by reducing the amount of time workers are separated from their jobs due to occupational injury or illness;
5. Improve the safety of the physical work environment in compliance with the Montana Safety Culture Act;

6. Provide a central data and financial management repository for workers' compensation information within state government; and
7. Function as the central point for negotiation and management of workers' compensation coverage through the insurance carrier, Montana State Fund.

Performance Criteria: Progress toward each of these goals would be measured in the following manner:

1. Timely completion of all milestones identified in the work plan to implement this program.
2. The experience 'mod-factor' for workers' compensation would be used as a measure of progress. The number of state agencies or entities achieving a mod-factor below 1.0 would be compared to the most recent annual data available. For agencies with mod factors below 1.0, the goal would be to sustain the mod-factor level. For agencies above 1.0, the goal would be to achieve a mod-factor of 1.0 or lower. The number of injuries and illnesses for each agency would also be measured and compared to the most recently completed base year as a measure of progress.
3. In accident year 2004 (the most recent year with 'developed' history) the state had 221 wage-loss claims. The goal would be to reduce this number to fewer than 200 during 2008 and 2009.
4. In addition to reducing the underlying claims which drive the premiums, the division would evaluate alternative rating methods and plan designs (e.g. changes in retention plan, deductible programs), review business processes impacting the rates as permitted by law (e.g. reserving of claims, case management of claims, etc.), and negotiate on the state's behalf for the most favorable workers' compensation premiums during the 2009 biennium. The goal would be a funding arrangement that provides proper incentives for the insurer (Montana State Fund), the employer and the employees to improve employee outcomes and reduce costs. Progress toward the goal would be measured by the rate of increase in workers' compensation premiums for state agencies compared to other Montana employers and the number of other processes and methods identified that would reduce costs.
5. Early-return-to-work (ERTW) functions would be coordinated or put in place across state government during the biennium. The average time away from work due to injury would be measured with and without these services under programs provided by Montana State Fund or by a third-party administrator (funding requested). Where data on overtime or additional costs incurred by agencies as a result of the temporary loss of the worker can be determined, this measure would also be reported.
6. Other performance criteria include:
   - Number of agencies that incorporate safety as a component of their employee and management performance structure (job description and performance appraisals)
   - Number of ergonomic assessments completed
   - Number of safety consultations and trainings completed
   - Physical plant repairs/safety mitigations completed in response to injury reports (slips, trips and falls)
   - Compliance of agencies with required components of the Montana Safety Culture Act
7. A website with access to agency level workers' compensation data and reports, links to Montana State Fund data and reports, links to the Department of Labor and Industry (Safety Bureau and Employment Relations Division) and to other resources would be developed to provide individual agency personnel with support and tools to assist in managing their workforce relative to workers' compensation and exchange information among state agencies for best practices in workforce management relative to workers' compensation issues.

Milestones: Significant milestones outlined in the work plan for this activity include:

1. Analysis of current State of MT employer workers' environment	April 2006 (C)
2. Establishment of single account relationship with State Fund	May 2006 (C)
3. FY07 WC rate renewal negotiations with State Fund	May 2006 (C)
4. Statewide management introduction to program	September 2006
5. Resource, program and activity inventory	October 2006
o Agencies	
o Montana State Fund	
o Risk Management and Tort Defense (DoA)	
o Dept of Labor and Industry (Safety and Employment Relations Division)	
6. Hiring program FTE	
o Workers' Compensation Program Manager	September 2006 (C)

o Safety Program Coordinator	November 2006
o Early-Return-to-Work Manager	December 2006
7. Based on results of inventory (4.) determine best practices for safety/ early-return-to-work	December 2006
8. Alternative State Fund funding/ rating arrangement discussion	April 2007
9. Safety program initiation by agency	April 2007
10. Development of incentive program (employee/agency)	March 2007
11. Rate renewal negotiations (FY08)	May 2007
12. Contracting for ERTW vendor	June 2007
13. Implementation of ERTW programs	September 2007
14. Ongoing implementation of safety program & marketing	June 2007
15. Management of State of Montana account with State Fund	Quarterly/annual rate renewal

(C) indicates task is completed

FTE

Workers' Compensation Program Manager – 1.0 FTE - This position is responsible for development, implementation and management of the state workers' compensation management program. The incumbent would function as the primary staff in all aspects of operations related to safety, loss-prevention and ERTW activities conducted on behalf of state agencies. Duties include development of all programs, management of budget and contracting duties for statewide programs, analysis of workers' compensation data and financial performance at the agency and state level, supervision of staff, and reporting to management within the department and the Governor's Office, as well as functioning as the primary liaison with agencies and Montana State Fund.

Safety Program Coordinator - 1.0 FTE - This position reports to the Workers' Compensation Manager and is responsible for creating, operating and coordinating safety program activities across state government. Duties include functioning as liaison with agency safety committees/staff, working with Montana State Fund safety staff, working with the Department of Labor and Industry (Safety Bureau) to roll-out training to state management personnel regarding incorporating safety in the workplace, and ensuring compliance with the Montana Safety Culture Act. The incumbent would also be responsible for ensuring availability of ergonomic consulting services for agencies, working with agencies to do assessments of physical plant needs relative to safety, and for inventorying, coordinating and facilitating the remediation of safety hazards in the workplace.

Early-Return-to-Work Manager – 1.0 FTE - This position reports to the Workers' Compensation Manager and is responsible for development, coordination, and implementation of ERTW activities across state government agencies. Currently a limited number of agencies have ERTW programs in place. They are either internal or provided by MSF. This position would ensure that every agency has access to an ERTW program approach that facilitates efficient, appropriate return to work for injured employees. In addition, this position would develop statewide approaches to facilitate better placement such as a 'temporary pool' for workers that would permit one agency to place a worker in another agency that has an available job. The 'home' agency would pay for the worker, but the overall cost to both agencies would be less than if the employee were not at work, productivity would be enhanced, and the employee would benefit from more timely re-connection to work. This position would also be responsible for working with the program manager to secure the services of an ERTW third-party administrator or vendor and managing the contract with the vendor.

Funding: The source of funding for this program is general fund. Currently there is no dedicated stream of revenue in state government related to workers' compensation which is not being used by agencies to provide programs already. Diverting dollars such as volume discounts, ERTW incentives, and dividends would impact agency programs which are intended to be an integral part of the state approach to containing costs. The costs of this program could potentially be recovered through the statewide cost allocation program (SWCAP), but that has not been confirmed with the federal negotiator.

The purpose of this program is to reduce the overall cost of workers' compensation for state agencies. At the FY 2007 premium level of $17.4 million, reducing the rate of increase in premium growth by 2 percent would pay the full annual costs for the program in each year of the biennium. Any reduction beyond 2 percent would result in a net savings to state government which would be distributed proportionally across agency funding sources.

Obstacles: During the last 20 years there has not been a comprehensive effort to manage workers' compensation costs and impacts across state government. The biggest obstacle would be behavior changes in employees and managers to reduce the incidence of occupational illness and injury.

Risk: Without any action, it is likely that state agency workers' compensation premiums would continue to rise 15-30 percent annually. The current cost of workers' compensation premiums ($17.4 million annually) is equivalent to 65 percent of the pay plan increase for FY 2006. At the current growth rate, workers' compensation premiums could cost more than funding a pay plan increase for the 2011 biennium.

LFD COMMENT

The justification, goals and performance criteria are thorough. However, the milestones don't address the performance measures, and some performance measures are not specific and measurable.

If the legislature approves this request, it may wish to ask for periodic reports during the interim or in time for legislative staff evaluation for the 2009 legislative session on the progress toward reaching program goals.

Proprietary Rates

Proprietary Program Description

The division manages two proprietary programs: employee benefits, which includes the state's health and other benefit insurance plans, and the flexible spending accounts.

The employee benefits program, fund 06559, is charged with providing state employees, retirees, members of the legislature, and their families with adequate medical, dental, prescription drug, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health, prescription drug, and dental plan. Life, long-term disability, and long-term care insurance are purchased from private sector vendors on a fully-insured basis. The program contracts with private companies to provide claims processing services, health screenings, and employee assistance program, flexible spending account administration and wellness plan administration.

The core service provided by the program is a medical (including prescription drug coverage), dental, and life insurance benefit package. Plan members have several options to choose from which include an indemnity plan and managed care plans administered by three different carriers (New West Health Services, Blue Cross and Blue Shield of Montana, and Peak Health Plan) through their provider networks.

The program is funded by the state contribution for group benefits and by premiums and fees paid by plan members. The program currently supports 11.87 FTE (down from 13.01 FTE during the 2007 biennium) and is requesting an additional 3.00 FTE for the 2009 biennium (current FTE count includes a modified position for which permanent status is being requested). The additional FTE include 1.00 FTE for an in-house claims auditor to ensure accurate and appropriate payment of claims made by the benefit plan and members, 1.00 FTE for in-house case management services (resulting in a substantial savings over contracting this function), 1.00 FTE for a document technician to support the maintenance and distribution of legal plan documents and members communication materials, and 1.00 FTE to for an information technology manager to support the technology interface needs of the division with internal and external systems. Statutory authority is 2-18-701 and 2-18-801, MCA.

Alternate Sources: As an alternative to providing a self-insured health plan, the state could purchase an insured plan from the private sector. Historical studies of comparable insurance plans have shown that this alternative would be more expensive. The state has operated a statewide plan since 1979 and a self-insured plan since the early 1980s.

Customers Served: In excess of 35,000 persons are covered by the benefit plans in the following categories; 12,200 regular full-time and part-time executive, legislative, and judicial branch employees; 3,300 retirees; 100 COBRA participants; and 19,400 dependents.

Proprietary Revenues and Expenses - No significant changes in service are contemplated. Fees must be increased as discussed below. The primary cost driver in the fund is the growth and price increases in health and prescription drug claims. Medical claim costs are projected to rise 10.0 percent annually. Drug claims are projected grow 13.0 percent annually.

Working Capital – The Benefits and Health Insurance program maintains a substantial reserve to allow it to cover health claims against the self-insured plan. By statute (2-18-812, MCA), the plan must maintain reserves sufficient to liquidate the unrevealed claim liability and other liabilities of the state employee group benefits plans. The reserve permits the program to cover its pending liability for claims that have been incurred but not paid or submitted for payment, at any point in time and to protect the well-being of participants in the plan. Reserve levels are monitored closely by managers of the program with the assistance of its benefits consultant to ensure that the plan is complying with the insurance industry standard practices and requirements. As a result of instability in the fund during the 2003 biennium, the State Employee Group Benefits Advisory Council (SEGBAC is authorized under 2-15-1016, MCA) opted to recommend the fund maintain a minimum of two to three months claims and operating expenses in reserve beyond the statutorily required reserves. This reserve level is not uncommon in the insurance industry and is similar to working capital balances maintained in other governmental funds.

Fund Equity and Reserved Fund Balance – The reserves for the self-insured plan are calculated as a percentage of claims and consist of two components; incurred but not reported (IBNR) reserves and claims fluctuation reserves. A portion of the claims fluctuation reserve, known as the “grandfathered benefit” reserve, is set aside to pay the claim liability incurred when the state changed the timing on collecting premiums in August 1998. The switch was from collecting premiums prior to commencement of the month of coverage, to collecting premiums during the month of coverage. Employees in service on or before August 1998 are entitled to this grandfathered reserve.

Cash Flow – It is projected that about $8.6 million per month in claims will be paid in FY 2008 and $9.5 million in FY 2009. Premiums are collected either bimonthly with paycheck processing or at the beginning of the month depending on whether the premium is for active employees, retirees, legislators, or COBRA employees.

The cost of providing medical care continues to rise at a rate significantly higher than general inflation. Based on FY 2006 expenditures of approximately $84.5 million for medical, dental, and prescription drug claims, these expenditures are projected to be $103.0 million in FY 2008 and $114.2 million in FY 2009. This estimate does not take into account future benefit plan changes which may impact expenditure projections.

Claims costs make up about 94.5 percent of program expenditures. Administrative costs comprise about 5.5 percent of total program expenditures including contracting with vendors to process claims and administrative costs directly within the department. In comparison, insurance companies generally have administrative costs that range from 14.0 percent to as high as 28.0 percent and pay 72.0 to 86.0 percent of their premiums out in claims.

The program records premium revenues received from the state contribution, out-of-pocket premiums for dependents, retirees, legislators, and COBRA participants in revenue accounts 525039, 525040, 525041, 525042, 525077, and 525079 in fund 06559. Contracted claims administrator fees are recorded in accounts 62102, 62199, and 62868. Medical and dental claims are paid out of account 67299 and 67205. Prescription drug claims are paid from account 67206. Managed care services for the managed care plans are still done via contracted services with third party administrators and are paid from accounts 67203 and 67204. Vision services are paid from 67209. Long-term care premiums are paid from account 67210 and life insurance premiums are paid from 67299. Wellness plans Why Weight and Well on the Way are paid from 67201.

Rate Explanation – The rate provided in HB 2 is the state contribution, i.e. the employer share of premium toward health care and benefits coverage. As a component of employee compensation, the state contribution is a subject of collective bargaining.

The objective for the state contribution is to provide sufficient dollars to underwrite affordable coverage for all participants in the plan including sufficient dollars to cover the "employee only" cost of providing a core medical, dental, and life insurance benefit. Historically, there have been a few dollars of the state contribution left over that employees can apply toward dependent coverage, additional life insurance, purchase of optional benefits, or to place into a medical or dependent care flexible spending account (FSA).

Income for the program in FY 2006 was approximately $97.8 million. The state share portion of this income was $70.0 million or 72 percent. Of the $70.0 million, approximately $1.4 million, or 2 percent, was due to additional state share appropriated by the legislature during the 2005 session to address the financial shortfall in the employee benefit plan fund during the previous biennia. The remaining income was from participant paid premiums and investment earnings. Total expenses during FY 2006 were $90.2 million. Restoration of statutory reserves and accumulation of excess reserves, discussed under "Working Capital," made up the difference. Projected income for the next biennium should match projected expenditures to maintain plan solvency.

Standard insurance industry analytical techniques are used to project plan costs, establish sufficient actuarial reserves and set premium amounts for the various plan options. In managing the plan the department has the opportunity to increase income by increasing participant premiums or to reduce expenses by reducing the amount of plan coverage. Plan coverage changes include increasing participant deductibles and co-payments, eliminating the payment for some services, negotiating lower costs for medical services, or looking for opportunities to reduce the cost of services provided using knowledge of the given health care environment.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06559	Group Benefits Claims A/C	61010	Department of Administration	Health Care and Benefits Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	161,739	576,339	1,239,821	1,123,000	1,123,000	1,123,000
Securities Lending Income	4,209	20,684	47,007	-	-	-
Premiums	85,724,313	93,656,242	98,521,478	109,125,925	111,458,302	122,399,131
Other Operating Revenues	308,383	934,442	738,024	748,000	748,000	748,000
Total Operating Revenue	86,198,644	95,187,707	100,546,330	110,996,925	113,329,302	124,270,131
Operating Expenses:						
Personal Services	680,889	829,324	502,381	571,552	803,625	806,389
Other Operating Expenses	76,528,258	85,272,480	94,142,651	110,529,679	112,309,623	123,735,156
Total Operating Expenses	77,209,147	86,101,804	94,645,032	111,101,231	113,113,248	124,541,545
Operating Income (Loss)	**8,989,497**	**9,085,903**	**5,901,298**	**(104,306)**	**216,054**	**(271,414)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	(830)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	(830)	-	-	-
Income (Loss) Before Operating Transfers	8,989,497	9,085,903	5,900,468	(104,306)	216,054	(271,414)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(150,000)	(614,199)	-	-	-
Change in net assets	8,989,497	8,935,903	5,286,269	(104,306)	216,054	(271,414)
Total Net Assets- July 1 - As Restated	546,863	9,563,125	21,240,549	26,526,291	26,421,985	26,638,039
Prior Period Adjustments	26,765	2,741,521	(527)	-	-	-
Cumulative effect of account change	-		-	-	-	-
Total Net Assets - July 1 - As Restated	573,628	12,304,646	21,240,022	26,526,291	26,421,985	26,638,039
Net Assets- June 30	**9,563,125**	**21,240,549**	**26,526,291**	**26,421,985**	**26,638,039**	**26,366,625**
60 working days of expenses (Total Operating Expenses divided by 6)	12,868,191	14,350,301	15,774,172	18,516,872	18,852,208	20,756,924

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 06	Budgeted FY 07
Fee Group A						
State share per employee per month	$388	$435	$483	$532	n/a	n/a

Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for each fiscal year. Rates for FY 2008 and 2009 have not been determined at this time.

LFD COMMENT

The proprietary fund table shows that operating income will be negative in FY 2009. LFD staff has requested the documentation supporting the assumptions used in this table to determine whether or not the executive pay plan increase was included in the income projections and will have that information for legislative consideration.

The figure shows the spending increases anticipated for the state employee health benefits plan for the 2009 biennium. Growth in health benefits costs is the biggest change by far adding an estimated $40.2 million over the biennium. Other increases for office space, funding for 4.00 new FTE, and computer system maintenance and readiness add $0.6 million.

Planned Additions to the Group Benefits Operating Costs for the 2009 Biennium

Item	FY 2008	FY 2009
Insurance Claims	$19,039,576	$30,505,634
4.00 New FTE	225,979	213,045
Office Lease	55,315	55,315
Benefits Module Maintenance	27,500	27,500
SABHRS Readiness	30,000	0
Total Planned Increases	$19,378,370	$30,801,494
FY 2006 Base Expenditures	$94,645,032	$94,645,032
Percent Change from Base	20.5%	32.5%

The flexible spending account program (fund 06027) funds administration of medical and child care flex accounts established by state employees to withhold funds from their pay checks and then received reimbursement for allowable expenses. One of the primary benefits is that the flex account deposits are made from each paycheck and withdrawn prior to the calculation of income taxes. Each participant is charged a monthly fee for contracted account administration.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06027	Flexible Spending Funds	61010	Department of Administration	Health Care and Benefits Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Administrative Fees	95,775	103,297	103,327	103,327	103,327	103,327
Revenue from Fee B	-	-	-	-	-	-
Revenue from Fee C	-	-	-	-	-	-
Revenue from Fee D	-	-	-	-	-	-
Revenue from Fee E	-	-	-	-	-	-
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	95,775	103,297	103,327	103,327	103,327	103,327
Investment Earnings	1,222	2,613	12,370	12,370	12,370	12,370
Securities Lending Income	-	-	216	-	-	-
Premiums	4,529,320	4,882,291	5,290,838	5,475,217	5,668,179	5,869,824
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	4,626,317	4,988,201	5,406,751	5,590,914	5,783,876	5,985,521
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	4,667,844	4,881,541	5,252,369	5,541,250	5,890,173	5,871,463
Total Operating Expenses	4,667,844	4,881,541	5,252,369	5,541,250	5,890,173	5,871,463
Operating Income (Loss)	**(41,527)**	**106,660**	**154,382**	**49,664**	**(106,297)**	**114,058**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(41,527)	106,660	154,382	49,664	(106,297)	114,058
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(41,527)	106,660	154,382	49,664	(106,297)	114,058
Total Net Assets- July 1 - As Restated	261,445	219,918	307,292	461,674	511,338	405,041
Prior Period Adjustments	-	(19,286)	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	261,445	200,632	307,292	461,674	511,338	405,041
Net Assets- June 30	**219,918**	**307,292**	**461,674**	**511,338**	**405,041**	**519,099**
45 days of expenses						
(Total Operating Expenses divided by 8)	583,481	610,193	656,546	692,656	736,272	733,933

Requested Rates for Enterprise Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A						
Administrative Fee (per member per month)	$2.16	$2.16	$2.16	$2.16	n/a	n/a

Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator. The contract for plan administrator will be reprocurred in 2008.

LFD COMMENT The executive request does not provide data on the flexible spending account program. The enterprise fund table shows that the account is expected to incur a $106,297 deficit in FY 2008. It appears there is either a one time cost in FY 2008 or a data entry error. The table does not show the 2009 biennium amounts expected to be charged for account administration. LFD staff has asked the division to provide information about these table entries.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	15.53	0.75	0.00	16.28	0.75	0.00	16.28	16.28
Personal Services	670,041	200,692	0	870,733	203,182	0	873,223	1,743,956
Operating Expenses	182,056	244,653	0	426,709	45,794	0	227,850	654,559
Total Costs	**$852,097**	**$445,345**	**$0**	**$1,297,442**	**$248,976**	**$0**	**$1,101,073**	**$2,398,515**
General Fund	852,097	445,345	0	1,297,442	248,976	0	1,101,073	2,398,515
Total Funds	**$852,097**	**$445,345**	**$0**	**$1,297,442**	**$248,976**	**$0**	**$1,101,073**	**$2,398,515**

Program Description

The State Personnel Division provides state agencies with a variety of human resource management programs including training, position classification and salary administration, employee relations, and assistance with compliance with state and federal employment law. The state general fund is reimbursed for administrative costs of the State Personnel Division through the statewide cost allocation plan. The division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other personnel matters. The division administers eligibility for the various benefit plans including health, life, long-term care, dental, and vision insurance, accidental death and dismemberment, a sick leave fund, employee incentive awards, and flexible spending accounts. The division also is the process owner of the SABHRS HR enterprise system and through its Central Payroll Bureau prepares, maintains, and distributes payroll for all state employees.

Program Highlights

Department of Administration
State Personnel Division
Major Budget Highlights

- One time funding for SABHRS readiness assessment adds $200,000 general fund
- 1.00 FTE is added to address classification and salary issues associated with the planned statewide conversion to the broadband pay plan
- $55,000 general fund is added to provide half the funding for a maintenance agreement for an electronic benefits system

Major LFD Issues

- Concern with formula for determining Profession Development Center rates
- Information not provided to explain proprietary fund rate changes

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
State Personnel Division

Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	$ 852,097	100.0%	$ 1,297,442	100.0%	$ 1,101,073	100.0%
01100 General Fund	852,097	100.0%	1,297,442	100.0%	1,101,073	100.0%
Grand Total	$ 852,097	100.0%	$ 1,297,442	100.0%	$ 1,101,073	100.0%

Funding for general personnel administration functions is from the general fund. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. Payroll is funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the proprietary rates at the end of the section for the division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					216,798					219,365
Vacancy Savings					(35,474)					(35,575)
Inflation/Deflation					1,295					1,800
Fixed Costs					3,844					6,934
Total Statewide Present Law Adjustments					$186,463					$192,524
DP 311 - Allocate department indirect/administrative costs	0.00	7,415	0	0	7,415	0.00	7,640	0	0	7,640
DP 2301 - SABHRS Readiness Assessment (Biennial/OTO)	0.00	200,000	0	0	200,000	0.00	0	0	0	0
DP 2304 - Maintenance Agreement-eBenefits/Policy Module	0.00	27,500	0	0	27,500	0.00	27,500	0	0	27,500
DP 2305 - Transfer 0.25 FTE Attorney to Labor Relations	(0.25)	(21,411)	0	0	(21,411)	(0.25)	(21,432)	0	0	(21,432)
DP 2314 - HRSS Request for Additional 1.00 FTE	1.00	45,378	0	0	45,378	1.00	42,744	0	0	42,744
Total Other Present Law Adjustments	**0.75**	**$258,882**	**$0**	**$0**	**$258,882**	**0.75**	**$56,452**	**$0**	**$0**	**$56,452**
Grand Total All Present Law Adjustments					$445,345					$248,976

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 32.4 percent increase over the personal services base. About $50,000 of the $216,800 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $166,800 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures and longevity, which if annualized for a full year total $34,200. Market adjustments accounted for the bulk of the salary increases. The program experienced a vacancy rate in authorized FTE hours of 20 percent during the base year. This level of vacancy equates to about 3.10 FTE. Had no vacancies existed, base expenditures would have been roughly $145,000 higher.

DP 311 - Allocate department indirect/administrative costs - An increase of about $15,100 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 2301 - SABHRS Readiness Assessment (Biennial/OTO) - An increase of $200,000 general fund for the biennium is requested to study and evaluate different options available to the state for providing the human resources and payroll/benefit operations enterprise system applications. Of the funding, $130,000 would be for contracted services, $50,000 for training, and $20,000 for travel. The executive recommends that the funding be designate as biennial and one time only.

LFD COMMENT

A Little Background on SABHRS

The Statewide Accounting, Budgeting, and Human Resources System (SABHRS) has been in operation since before 2000. At the start of the 2009 biennium, SABHRS will be operating on version 8.9 of the application. Based on information from the vendor, version 8.9 will be supported and upgraded only until December 2010, at which time Oracle/PeopleSoft expects a new product (Fusion) to be available. Investigations by the state indicate that converting to Fusion will require substantial resources (human, financial, and information technology) to install and maintain. The funding in this request would be to look at options available for satisfying the future needs for administering statewide human resources.

DP 2304 - Maintenance Agreement-eBenefits/Policy Module - An increase of $55,000 general fund for the biennium is requested to fund half of the annual maintenance costs for an electronic system to support online self-service maintenance of the state benefit eligibility information by state employees. The funding is for costs associated with software maintenance of a system that will be implemented in FY 2007 and will be equally shared by the State Personnel Division and the Health Care and Benefits Division. A similar adjustment is included in the discussion of proprietary rates for the Health Care and Benefits Division.

DP 2305 - Transfer 0.25 FTE Attorney to Labor Relations - A reduction of about $42,800 general fund for the biennium is requested to transfer 0.25 FTE attorney position from the State Personnel Division to the Office of Labor Relations in the Administration and Financial Services Division. An offsetting adjustment (DP 303) is included in the present law section for the Administration and Financial Services Division.

DP 2314 - HRSS Request for Additional 1.00 FTE - An increase of about $88,100 general fund for the biennium is requested to fund personal services and operating costs to add 1.00 FTE to assist agencies in the areas of administering salary, classifying positions, policy administration, recruitment and retention, workforce planning, and human resources consulting. First the position would assist agencies in transitioning to the broadband pay plan and after the approximately 18 months the transition is expected to take the position would assist in preparing biannual labor market analyses and position classifications. One time costs in FY 2008 are $2,775 for initial office setup and computer purchase.

LFD COMMENT

This request relates directly to a statewide initiative to establish a single pay plan for most state employees. See the pay plan proposal discussion in Volume 1, Statewide Perspectives of the LFD 2009 Biennium Executive Budget Analysis.

Proprietary Rates

Proprietary Program Description
The State Personnel Division manages two proprietary programs: Professional Development Center (training) and Payroll (payroll and benefits eligibility processing).

Proprietary Program Description.

Intergovernmental Training (Fund 06525)

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

The following figure for fund 06525 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06525	Intergovernmental Training	61010	Department of Administration	State Personnel Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Training Fees	285,340	239,877	259,170	268,000	326,000	299,000
Net Fee Revenue	285,340	239,877	259,170	268,000	326,000	299,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	260	186	141	-	-	-
Total Operating Revenue	285,600	240,063	259,311	268,000	326,000	299,000
Operating Expenses:						
Personal Services	154,981	127,004	169,593	171,409	171,673	171,836
Other Operating Expenses	137,569	106,900	105,783	108,452	114,875	116,446
Total Operating Expenses	292,550	233,904	275,376	279,861	286,548	288,282
Operating Income (Loss)	**(6,950)**	**6,159**	**(16,065)**	**(11,861)**	**39,452**	**10,718**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(6,950)	6,159	(16,065)	(11,861)	39,452	10,718
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	(8,954)	-	-	-	-
Change in net assets	(6,950)	(2,795)	(16,065)	(11,861)	39,452	10,718
Total Net Assets- July 1 - As Restated	33,513	26,563	23,768	7,703	(4,158)	35,294
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	33,513	26,563	23,768	7,703	(4,158)	35,294
Net Assets- June 30	**26,563**	**23,768**	**7,703**	**(4,158)**	**35,294**	**46,012**
60 days of expenses (Total Operating Expenses divided by 6)	48,758	38,984	45,896	46,644	47,758	48,047

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

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A						
Training Services per hour	$128.12	$128.59	$127.86	$127.97	$137.55	$126.01

The Training Program determines rates by analyzing its billable staff hours, overhead costs, and variable costs which are directly associated with providing a specific training service. Service fees include an allocation of total overhead costs based on an estimate of total billable hours during the year. Rates are established to build up to a 60-day working capital.

Proprietary Revenues and Expenses.

In FY 2006, the Professional Development Center had revenues of $259,170 from fees paid by agencies statewide. The funding for customer payments to the PDC could not be determined because the accounting code used to record payments to the PDC for training is also used to record a variety of other training costs.

In FY 2006, revenues funded personal services for 3.08 FTE and operating costs. Personal services of nearly $169,600 were 62 percent of expenses, with operating costs making up the remaining $105,800 or 38 percent of PDC expenses. Of the operating costs, $30,300 fund fixed costs or 11 percent of the annual expenses.

The fund report shows the program experienced operating losses in FY 2006 and is projecting operating losses in FY 2007. Operating losses through the 2007 biennium would decrease net assets to roughly 22 days of annual operating expenses by the end of FY 2005. Since assets consist entirely of cash or cash equivalent, net assets are working capital to fund the daily operation of the center. The fund report shows that the FY 2007 operating loss would deplete fund balance and drive the program to need an operating loan to fund ongoing operations. The center has stated that it needs to maintain a 45-day working capital level in order to meet ongoing operational expenses. Low working capital levels encountered in the 2003 through 2007 biennia impacted the ability of the center to pay fiscal obligations on a timely basis. The rates requested for the center anticipate increasing working capital to 45 days.

The following figure shows the historical and projected usage of the PDC from FY 2000 through FY 2009. The figure shows a drop in usage in FY 2003 from the FY 2002 levels and then an increase in FY 2004. The center projects that the increased usage seen in FY 2004 will continue despite increases in rates for training offered by the center.

Professional Development Center
Historical and Projected Training Usage

Fiscal Year	Open Enrollment Participants	Open Enrollment Hours	Contract Service Participa	Contract Service Hours
2000	1,368	1,115	1,921	444
2001	1,292	1,162	1,853	377
2002	1,473	1,145	1,813	420
2003	1,217	1,104	1,273	438
2004	1,522	1,288	1,411	465
2005	1,492	1,333	1,489	400
2006	1,644	1,494	2,095	343
2007 (projected)	1,660	1,500	2,100	400
2008 (projected)	1,750	1,560	2,150	450
2009 (projected)	1,750	1,580	2,200	500

Proprietary Rate Explanation.

The PDC establishes rates by separating fixed and overhead costs from the variable costs directly associated with producing a specific service, such as a workshop. The total projected fixed costs are divided by an estimate of total billable hours to allocate fixed costs to billable staff hours.

Estimated billable hours for the 3.00 FTE training professionals in the center are derived from an analysis of past fiscal years. General preparation time, planning, administrative tasks, personal leave, and unbilled travel time are subtracted from the total available hours. This analysis indicates that 30 percent of total staff time can be billed to specific products or services.

An analysis of expenditures shows that 20 percent of total costs can be associated with specific products or services. The remaining 80 percent are personal services and other fixed cost that must be allocated through staff time. One half of the 45-day working capital requirement has been added to the fixed costs for the rate calculations in order to reach the full working capital requirement by the end of the biennium.

The base rate for services is calculated as:
[(total costs x 80 percent) + {0.5 x (working capital shortage)}] / (total hours x 30 percent) = staff cost per hour

The base rate is used to set the price of individual workshops by analyzing the staff time required to develop and provide the workshop, along with other variable costs (printing, materials, travel, etc.) associated with conducting the training. The base rate is also used to set a general schedule of prices where staff time and variable expenses can be consistently projected. For the 2009 biennium, the executive requests the legislature approve the rates shown on the bottom portion of the fund report.

LFD ISSUE

Rate Development Formula Appears to be Flawed

Comparison of the Formula for FY 2006 and FY 2008

Based on how the formula was used in developing the rates for the two biennia and what resulted from operations under the rates developed, it appears that the formula may be flawed. The key points identified in how the formula was used for the 2007 and 2009 biennia rate development are: 1) 2005 biennium ended with a higher balance than is anticipated for the 2007 biennium; 2) the FY 2006 rates included a factor to increase working capital by $25,000 compared to $5,500 for the FY 2008 rates; 3) a $7,300 operating gain was predicted for FY 2006, but a $16,100 loss resulted even with higher demand for the services that was anticipated; and 4) the total cost figure for developing the FY 2008 rate appears to be unexplainably higher by $28,500 than operating expenses shown on the fund report. It would appear that the formula is being manipulated for FY 2008 to force higher revenues and build a working capital reserve.

LFD ISSUE CONT.

If the formula worked as anticipated, no loss would have occurred in FY 2006 and excess revenues would have increased working capital. A fudge factor would not be needed on operating expenses for FY 2008 to build working capital. If the total operating costs shown on the fund report were used in the formula for FY 2008, the resulting base rate would be $125.39, or a decrease of $2.47 per hour.

Legislative Options

The legislature may want to direct the program to review the formula and how it is being used to develop the base rates for the 2009 biennium. In addition, the legislature may want to delay approving the rates for the PDC until the program reports on its review and illustrates how the formula will not yield the same results as illustrated above where net income is anticipated but a net loss results.

If the requested base rates are approved, the PDC anticipates charging their training customers the fees shown on the following schedule. If different base rates are approved a new schedule would result.

Professional Development Center
Actual and Anticipated Course Fees

Type of service	FY 2006	FY 2007	FY 2008	FY 2009
Open enrollment courses				
Two-day course, per participant	$175	$180	$182	$185
One-day course, per participant	110	115	115	118
Half-day course, per participant	85	87	87	90
Eight-day management series	545	550	550	560
Six-day management series	420	425	425	430
Four-day administrative assistant series	310	320	320	325
Contract courses				
Full day of training, flat fee	800	800	800	820
Half day of training, flat fee	540	550	550	560
Other services				
Consulting or facilitating, hourly fee	60	62	62	65
All other services, hourly fee	$55	$57	$57	$60

LFD COMMENT

Reason for Rate Change Not Provided

The agency did not provide the reason for the $9.69 per hour (7.6 percent increase) base rate increase for FY 2008 as compared to the FY 2006 rate. Likewise no reason was provide for the decrease of $1.85 per hour for the FY 2009 rate.

The following is a determination of the causes for the rate change based on an evaluation by LFD of the operating cost and formula changes:

- For FY 2008 net rate increase is due to the following offsetting factors:
    - Personal services increase primarily because of factors of the HB 447 pay plan increases of the 2005 Legislature (impact is to raise rate)
    - Operating costs increase primarily due to statewide present law adjustments for fixed costs and inflation and for agency allocation of indirect and administrative costs of other proprietary funded central services programs (impact is to raise rate)
    - The formula for the base include a factor to increase working capital by $25,000 per year but the working capital factor for each year of the 2009 biennium is $5,500 (impact is to lower rate)
    - The formula overstates total operating expenses by $28,452 (major reason for higher rate)
- For FY 2009 net rate reduction is due to the following offsetting factors:
    - Same factors and impacts as for FY 2008, except the formula does not overstate total operating expenses

Proprietary Program Description

Payroll (Fund 06563)

The payroll fund supports the statewide payroll and human resources (HR) system to process, distribute, report, and account for payroll, and associated withholding and deductions for more than 13,000 state employees in three branches of Montana state government and processing of benefit eligibility elections for 35,000 active, retired, and terminated employees and covered dependents. The Payroll and Benefits Operations Bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including benefits, classification, pay, policy, and training.

The figure for fund 06563 (fund report) shows the financial information for the fund from FY 2004 through FY 2009.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06563	Payroll Fund	61010	Administration	State Personnel Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from Payroll Fees	435,310	461,614	453,103	453,103	1,036,598	1,002,608
Revenue from Transfers from Benefits	-	-	-	-	-	-
Revenue from Miscellaneous Service Fees	416	886	-	-	-	-
Net Fee Revenue	435,726	462,500	453,103	453,103	1,036,598	1,002,608
Investment Earnings	-	-	21	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	101	-	-	-	-	-
Total Operating Revenue	435,827	462,500	453,124	453,103	1,036,598	1,002,608
Operating Expenses:						
Personal Services	266,501	246,217	636,846	692,206	672,913	676,108
Other Operating Expenses	145,343	130,272	161,946	190,400	346,279	272,288
Total Operating Expenses	411,844	376,489	798,792	882,606	1,019,192	948,396
Operating Income (Loss)	**23,983**	**86,011**	**(345,668)**	**(429,503)**	**17,406**	**54,212**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-		-	-
Federal Indirect Cost Recoveries	-	-	-		-	-
Other Nonoperating Revenues (Expenses)	-	-	-		-	-
Net Nonoperating Revenues (Expenses)	-	-	-		-	-
Income (Loss) Before Operating Transfers	23,983	86,011	(345,668)	(429,503)	17,406	54,212
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	381,623	407,371	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	23,983	86,011	35,955	(22,132)	17,406	54,212
Total Net Assets- July 1 - As Restated	20,044	44,027	130,038	165,993	143,861	161,267
Prior Period Adjustments	-	-	-		-	-
Cumulative effect of account change	-	-	-		-	-
Total Net Assets - July 1 - As Restated	20,044	44,027	130,038	165,993	143,861	161,267
Net Assets- June 30	**44,027**	**130,038**	**165,993**	**143,861**	**161,267**	**215,479**
60 working days of expenses (Total Operating Expenses divided by 6)	68,641	62,748	133,132	147,101	169,865	158,066

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

	Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A						
Payroll fees (per employee processed per pay period)	$1.25	$1.32	$1.34	$1.34	$1.56	$1.47

Payroll rates have been established to maintain a 60-day working capital. A budget is established for the 2009 biennium, distributed as a fixed cost to the Employee Benefits program for services rendered by the Payroll Unit to support benefit operations associated with managing the State's payroll system; and to state agencies based on a projected number of employees to be paid. The estimate of the number of employees each agency pays is determined from experience in FYs 2005 and 2006.

Proprietary Revenues and Expenses.

In FY 2006, the bureau had revenues of roughly $453,100 from payroll processing fees paid by state agencies.

LFD COMMENT

These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (39.2 percent), $177,800
- State special revenue (35.7 percent), $161,700
- Federal special revenue (12.7 percent), $57,500
- Proprietary funds (11.1 percent), $50,200
- All other funds (1.3 percent), $5,900

In FY 2006, revenues funded personal services for 12.89 FTE and operating costs. Personal services of $630,100 were 72 percent of expenses, with operating costs making up the remaining $243,700 or 28 percent of bureau expenses.

The fund report shows a stepped increase in total operating expenses from FY 2005 to FY 2006, operating losses for FY 2006 and FY 2007, and operating transfers in for both years that nearly offset operating losses for the 2007 biennium. The changes just mentioned were due to a reorganization that moved the Group Benefits Bureau from the State Personnel Division into its own separate division. In the process, 6.89 FTE from the former Group Benefits Bureau were added to support the benefits administration portion of the payroll operations. As a part of the reorganization, funding from the group benefits fund was transferred into the payroll fund for both years of the 2007 biennium to fund the increased expenses that were not funded with the payroll service fee approved by the 2005 Legislature.

Proprietary Rate Explanation

The bottom portion of the fund report shows the FY 2006 rates and rates submitted for legislative approval for payroll for the 2009 biennium.

LFD COMMENT

How Revenues Would be Derived

The payroll fee is a fixed cost item included in all agency budgets using a structured methodology and corresponding to the rates requested above. Schedules published by the Office of Budget and Program Planning show agency allocations of a portion of the revenues for the program. The portion of the revenues that would be collected from agencies and the allocation is based on the average number of employees processed in an agency each pay period for FY 2005 and the first eleven months of FY 2006. The total payroll fees allocated to agencies are $530,400 for FY 2008 and $504,000 for FY 2009. The remaining revenues would be collected from the employee benefits.

Significant Adjustments for the 2009 Biennium

The executive included present law adjustments and new proposals for payroll expenditures for an increase totaling nearly $223,500 for the 2009 biennium.

Adjustments included in the rate request are:

- An increase of about $182,600 for the biennium to fund statewide present law adjustments
- An increase of $28,400 in FY 2008 to contract directly with the PeopleSoft/Oracle Corporation for specific, high-level, on-site payroll, human resources, and benefits systems training
- An increase of about $12,500 for the biennium to fund allocation changes and increases in indirect administrative cost payments made to other proprietary programs of the department

LFD COMMENT

Reason for Rate Change Not Provided

The agency did not provide the reason for the per employee per pay period increases over the FY 2006 rate of $0.22 for FY 2008 and $0.13 for FY 2009

The following is a determination of the causes for the rate change provided by the LFD:

- For FY 2008, $0.10 of the rate increase is due to the one time expenditure of $28,400 for training
- For both FY 2008 and FY 2009, $0.02 of the increases is due to allocation changes and increases in indirect administrative cost payments made to other proprietary programs of the department
- For both FY 2008 and FY 2009, $0.11 of the increase is due to statewide present law adjustments

Program Description

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

Program Highlights

Department of Administration Risk Management & Tort Defense Major Budget Highlights
♦ Premiums charged for insurance decrease by about $1.6 million or 12.5 percent per year from the FY 2006 level due primarily to claims experience

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

Proprietary Rates

Proprietary Program Description

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

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

Proprietary Revenues and Expenses

In FY 2006, the Risk Management and Tort Defense Division had revenues of roughly $13.9 million from premiums paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (18.0 percent), $2.5 million
- State special revenue (22.1 percent), $3.1 million
- Federal special revenue (6.7 percent), $0.9 million
- Proprietary funds (14.7 percent), $2.0 million
- All other funds (38.4 percent), $5.3 million

In FY 2006, revenues funded personal services for 16.00 FTE, operating costs, and insurance claims. Personal services of $0.8 million were 15.3 percent of expenses and operating costs of $1.9 million were 74.8 percent of expenses.

The fund figure 06532 (fund report) shows the financial information from FY 2004 through FY 2009. The fund report shows negative net assets through FY 2005 but net assets have and are expected to continue to increase primarily due to the premium increase approved by the 2003 and 2005 Legislatures and lower than typical claims experience. The 2007 biennium premium rates and those requested for the 2009 biennium are expected to increase net assets over time and develop a reserve for funding claims.

Each fiscal year the division contracts with an actuarial consulting firm to project the state's estimated unpaid loss and loss adjustment expenses. The actuarial evaluation provides an estimate of the funding that would be necessary if all of the state's claims and lawsuits for prior fiscal years came due at the same time. Actuarial projections of unpaid losses as of June 30, 2006, are $16.2 million. Actuarial projected future loss costs for FY 2008 and FY 2009 determined the ultimate projected loss for those fiscal years to be $6.0 million and $6.4 million respectively. Since claims and lawsuits are filed at different times and are typically paid out over as many as 10 years, it is not probable that all claims would come due at once.

The actual loss amount for FY 2006 was lower than previously estimated by the actuary, so a balance sheet adjustment was made to lower the liability for estimated claims payable. The accounting transaction used to make the adjustment involved booking a negative expense of $4.1 million, which explains the drop of other operating expenses in FY 2006 and subsequent increase in FY 2007.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6532	Agency Insurance Int Srv	61010	Department of Administration	Risk Management & Tort Defense

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Revenue from Fee F	-	-	-	-	-	-
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	59,371	282,784	775,979	-	-	-
Securities Lending Income	-	-	13,528	-	-	-
Premiums	14,717,612	15,283,793	13,932,064	14,499,856	12,881,898	12,900,022
Other Operating Revenues	6,386	24,378	192	-	-	-
Total Operating Revenue	14,783,369	15,590,955	14,721,763	14,499,856	12,881,898	12,900,022
Operating Expenses:						
Personal Services	654,187	655,937	771,833	859,346	969,182	971,826
Other Operating Expenses	1,942,226	4,660,762	2,894,205	7,617,804	7,735,266	7,725,990
Total Operating Expenses	2,596,413	5,316,699	3,666,038	8,477,150	8,704,448	8,697,816
Operating Income (Loss)	**12,186,956**	**10,274,256**	**11,055,725**	**6,022,706**	**4,177,450**	**4,202,206**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	37,518	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	37,518	-	-	-
Income (Loss) Before Operating Transfers	12,186,956	10,274,256	11,093,243	6,022,706	4,177,450	4,202,206
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	615,582	1,134,367	296,251	682,067	682,067	682,067
Operating Transfers Out (Note 13)	(369,491)	(10,236)	-	(126,576)	(126,576)	(126,576)
Change in net assets	12,433,047	11,398,387	11,389,494	6,578,197	4,732,941	4,757,697
Total Net Assets- July 1 - As Restated	(33,651,273)	(21,218,226)	(9,819,839)	1,569,655	8,147,852	12,880,793
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	(33,651,273)	(21,218,226)	(9,819,839)	-	-	-
Net Assets- June 30	**(21,218,226)**	**(9,819,839)**	**1,569,655**	**8,147,852**	**12,880,793**	**17,638,490**
60 days of expenses						
(Total Operating Expenses divided by 6)	432,736	886,117	611,006	1,412,858	1,450,741	1,449,636

Proprietary Rate Explanation

The following figure shows the FY 2006 rates and rates submitted for legislative approval for the Risk Management and Tort Defense Division.

Requested Rates for Internal Service Funds
Fee/Rate Information

		Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Premium		-	-	-	-	-	-
	Auto/Comp/Collision	1,028,497	1,031,695	1,604,213	1,671,416	1,146,000	1,146,000
	Aviation	167,184	167,622	174,014	174,003	167,807	185,931
	General Liability	10,566,132	11,142,552	7,203,992	7,242,383	7,124,500	7,124,500
	Property/Miscellaneous	2,955,799	2,941,924	4,949,845	5,412,054	4,443,591	4,443,591
	Total	14,717,612	15,283,793	13,932,064	14,499,856	12,881,898	12,900,022

Automobile Comprehensive and Collision

The fund insures approximately 9,200 vehicles. The proposed premiums are $1,146,000 for each year of the 2009 biennium. The 2009 biennium rates represent reductions of $458,213 for each year with respect to the FY 2006 rate, or a 28.6 percent annual reduction. Premiums for automobile insurance are being reduced because of the downward trend of claims, loss expenses, and actuarial estimates of claims payable that have been on the decline since FY 2003. The requested rates are based on an actuarial study.

Aviation

The fund insures 26 aircraft (including helicopters) that are owned and operated by state agencies and used for various functions such as law enforcement, game management, fire fighting, transportation of state employees, and aerial topography. The fund also insures 15 state-owned airports, including the West Yellowstone Airport with its 3,000 annual flights.

The proposed premiums for aviation are $167,807 in FY 2008 and $185,931 in FY 2009 and represent a decrease of $6,207 in FY 2008 and an increase of $11,917 in FY 2009 from the FY 2006 rate. The FY 2008 rate declines due to the low number and amount of historical aviation losses, but the FY 2009 rate increases primarily because of the high anticipated cost of catastrophic commercial insurance in FY 2009. An actuarial study was not conducted for aviation insurance due to the small number of claims and variability in costs.

General Liability

General liability insurance is the largest area of coverage for the state. General liability covers state agency operations for prisons, hospitals, institutions, highway maintenance and design, law enforcement, wildlife resource management, supervision of foster children, and many other functions.

The number of liability claims and associated costs continues to decline despite an increase in exposure. It is because of the decline in the number of claims, loss expenses, and actuarial estimates of claims payable that are driving reductions in the general liability insurance premium rates to $7,124,000 in each year of the 2009 biennium. The 2009 biennium rates represent reductions of $79,492 for each year with respect to the FY 2006 rate, or a 1.1 percent annual reduction.

Property

The property insurance premium funds insurance for 4,219 properties owned or leased by state agencies and universities. The estimated current replacement cost for the properties is more than $3.0 billion. In addition, the state maintains and operates 545 boilers and is responsible for fine art whose estimated market value exceeds $200.0 million.

The proposed premiums for property insurance are $4,443,591 for each year of the 2009 biennium, which represent annual reductions of $506,300 from the FY 2006 premium rate, or 10.2 percent annual reductions. The reductions are due to a decline in reported exposure for the 2009 biennium. Reduced exposure is due to recent loss history where the state self insurance program has covered losses because they have fallen below the $250,000 per occurrence level at which commercial catastrophic insurance applies. Lower commercial experience has resulted in lower commercial coverage rates.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	6.50	0.00	1.00	7.50	0.00	1.00	7.50	7.50
Personal Services	257,249	25,766	47,823	330,838	26,519	47,864	331,632	662,470
Operating Expenses	54,069	7,668	0	61,737	9,327	0	63,396	125,133
Local Assistance	811	0	0	811	0	0	811	1,622
Total Costs	**$312,129**	**$33,434**	**$47,823**	**$393,386**	**$35,846**	**$47,864**	**$395,839**	**$789,225**
General Fund	312,129	33,434	47,823	393,386	35,846	47,864	395,839	789,225
Total Funds	**$312,129**	**$33,434**	**$47,823**	**$393,386**	**$35,846**	**$47,864**	**$395,839**	**$789,225**

Program Description

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

Program Highlights

Department of Administration
State Tax Appeal Board
Major Budget Highlights

- General fund budget increases by $165,000 or 26.4 percent per year over the base
  - About 40 percent of increase is for statewide present law adjustments
  - About 60 percent of increase is to add 1.00 FTE to perform administrative duties previously performed by one board member

Major LFD Issues

- Salary for State Tax Appeal Board presiding officer above statutory level
- High vacancy savings for county board secretaries

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table
State Tax Appeal Board

Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	$ 312,129	100.0%	$ 393,386	100.0%	$ 395,839	100.0%
01100 General Fund	312,129	100.0%	393,386	100.0%	395,839	100.0%
Grand Total	$ 312,129	100.0%	$ 393,386	100.0%	$ 395,839	100.0%

The board is funded entirely by the general fund. General fund increases by more than 26.2 percent on average each year over the base. The main factors for this increase are: 1) a 34.2 percent vacancy rate in FY 2006 and the corresponding increases resulting from fully funding all FTE, except for the vacancy savings; and 2) a new proposal to add 1.00 FTE to the program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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 2008 FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2009 FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					37,558					38,343
Vacancy Savings					(11,792)					(11,824)
Inflation/Deflation					226					320
Fixed Costs					5,596					7,070
Total Statewide Present Law Adjustments					**$31,588**					**$33,909**
DP 311 - Allocate department indirect/administrative costs	0.00	1,846	0	0	1,846	0.00	1,937	0	0	1,937
Total Other Present Law Adjustments	**0.00**	**$1,846**	**$0**	**$0**	**$1,846**	**0.00**	**$1,937**	**$0**	**$0**	**$1,937**
Grand Total All Present Law Adjustments					**$33,434**					**$35,846**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 14.6 percent increase over the personal services base. About $17,400 of the nearly $37,600 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $20,200 attributed to the combination of restoring funding for base year vacancies. The program experienced a vacancy rate in authorized FTE hours of 34.2 percent during the base year. This level of vacancy equates to roughly 2.20 FTE. The vacancy rate in the 2.50 FTE aggregate positions held by county tax appeal board secretaries was 98.3 percent as only 88 hours of the authorized 5220 hours were expended in FY 2006.

LFD ISSUE

Salary Above Statutory Level

Presiding Officer Position

Montana law specifies that the salary of the board members shall be equivalent to a grade 17 salary as provided in 2-18-312, MCA. As of October 1, 2006, the maximum annual salary for a grade 17 position corresponds to an hourly salary of $27.906. The board presiding officer is paid an additional 5 percent, for a total maximum hourly salary of $29.301. The presiding officer resigned prior to the end of FY 2006 and a replacement board member and presiding office was appointed after the budget snapshot was taken. The base compensation for the current incumbent in the presiding officer position is over $11,000 more than the law allows, but the budget for the position is $2,689 lower than the law allows. In the public press at the time the current presiding officer was appointed, the Governor stated that his legal counsel advised him that the salary provided was not in violation of state law. Legislative legal counsel does not concur with this determination and has determined that the citations used to justify authority to provide the salary do not apply to the incumbent.

STAB will likely be able to pay the higher salary, even though it is not in the budget, because the board historically has excess personal services budget authority due to high vacancy savings generated by the aggregate positions for the county tax appeals board secretaries.

In addition, the budget for the 2011 biennium for the presiding officer position will be higher than allowed by law because the process used to develop personal services budgets uses the position attributes of authorized positions, as of the end of the base year to develop funding needs for the next biennium. If the current incumbent remains in the position until July 2008 at the current salary or higher, the 2011 personal services budget for the position will be higher than the maximum salary stated in state law.

<u>Legislative Options</u>

The legislature has the following options for addressing the issue in the current and future biennia:

1. If the legislature wishes to bring the salary for the presiding office of the State Tax Appeal Board into compliance with state law, it would need to take legal action against the executive to determine the validity of the salary. Lowering the salary would reduce board personal services expenditures and keep them more in line with a personal services budget developed within statutory salary limits for the 2009 biennium.
2. The legislature could eliminate the excess personal services budget authority that would be produced by vacancies in the county tax appeal board secretary position if expenditures follow historical patterns. To eliminate the excess authority, the legislature could either:
   - Restrict the funding for the county tax appeal board secretaries to only be used for funding the secretary positions ($59,389 in FY 2008 and $59,439 in FY 2009)
   - Reduce the FTE and associated funding of the county tax appeal board secretary positions in the budget
3. For the above law budget authority that will be generated in the executive budget request for the 2011 biennium, the legislature could direct staff to include an issue notifying the 2009 Legislature of the effects on the budget for the 2013 biennium from the high base compensation.

<u>DP 311 - Allocate department indirect/administrative costs -</u> An increase of about $3,800 general fund for the biennium is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals										
	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3701 - STAB 1.0 FTE										
37	1.00	47,823	0	0	47,823	1.00	47,864	0	0	47,864
Total	1.00	$47,823	$0	$0	$47,823	1.00	$47,864	$0	$0	$47,864

DP 3701 - STAB 1.0 FTE - An increase of $ 95,700 general fund for the biennium is requested to fund personal services to add 1.00 FTE administrative specialist.

LFD COMMENT

History of Position

The State Tax Appeal Board is authorized in Montana law as a board with board members receiving full time compensation equivalent to grade 17 of the statewide compensation system. The board is administratively attached to the Department of Administration, but specifically allowed in law to hire its own personnel.

For the last six years, the administrative support position has not been active. The 2001 Legislature eliminated funding for the position because the duties were being performed by one of three board members. The board is now asking to have the position reestablished and funding provided. The individual performing the duties now in a modified position was the same individual who, prior to being appointed to the board in 1999, performed the same administrative duties as the position currently being requested. According to the executive, the position had existed since June 2, 1983. The prior history of the position was not verified due to data availability issued resulting from the implementation of SABHRS.

Since the term of the board member performing the administrative duties that would be performed by the position expired at the end of 2005, the position has been established as a modified position and filled by the same incumbent that served as the board member and performed the administrative functions.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The board considers the administrative specialist position critical to its operation. The board has a very small support staff (the administrative specialist position and a paralegal assistant position). The administrative specialist position performs the following duties for the board: oversight of 56 county tax appeal boards, including financial and personnel oversight, fiscal management, personnel management, procurement and property management, data processing, report preparation, board representation, and decision writing.

Goal: To allow the board to continue to have its administrative duties performed in a timely and efficient manner.

Performance Criteria: The chairperson of the State Tax Appeal Board and/or the board members will daily monitor the activities associated with this proposal. Performance criteria will include:

- Timely (same day) customer service in terms of meeting requests for information and assistance from county tax appeal boards, taxpayers and the governmental agencies involved
- Timely (30 days from hearing or receipt of post-hearing submissions) issuance of decisions to taxpayers and affected agencies
- Timely (same day, when reasonable) completion of administrative duties relating to administrative, fiscal, personnel and property management issues

Milestones: Administrative functions of the board performed in a timely and efficient manner.

Obstacles: None.

Risk: Without this position, timely and effective administrative operations of the State Tax Appeal Board may not be accomplished. Protested funds could be tied up for a more extended period of time due to staffing issues resulting from absence of this position.

LFD ISSUE

Workload Factors Do Not Justify the FTE

Duties of Two Were Performed by One for Six Years

For six years, one individual performed both the duties of a board member and the administrative functions of this position. When asked, the program staff stated that when both functions were performed by one individual, board functions were not adversely impacted and no statutory deadlines were exceeded. During the years when the duties of two positions were being performed by one individual, the incumbent did not accumulate or report work hours in excess of a full-time 1.00 FTE.

The program provided the following as examples of the duties that would be preformed by the administrative support positions:

1. Prepares the budget request for the board's approval and presents the request to legislative committees and subcommittees. Monitors the activities and expenditures at the county and state levels.
2. Supervises and directs the payroll functions, work assignment and work product review of the 56 county tax appeal boards, including the 2.5 aggregate FTE for the county tax appeal board secretaries.
3. Performs all agency procurement research and activity, including maintaining the agency property management system.
4. Serves as network support contact and administrator for agency data processing network.
5. Serves as the board representative, in oral and written communications, to affected parties to any tax appeal involving such issues as the scope and authority of the board's jurisdiction in taxation matters, appeal status and scheduling concerns.
6. Serves as the information officer to the 56 county tax appeal boards, communicating procedural changes and advising on policy relating to the operation of the tax appeal system, as well as to the general public and government agencies.
7. Represents the chairman at management meetings and the board at biennial district meetings with the county tax appeal boards, which are held to discuss legislation pertinent to the tax appeal system and to provide instruction and training.
8. Prepares findings of fact and conclusions of law based upon the board's decisions on tax appeals.

In addition to the 3.00 FTE board members, the current staff of the board includes a paralegal assistant position. Several of the duties listed to justify the administration specialist would seem to fall under the duties of a paralegal position, such as preparing findings of fact and conclusions of law. Other duties would fall under the role of a supervisor and may be more suited to the presiding officer of the board. Furthermore, the board currently purchases budgeting and human resources services from the department through the administrative attachment and the indirect/administrative fee paid to the department (see the Agency Discussion for further explanation of the indirect/administrative charge).

Legislative Options

As stated, the functions of the requested position have been provided by the board with existing resources. The legislature may want to direct the executive to provide workload data for the board and the position that further shows the need for the additional FTE. Based on the workload information provided by the board, the legislature has the following options:

- Approve funding for the position at the full 1.00 FTE level
- Approve funding for the position at a reduced FTE level based on the workload information provided by the board
- Do not approve funding for the position