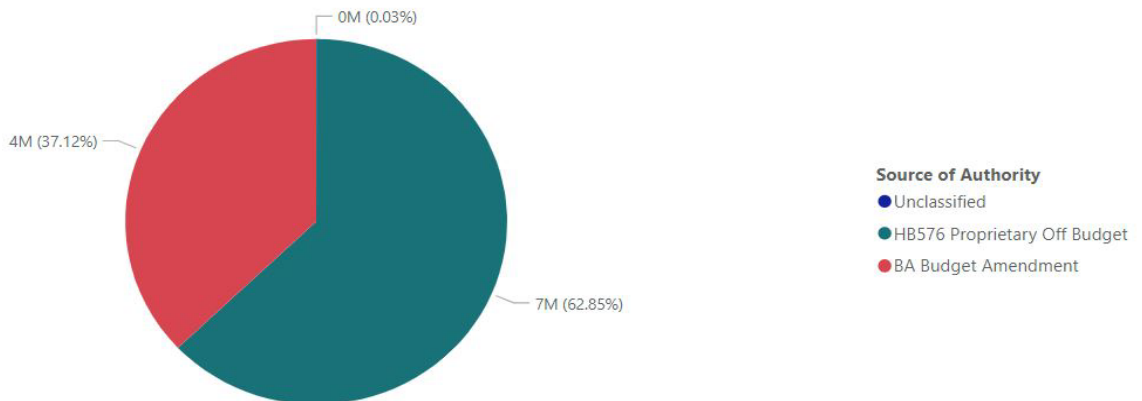


# SECRETARY OF STATE (SOS)

## TOTAL EXPENDITURE AUTHORITY

The total expenditure authority for the Secretary of State is shown in the following pie chart. There was no HB 2 and HB 13 authority in FY 2023. Total expenditure authority includes non-budgeted proprietary funding and non-budgeted expenditures such as transfers or indirect costs.

Total Modified Budget by Source of Authority



Source of Authority	FYE23 Modified Budget	FYE23 Expended Budget	Percent Expended
BA Budget Amendment	4,324,945	1,097,102	25.4%
HB576 Proprietary Off Budget	7,322,696	7,178,304	98.0%
Unclassified	3,204		
<b>Total</b>	<b>11,650,845</b>	<b>8,275,406</b>	<b>71.0%</b>

- Report Period**
- Jul
  - Aug
  - Sep
  - Oct
  - Nov
  - Dec
  - Jan
  - Feb
  - Mar
  - Apr
  - May
  - Jun

## Budget Amendments

In June 2018, the Secretary of State was awarded \$3.0 million through the Omnibus Appropriations Act of 2018 for election security. At the start of FY 2023, \$871,979 of the funding remained. The U.S. Election Assistance Commission approved the state allocation of the remaining funds, as follows:

- \$796,438 for ElectMt system development
- \$75,541 in grants to counties

These federal funds are authorized until September 2024. As of 2023 fiscal year-end (FYE), \$427,843 or 49.1% of the FY 2023 funds have been expended.

In January 2020, the Secretary of State was awarded an additional \$3.1 million through the federal Omnibus Appropriations Act of 2020 for election security. At the start of FY 2023, \$1,452,966 of the funding remained. The U.S. Election Assistance Commission approved the state allocation of the remaining funds, as follows:

- \$453,638 in personal services
- \$517,796 in grants to counties for voting equipment replacement and upgrades, election auditing, voting registration systems and management, cyber vulnerabilities, training, and communication
- \$481,532 in operating expenses

These federal funds are authorized until December 2024. As of 2023 FYE, \$519,038 or 35.7% of the FY 2023 funds have been expended.

In April 2022, the Secretary of State was awarded an additional \$1.0 million through the federal Omnibus Appropriations Act of 2020 for election security. At the start of FY 2023, the full amount rewarded funding remained. The U.S. Election Assistance Commission approved the state allocation of the remaining funds, as follows:

- \$500,000 in grants to counties for voting equipment replacement and upgrades, election auditing, voting registration systems and management, cyber vulnerabilities, training, and communication
- \$255,858 in software and/or system enhancements expenses
- \$244,142 in personal services

These federal funds are authorized until September 2023. As of 2023 FYE, \$45,349 or 4.5% of the FY 2023 funds have been expended.

In March 2023, the Secretary of State was awarded an additional \$1.0 million through the federal Omnibus Appropriations Act of 2020 for election security. At the start of FY 2023, the full amount rewarded funding remained. The U.S. Election Assistance Commission approved the state allocation of the remaining funds, as follows:

- \$100,000 in grants to counties to hire a contractor or fund efforts to enhance accuracy of voter data by enhancing or reconciling Geographic Information System (GIS) address data of registered electors
- \$655,858 in software services and other system enhancements to improve the integrity of voter registrations for federal elections
- \$244,142 in indirect costs

These federal funds are authorized until September 2023. As of 2023 FYE, \$104,872 or 10.5% of the FY 2023 funds have been expended.

## **Unclassified**

Per 39-71-403(1)(b)(iv), MCA, when workers' compensation premiums are lower than the previous year, state agencies shall reduce personal services appropriations by the amount of the premium reduction. To track the changes in appropriation authority, total appropriation is not reduced, instead the Governor's Office of Budget and Program Planning (OBPP) requires state agencies to:

- Reduce HB 2, statutory, and proprietary appropriations
- Create a separate offsetting entry on the financial statements in the same amount using an identifying number for workers' compensation entries

The offsetting entries are identified as "frozen" appropriations, which means the appropriations will not be spent unless authorized by OBPP. The Secretary of State reduced personal services appropriations by \$3,204 for workers' compensation premium savings.

## Non-budgeted Proprietary Fund Authority

As shown, the fund balance in the Secretary of State's Office has increased since the beginning of the fiscal year and has been increasing for several years. The following figure shows the revenues, expenditures, and fund balance for the proprietary fund between FY 2019 and FY 2023. (The table below includes non-cash transactions, i.e., amortization expense and loss on sale of capital assets)

Secretary of State Secretary of State Business Services					
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Beginning Fund Balance	\$1,062,332	\$2,939,337	\$4,604,655	\$7,595,218	\$9,550,712
<b>Revenue</b>					
Investment Earnings	77,264	58,631	8,721	13,205	361,274
Charges for Services	7,001,795	6,901,036	9,104,731	9,975,415	9,135,606
Grants/Transfers/Misc	(7,082)	364,432	56,022	41,787	161,501
Sale of Documents/Mdse/Prop	69,850	70,605	92,956	73,672	67,170
Capital Contributions	-	-	-	-	2,466,290
<b>Total Revenue</b>	<u>7,141,827</u>	<u>7,394,704</u>	<u>9,262,430</u>	<u>10,104,079</u>	<u>12,191,841</u>
<b>Expenditures</b>					
Personal Services	2,859,981	2,912,000	2,836,088	2,766,052	2,947,005
Operating Expenses	2,432,996	2,789,981	3,514,918	5,687,724	6,925,956
Equipment & Intangible Assets	6,579	-	-	-	-
Transfers Out	-	-	-	-	-
Debt Service	-	165	432	-	-
Post Employment Benefits	<u>225,894</u>	<u>26,600</u>	<u>(79,571)</u>	<u>(300,648)</u>	<u>(136,439)</u>
<b>Total Expenditures</b>	<u>5,525,450</u>	<u>5,728,746</u>	<u>6,271,867</u>	<u>8,153,128</u>	<u>9,736,522</u>
<b>Adjustments</b>	260,628	(640)	-	4,543	(122,330)
<b>Ending Fund Balance</b>	<u>\$2,939,337</u>	<u>\$4,604,655</u>	<u>\$7,595,218</u>	<u>\$9,550,712</u>	<u>\$11,883,701</u>

The SOS anticipates additional funding will be needed for:

- Replacing the administrative rules system
- Implementing phase II of the Elect MT project
- Enhancing and maintaining business services system
- Ongoing litigation
- Voter Outreach

In addition, the SOS recently reduced and eliminated several fees, which include:

- On April 29, 2022, the Secretary published MAR 44-2-257 proposing to amend rules to reduce new business filing fees by 50.0%. It was adopted May 20, 2022, and became effective July 1, 2022. SOS

estimates about 35,000 small businesses would have their fees reduced with an estimated savings of over \$1.1 million

- On July 22, 2022, the Secretary published MAR Notice No. 44-2-260 to reduce and eliminate several additional business filing fees. These rule changes were adopted on September 9, 2022, and became effective on September 10, 2022. These changes are estimated to save 5,000 small businesses over \$124,000 annually
- On January 13, 2023, the Secretary published MAR Notice No. 44-2-264 to waive the 2024 annual report filing fee for all Montana business. This rule was adopted on June 9, 2023. This fee waiver is estimated to save the over 200,000 active Montana businesses approximately \$4.5 million

According to the Secretary of State, the office is in the process of replacing the outdated system currently used to manage the Administrative Rules of Montana. As a result, the method of calculating the professional service fee associated with filing administrative rule notices with the Secretary of State may change. In addition, elimination of the subscription and other printing is underway. As the project progresses, the preliminary rate calculations will be finalized and made available to agencies for future budgeting purposes.

### **Proprietary Budget**

The majority of the functions of the office are funded with enterprise type proprietary funds, which are financed through fees and charges paid by public and private entities that by law either purchase services from the department or are required to submit documents or obtain registrations with the office. Unlike internal service type proprietary programs, the rates or the fees and charges are not approved by the legislature but are instead established in statute or administrative rule. Revenues are received from fees charged to:

- Businesses and corporations for corporate filings, registration of assumed business names, and trademarks
- State agencies and users of Administrative Rules of Montana (ARM) for publishing and distributing the ARM and the Montana Administrative Register, and storage and management of public documents
- Candidates who file for elections
- Montana citizens who apply to be notaries

The Secretary of State's Office conducts its daily operations through a single program, the Business and Government Services Program. It provides the following major functions:

- Election administration
- Registration and document filing of Montana businesses
- Publication and distribution of administrative rules
- Records management of public documents generated by state and local governments
- General Operations

The following chart shows the proprietary budget for the agency compared to expenditures through 2023 FYE.

Secretary of State Secretary of State Business Services FY 2023			
	Budget	Actual*	% Expended
Expenditures			
Personal Services	\$3,187,258	\$3,105,271	97.4%
Operating Expenses	4,135,438	4,073,033	98.5%
Equipment & Intangible Assets	-	-	0.0%
Transfers Out	-	-	0.0%
Debt Services	-	-	0.0%
<b>Total Expenditures</b>	<b><u>\$7,322,696</u></b>	<b><u>\$7,178,304</u></b>	<b><u>98.0%</u></b>
*Actual Expenditures in this table reflect program year 2023 only while other figures in this section reflect program years 2022 and 2023 expenditures occurring in FY 2023. In addition, the expenditures are only budgeted expenditures, nonbudgeted expenditures are also reflected in the previous tables.			

In FY 2023, the SOS adjusted the budget for the proprietary funds to increase authority for operating expenses, including the following changes:

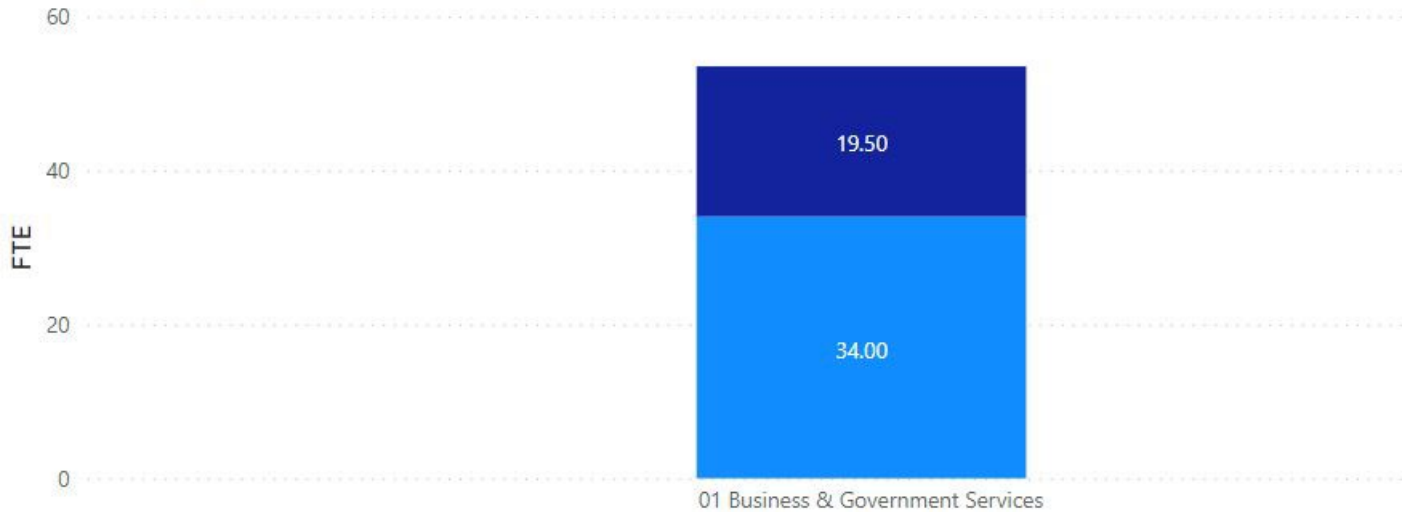
- Transferred \$1,480,000 in personal services to operating expenses
- Transferred \$2,000 in debt service to operating expenses
- Increased personal services by \$33,800 for HB 13 lump-sum payouts
- Increased operating expenses by an additional \$700,000 in enterprise funding

### ***Personal Services***

With the changes discussed above, personal services make up 43.5% of budgeted expenditures and were 97.4% expended as of 2023 FYE.

The following chart shows the filled and vacant FTE within the proprietary fund as of June 1, 2023.

Position Status ● Filled ● Vacant



The Secretary of State’s Office had 19.50 FTE or 36.4% of the authorized positions vacant. The SOS reduced the number of authorized positions for the 2025 biennium by 11.00 FTE during the 2023 Session. Vacancies include:

- 4.00 FTE - customer service assistant
- 2.00 FTE - personal staff
- 1.00 FTE – program supervisor
- 1.75 FTE – accounting technician
- 1.50 FTE – document imaging operator
- 1.00 FTE – administrative assistant
- 1.00 FTE – administrative supervisor
- 1.00 FTE – business analyst
- 1.00 FTE – computer, all other
- 1.00 FTE – license technician
- 1.00 FTE – program specialist
- 1.00 FTE – records assistant
- 1.00 FTE – warehouse worker
- 0.75 FTE – human resources specialist
- 0.50 FTE – legal secretary

According to the SOS, operation efficiencies gained throughout the organization have reduced the number of FTE needed to staff the various functions within the SOS.

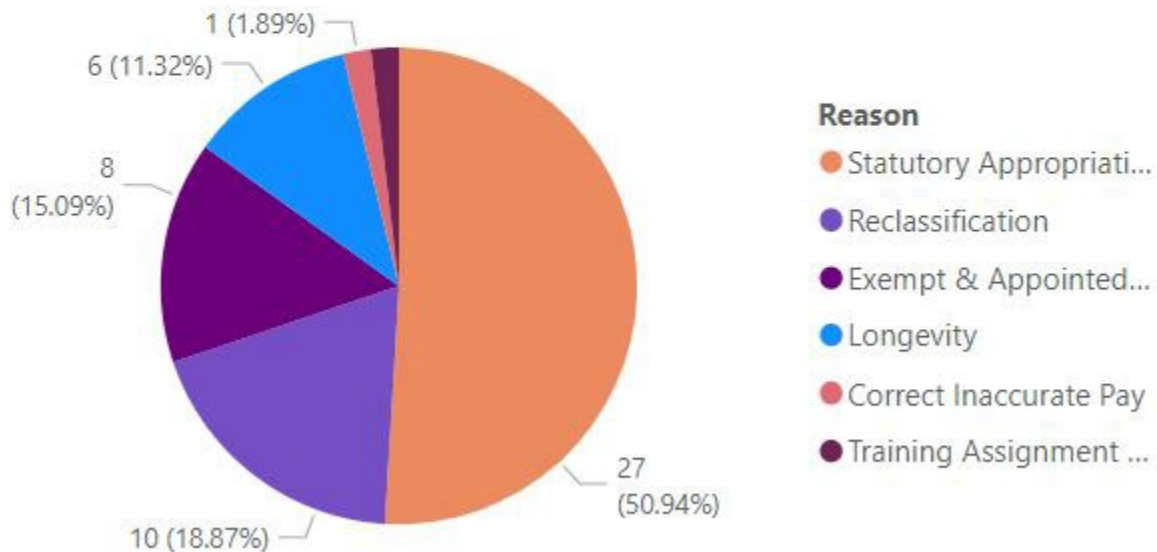
### ***Utilization Rate***

Of the total personal services budgeted in FY 2023, the Secretary of State utilized 62.1% of its FY 2023 personal services hours.

### ***Pay Rate Changes***

The following figure shows that pay adjustments within the Secretary of State in FY 2023. The following figure includes both legislatively approved pay changes and management decisions.

## Number of Positions that Received Pay Changes



HB 13 (2023 Legislature) included a one-time, lump-sum payment to state employees. Full-time employees received a payment of \$1,040, which was prorated for employees that work less than full-time. This payment was effective in the first full pay period following HB 13 being enacted. The Secretary of State's Office increased their personal services authority \$33,800 in FY 2023 for these lump-sum payouts.

### ***Operating Expenses***

Operating expenses are 56.5% of the budgeted expenditures and are 98.5% expended. Large expenditures include:

- \$1.1 million on state information technology services
- \$828,000 on consulting and professional services, the majority in relation to election lawsuits
- \$403,000 on software maintenance
- \$364,000 on IT consulting and professional services
- \$327,000 on system development
- \$260,000 on e-government transaction fees. The SOS absorbs the transaction fees customers incur when doing business filings

## OTHER ISSUES

### Information Technology Project Expenditures

The following figures show the budget and delivery dates for the ElectMT IT project.

Large Information Technology Projects Original and Revised Delivery Date				
Project	Start Date	Original Delivery Date	Revised Delivery Date	Change from Original Delivery Date
ElectMT	4/26/2019	9/24/2021	1/17/2023	54.40%

Large Information Technology Projects Original and Revised Budgets			
Project	Original Budget	Revised Budget	Change from Original Budget
ElectMT	3,559,682	5,064,620	1,504,938

The ElectMt project replaces the statewide voter registration and election management system (MT Votes). Most of the project was funded with federal US Election Assistance Commission funds. The Secretary of State's Office revised the delivery date of the project, from September 2021 to January 2023. According to the Secretary of State's Office, the elections team worked closely with the vendor and county partners to finish testing the system, which was completed and put into service in January 2023.

In addition, the SOS is in the process of updating the system for the Administrative Rules of Montana (ARMS). The State Information Technology Services Division and the SOS identified a vendor and entered into a contract for a software subscription. This subscription is not required to be reported on the information technology project dashboard.

### Required Reports

The Secretary of State did not have any budget amendments, operating plan changes, or program transfers that require reporting to the Legislative Finance Committee.